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**House Finance Committee  
Interested Party Testimony – Sub. House Bill 305  
Dr. Howard Fleeter  
Ohio Education Policy Institute  
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Chairman Oelslager, Chairman Callender, Vice Chairman Scherer, Ranking Member Cera, and members of the House Finance Committee. Thank you for the opportunity to present testimony with regard to Substitute (Sub.) House Bill (HB) 305. My name is Howard Fleeter, and I am the research consultant for the Ohio Education Policy Institute (OEPI). For those of you that are not familiar with my background, I have PhD in Economics from the University of California, Berkeley, I spent 10 years as a Public Policy professor at The Ohio State University, and I have been researching school funding and education policy in Ohio for nearly 30 years. My career working with Ohio policymakers began when Governor Voinovich commissioned me to write my report “Equity, Adequacy and Reliability in Ohio Education Finance” which I completed in November 1992. My research on school funding in this report was cited in the landmark March 24, 1997 *DeRolph* decision which ruled Ohio’s school funding system unconstitutional.

By now you have heard a significant amount of testimony explaining the mechanics and details of the Fair School Funding Plan contained in Sub. HB 305, so I will not cover that ground again with my testimony. Instead, I will provide a “big picture” viewpoint of the recent school funding landscape in Ohio and discuss how the Sub. HB 305 Fair School Funding Plan has been modified from its initial version and constitutes an equitable and adequate school funding formula which in my expert opinion complies with the dictates of the *DeRolph* decision. The last section of my testimony also supplies a short discussion of recent assertions from the Ohio Senate that the cost of Sub. HB 305 has been vastly understated. My analysis concludes that the Senate’s assertions betray fundamental misunderstandings of the role played by the state aid formula and their cost estimates are wildly exaggerated, and in some cases simply incorrect.

**A Brief Discussion of *DeRolph* and a Thorough and Efficient School Funding System**

According to the initial *DeRolph* decision, in order to be **adequate**, the state must utilize objective cost-based methodologies for determining the cost of educating a typical student. This is often referred to in Ohio as “base cost.” Another aspect of adequacy is recognizing the additional costs above and beyond what is needed for a typical student. These costs are often referred to as “categoricals” (i.e. students with disabilities, English language learners, economically disadvantaged students and career technical education students).

In order to be **equitable**, the state must employ a methodology which fairly defines the split of the state-local share of the costs for K-12 education across Ohio’s 609 school districts. The state-local

share mechanism (SSI) most recently in place in the funding formula (FY14-FY19) was widely flawed. In contrast, the new state-local share methodology meets the equitable standard as charged by the courts by ensuring that the state system of school funding is not “overly reliant on local property taxes” as detailed in the *DeRolph* ruling.

By explicitly detailing the two principles of adequacy and equity described above, the DeRolph decision provided a road map for Ohio policymakers to construct a funding formula that would comply with the Ohio Constitution’s mandate to provide a “thorough and efficient” education to Ohio’s public school students. Ideally, such a system will mean that the educational opportunities that a child receives will not be hindered by the zip code that they happen to live in.

### **A Brief Review of the Last Decade of Ohio School Funding**

The FY10-11 school year was the last year in which Ohio had a school funding formula (the Ohio Evidence Based Model or “OEBM”) which was based on objective methodologies for determining the cost of providing an adequate education to Ohio’s 1.6 million public school students. In FY12 and FY13 Ohio employed the “Bridge” formula which was not really a formula at all, instead basing funding on FY11 levels.

From FY14 through FY19 Ohio did have a school funding formula; however, this formula suffered from several significant deficiencies. First, the base cost was not based on any adequacy methodology, instead just utilizing per pupil amounts selected by the legislature. This approach is the very embodiment of “residual budgeting” which was explicitly ruled unconstitutional in the March 1997 *DeRolph* ruling. Second, the adequacy of the FY14-FY19 funding formula was also undermined by the use of per pupil amounts for the funding of the education of students with disabilities, economically disadvantaged students, career technical education students, English learners and gifted students. Over time these per pupil amounts became increasingly disconnected from any cost methodology that may have at one point informed them.

