

Ohio Senate Primary and Secondary Education Committee

Substitute House Bill 110

**Testimony in Support of the Proposed Fair Funding Plan for  
Ohio's Schools - Distribution Model**

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Time 9:00 AM

Chair Brenner, Vice Chair Blessing Ranking Minority Member Fedor and members of the Senate Committee on Primary and Secondary Education, I am Michael Hanlon, Superintendent of the Chardon Local School District in Geauga County. I have been a school district superintendent in Ohio for twenty-three years. In addition, I served as co-chairperson of the Distribution Subcommittee of the Fair School Funding Plan Workgroup for the past three and one-half years.

Thank you for the opportunity to submit testimony today in support of Substitute House Bill 110, specifically, the proposed Fair Funding Plan for Ohio's Schools included in the House of Representatives version of the budget bill.

My colleague, Jared Bunting, Treasurer/CFO of the Trimble Local Schools, was unavailable to testify today due to a family emergency.

## **Background**

School funding in Ohio is a shared state and local responsibility. This reality is clearly spelled out in our state's constitution. School funding is a partnership between the two governmental entities. The pivotal question remains: how do we determine the fair share of this responsibility between the two partners? With 609 public districts in Ohio, each with its own blend of property and income wealth, how are we to determine a district's fair share to educate the typical child in Ohio?

As noted by my colleagues, Base Cost, Categorical supports and the Distribution Model form the three pillars of a school funding model that must be stable, predictable, and equitable in addressing the needs of school districts. In addition, the Distribution approach must provide a clear and defensible approach for determining an equitable state and local share responsibility for school districts.

The Distribution methodology developed as a component of the Fair School Funding Plan has remained essentially intact through various legislative proposals including HB 305 & SB 376 considered during the most recent General Assembly, and now as reflected in Substitute HB 110.

One aspect where this does not hold true is the adjustment of Disadvantaged Pupil Impact Aid (DPIA) in the first two years of the six-year phase-in period. The current proposal calls for DPIA funding at 0 percent of the projected increases in the plan in FY

22 and 14 percent in FY 23. It is important to note that this is not a reduction in DPIA funding from the prior biennium, but a limitation on the phase-in of the planned increase amounts.

This adjustment considers the influx of Federal ESSER funding intended to serve a similar population, as well as limitations imposed by the State Appropriation Limitation. This change does arrive at the same ending point for districts at the conclusion of the phase-in but it also creates some unintended consequences during that time that may impact districts serving Ohio's lowest wealth students. The workgroup would be receptive to working further with the legislature to consider options in this area.

### **Fair Funding Plan Overview**

Today, I will present what presumably has been the most complex aspect of the Fair Funding Plan - the proposed model for the equitable distribution of funds to school districts. My testimony focuses on the Fair Funding Plan Distribution methodology and provides an overview of what the committee believes is a more rational, understandable and more effective method of accomplishing this objective.

Within the Fair School Funding Plan, a district's local share is determined by blending its unique ability to generate revenue based on income level and property value. This ability to raise local revenue is also referred to as a district's "capacity".

A district's capacity is determined by considering the three-year average total Federal Adjusted Gross Income (FAGI) and median FAGI reported by the residents of the district on their federal income tax returns, as well as the value of real residential, commercial/industrial and agricultural property to provide a more accurate measure of each district's true wealth, and thus, capacity to support the base cost funding.

This methodology provides a stable, predictable state/local share in K-12 education funding which is based exclusively upon a community's ability to partner with the state in the base cost expense of educating a child. Different than the current system, the capacity factors of an individual district will not be disrupted by changes in other districts statewide.

The Distribution Committee focused its efforts on evaluating and revising Ohio's current method of distributing funds that are appropriated by the Ohio Legislature to fund each of Ohio's public school districts. There are clear, undeniable differences among districts including relative property wealth, income levels, needs within distinct student populations, physical geography and many other factors that impact the operation of a school district and the ability to effectively educate its students. Our objective was to design an equitable method for funding schools that recognizes the unique capacity of each district.

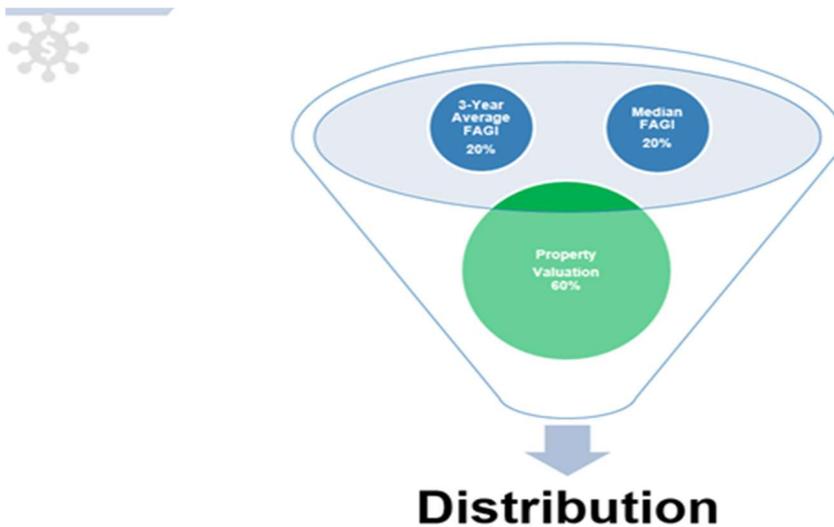
All public school districts in Ohio are now in their second year of guaranteed funding which equates to three years of level funding

since the last budget bill froze all districts at FY2019 base levels. At the same time, fluctuations in deductions for open enrollment and EdChoice transfers continued unaffected. At this time, the State of Ohio for all intents and purposes has no school funding formula.

### **Proposed Fair Funding Model for Ohio’s Schools**

Under the proposed Fair Funding Model, the Distribution Committee developed an approach that recognizes the contributions of local property valuation and income capacity in determining the level of state share support for a given school district using relative weighting of 60 percent on property valuation and 40 percent on income capacity as illustrated in Figure 1 below.

**Figure 1 - Distribution Overview**



The question arises as to why a 60/40 split is appropriate in this approach? When considering the distribution of income and property valuation across the State of Ohio, we see that there is a higher total amount of income when compared to property valuation. Therefore, adjusting the relative weights of these two components to the proposed percentages brings income and property valuation into better balance within the model and recognizes the contributions of each to the overall funding methodology.

In practicality, the previous relationship between the two components saw the use of income essentially only when it produced a favorable result for the district. When the current funding model was applicable, income weighting for districts fell between 0-40 percent, while property valuation was applied at a weight between 60-100 percent for a small number of districts.

Within the FSFP, income is now considered as an integral component of determining district capacity and used for all school districts.

### **Benefits Associated with the Proposed Fair Funding**

There are a number of clear benefits to the proposed distribution model being discussed today. Specifically:

- The capacity of school districts to support education can be calculated using property valuation and income within their respective communities in an equitable manner.

- All districts are calculated the same way. The result will not change unless there is a change in a district's property valuation or income.
- Each district is calculated independent of statewide averages resulting in increased stability in funding levels and eliminating the current concern where a change in one district impacts another.
- The new calculation accounts for demographic changes in districts (growing or declining enrollment) since it is based on a K-12 headcount calculation. We recognize that there may be near term concerns with ADM data for school districts as a result of the COVID pandemic and would welcome the opportunity to partner with the legislature in determining accurate data for districts as we move forward.
- By recalculating capacity annually, less funding disruption occurs as a result of smaller, more frequent, adjustments to local/state share rather than freezing for two years and then experiencing a larger change with each succeeding biennial budget.
- The new base cost and distribution methodology offers increased stability and allows for better projections and planning by school districts.