Third, the State Share Index (SSI), which was the method used to determine the state and local share of funding in each of Ohio’s more than 600 school districts from FY14-FY19, suffered from multiple problems and was widely derided across the state. Because the state/local share mechanism (along with Targeted Assistance) is the principle driver of equity in the state funding formula, the FY14-FY19 funding formula was both inadequate and inequitable.

Furthermore, as problematic as the above 3 points are, perhaps the most serious indictment of Ohio’s FY14-FY19 funding formula was the fact that only 113 (18.5%) of Ohio’s K-12 school districts were on the formula, with 334 on the transitional aid guarantee and 163 having their state aid limited by the Gain Cap. This problem has only been made worse in the past 2 years as the FY20 and FY21 state aid formula has been frozen at FY19 levels.

Finally, the “deduction” method used to fund Ohio’s community schools along with the EdChoice, Jon Peterson (for students with disabilities), and Autism voucher programs has also significantly undermined the adequacy and equity of school funding in Ohio by effectively deducting a “local share” of funding because the deduction amount is greater than the state aid provided when these students are counted in a district’s Formula ADM. This problem has also

been made worse in the current FY20-FY21 biennium because the funding formula has been frozen at FY19 levels while the community school and voucher deductions have been allowed to increase, meaning that all funding for new community school and voucher students the past 2 years has effectively come from local revenue. Ohio is currently one of the only states in the country to not fund community schools and vouchers directly.

To sum things up, in the nearly 30 years that I have conducted research on school funding and education policy in this state, Ohio has never been more badly in need of a new school funding formula than we are at this moment.

### **How Sub. HB 305 Will Create A Constitutional School Funding System**

Substitute H.B. 305 “The Fair School Funding Plan” has the following main components:

- A new input-based methodology for determining the base cost amount (which will vary based on district demographics). The base cost amount can be thought of as the cost to educate the typical student in the typical district. As described above, Ohio’s state aid formula has not employed an objective methodology for determining the base cost since FY11.
- The input based methodology for the base cost calculations also implies that the Fair School Funding Plan will provide funding to Ohio’s school districts based on their enrollment as opposed to their Formula ADM (Formula ADM, which has been in use for over 20 years, also included community school and some voucher students). This means that community schools and EdChoice, Jon Peterson, and Autism voucher students will be funded directly by the state and the deductions for these students from state aid will no longer be employed.
- Increased funding for economically disadvantaged students that is not subject to phase-in and would be funded before any other component of the formula.
- A directive and funding for three cost studies to be undertaken over the next two years to determine adequate funding levels for:
  1. **Students with disabilities** (in order to update the special education weights most recently updated in 2007)
  2. The additional **cost of educating economically disadvantaged students** – not previously studied in Ohio
  3. **English learners** (EL) – not previously studied in Ohio
- Changes and improvements to Ohio’s transportation funding formula.

The above aspects of Sub. HB 305 work together to ensure that Ohio’s school funding formula will adequately fund not just the typical student, but also students with additional educational needs. Transportation is also an aspect of adequacy as school districts cannot control their geography and density, both of which significantly impact transportation costs.

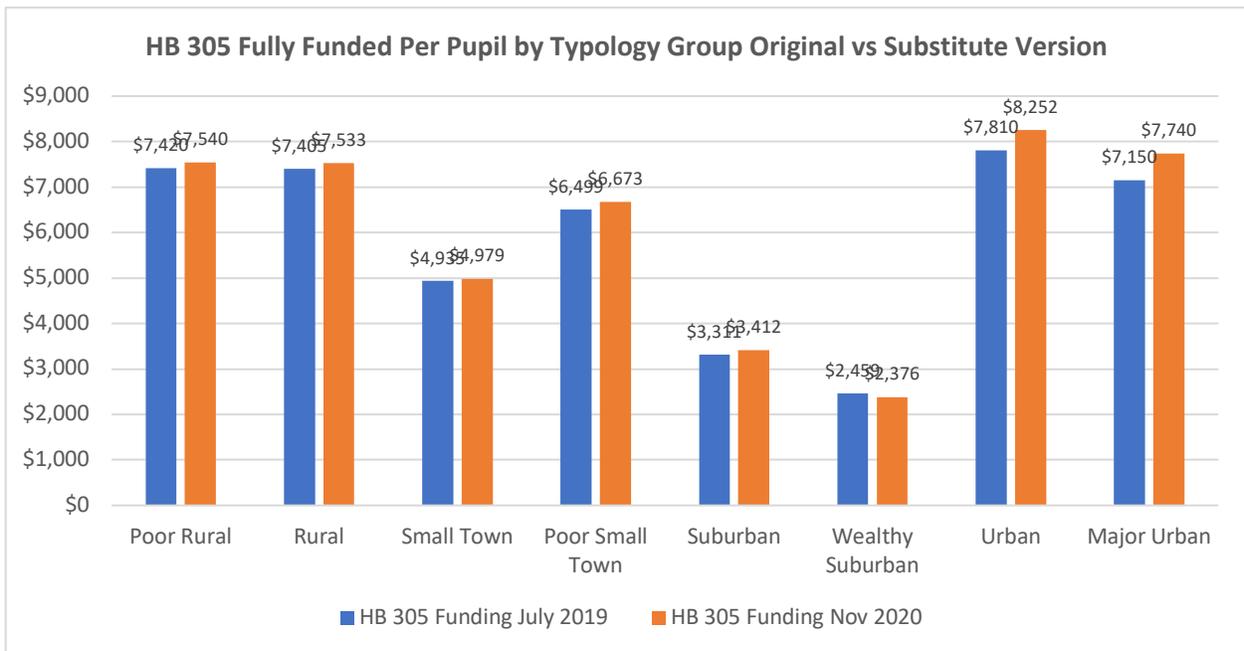
- A new method for determining the state and local share of funding based on a sliding scale including both income and property capacity. This new measure takes into account

the size of the local property tax base and the ability of district residents to raise local tax revenue, while avoiding the deficiencies of the State Share Index in effect from FY14-FY19.

- Continued funding of Targeted Assistance and Capacity Aid. These two components of the funding formula provide additional funding to lower wealth school districts to allow them to pursue local educational initiatives in the same manner that wealthier school districts are able to. Equity (and reduced reliance on local property taxes) is enhanced by funding components like this that allow less wealthy districts the ability to “go beyond the formula.”

The improved state and local share calculation and the retention of Targeted Assistance and Capacity Aid are the two biggest drivers of the equity of the school funding formula.

The chart below compares per pupil funding in the as-introduced and Substitute versions of HB 305 by ODE typology group. The chart shows that average per pupil funding is increased in the revised version of HB 305 for all typology groups except for wealthier suburban districts (I believe that average funding for this typology group decreases not because of changes made to the formula but because of the use of updated income and property wealth figures in Substitute HB 305).



Because of the improvements made to both the adequacy and equity of the formula described above, it is my professional conclusion that **when fully funded and implemented**, Sub. H.B. 305 “The Fair School Funding Plan” will meet the directives in the *DeRolph* ruling to ensure that funding for Ohio’s 609 K-12 districts and their students is both adequate and equitable and is in compliance with Ohio’s Constitution.

### **A Final Note: Comments on the Letter from the Senate Regarding Sub. HB 305**

Last week a letter was circulated by Senator Louis Blessing which asserted that the cost of the Fair School Funding plan when fully phased in will be \$3.5 billion rather than the \$2 billion shown on the printouts that have been released, and also asserting that the cost will escalate by \$1.4 billion annually thereafter. *After reviewing the letter and accompanying supporting documentation it is my conclusion that these claims are wildly exaggerated.* While this testimony is not the appropriate venue for providing a detailed point-by-point rebuttal to the Senate's assertions, I will provide several examples of how the thinking behind these assertions is flawed or simply wrong.

The supporting document accompanying the Blessing letter begins by asserting that Sub. HB 305 fails to fund 14,423 teachers. This figure is arrived at by subtracting 62,360 teachers that whoever did this analysis computed as being funded by the Fair School Funding model from a total of 76,783 "regular and special education" teachers that I have not been able to replicate and the source of which is not clearly explained. Putting aside the issue of where the numbers came from, the far more important issue is that the logic behind this calculation is completely invalid.

This assertion betrays a complete misunderstanding of the notion of an input-driven base cost methodology. The HB 305 Base cost model utilizes the following pupil/teacher ratios:

- Kindergarten 20:1
- grades 1-3 23:1
- grades 4-8 25:1
- grades 9-12 27:1

These ratios are based on research and reflect a level of staffing sufficient to provide an adequate (aka "thorough and efficient") education to the typical student. These ratios are for funding purposes only and there is no mandate that districts staff in a way which exactly complies with the ratios. Ohio school districts are of course free to lower these ratios (and employ more teachers) by utilizing local resources; however, such a decision does not in any way obligate the state to provide funding for those additional teachers. As a result, it is completely inappropriate to calculate how many teachers are funded with the ratios above, compare that figure with a count of teachers employed, and then assert that the funding model is somehow insufficient. Thus, any cost numbers associated with this unfounded claim should be completely disregarded.

The second assertion in the Senate's letter is that the FY18 teacher salary used in the base cost calculation is 5 years out of date. It is my conclusion that the \$2 billion cost estimate of the Fair School Funding Plan should have been based on FY19 data rather than on FY18 data. The printouts that accompany Sub. HB 305 show the cost of fully funding the new formula right now (FY21). This is the only practical option for showing the cost of the new formula because the difficulties of projecting property values, income, inflation, the number of students and other variables over a 6 year phase-in period is essentially impossible.

In addition, because of lags in data availability, it is not possible to use even the prior year's teacher salaries in order to compute the base cost. This means that the only practical option is to use salaries from the 2<sup>nd</sup> preceding year (i.e. FY19 salaries for FY21). This is done with other

variables in the formula as well – for example property values are also from the tax year 2 years prior to the school year.

Using the statewide average teacher salaries shown in the FY18 and FY19 Cupp Report indicates that there was a 2.5% increase from FY18 to FY19. 2.5% of \$2 billion is \$50 million which represents the absolute largest additional cost if the FY19 data were used instead of FY18 (some parts of the formula such as transportation and targeted assistance are not based on teacher salaries). In contrast the Senate's letter suggest that the cost is \$705 million which is completely unsupported by evidence, data or logic.

A third point in the supporting documentation to the letter is a very confusing section which seems to suggest that the Fair School Funding Plan only funds 80% of current general fund spending. While this section is so poorly worded and argued that it is hard to grasp what logic might be at play, my best guess is that this section is guilty of the same mistake as was the first section (which falsely argued that the funding formula should fund all teachers). The Fair School Funding Plan – like any other model for adequate funding – is appropriately based on research which leads to a calculation of how much it costs to transport and adequately educate a typical student, as well as how much it costs to transport and adequately educate students with additional educational needs.

Once again, the funding model's calculations are not expected to reflect additional costs that local school districts choose to incur in order to deliver additional education services or to do so in a more costly way. It is simply invalid to say that the state must fund every last penny that school districts choose to spend in order to achieve adequacy. Furthermore, since it is often wealthier school districts that tend to spend more (once additional student needs are accounted for), to do what the Senate's letter suggests would actually reduce the equity of Ohio's funding formula. Thus, any cost numbers associated with this unfounded claim should also be completely disregarded.

Thank you for taking the time to read through my testimony. Please feel free to contact me with questions.