### **The Need for Comprehensive Funding Overhaul**

Funding of the base cost in the Fair Funding Plan is achieved by a combination of state resources and locally-generated tax

revenue. In HB 110, the amount of state and local responsibility is based on each school district's ability to share in that cost - or fiscal capacity to generate a local share determined by using a combination of both property and income wealth.

### **Property Valuation as a Component of District Capacity**

Property value carries a 60 percent weight in determining the overall capacity of a school district. The per pupil property valuation capacity for a district is calculated as shown in Table 1.

Table 1. Total Property Valuation Capacity Per Pupil

$\text{Total Property Valuation/Enrollment} * 0.60 =$ $\text{Total Property Valuation Capacity/Pupil}$
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### **Income as a Component of District Capacity**

The second component - income capacity - is calculated in equal parts (20 percent each) of total value of personal Federal Adjusted Gross Income (FAGI) of the school district; and, median income value (FAGI) of the school district. These data are taken from the Ohio Department of Taxation and derived from individual tax returns submitted by residents. Income capacity has a 40 percent weight (20 percent for each component) in determining overall local income capacity. The income components are calculated individually as shown in Tables 2 and 3 below.

Table 2. Total Income Capacity Per Pupil

$$\text{Total FAGI/Enrollment} * 0.20 =$$
$$\text{Total FAGI Income-based Capacity/Pupil}$$

Table 3. Median Income Capacity Per Pupil

$$\text{Median FAGI} * \text{Number of Federal Tax}$$
$$\text{Returns/Enrollment} * 0.20 =$$
$$\text{Median Income-based Capacity/Pupil}$$

**Note:** The Median FAGI value is derived from the submitted federal tax returns.

Using 20 percent for each income component, recognizes not only the total income of a particular school district, but also the distribution of that income among its taxpayers. This approach creates greater sensitivity within the model to both the total income and the distribution of income within a school district to present a more accurate picture of the capacity within the district.

When these three capacity components are combined, we arrive at a total local capacity value per pupil for each school district (See Table 4).

Table 4. Total District Capacity Per Pupil

<p style="text-align: center;"><b>Total Property Valuation Capacity/Pupil</b></p> <p style="text-align: center;">+</p> <p style="text-align: center;"><b>Total FAGI Income-based Capacity/Pupil</b></p> <p style="text-align: center;">+</p> <p style="text-align: center;"><b>Median Income-based Capacity/Pupil</b></p> <p style="text-align: center;">=</p> <p style="text-align: center;"><b>Total District Capacity/Pupil</b></p>
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### **Accounting for Total Local District Capacity**

It is understood that all districts have some level of local funding capacity, but the variability of that capacity among Ohio’s school districts is significant. Treating districts equitably regarding state and local responsibility for funding students by recognizing each district’s unique capacity has been a long-standing challenge to legislators and taxpayers alike and something that Ohio has wrestled with for over 30 years.

Once the total local capacity per pupil of a district is determined, a percentage multiplier – charge-off - is used to arrive at the district’s final local share. The percentage ranges from a floor of 0.0 percent for low capacity districts to 2.5 percent for higher capacity districts, with an individual district’s percentage based on its unique median income in relation to the statewide median income.

The local share multiplier is determined by computing a ratio as shown in Table 5.

Table 5. Local Share Multiplier Index Calculation

$$\text{District's Median FAGI/Statewide Median FAGI} = \text{Local Share Multiplier Index Value}$$

The district with a median income exactly at the statewide median (district 305/609 in rank order of median income) would have a ratio of 1.0 and a charge-off of 2.25%. The 304 districts below the median would have a ratio less than 1.0 (and a charge-off less than 2.25%) while the 304 districts above the median would be greater than 1.0 (and a charge-off between 2.25% and 2.50%). All districts in the state will fall equally above or below that median index value.

When considering districts with median incomes below the statewide median the ratio is multiplied by 2.25 (the percentage “charge off” assigned to the district exactly at the statewide median value) resulting in a lower charge-off percentage applied for their local share responsibility. It is important to note that with a floor value of 0.00 percent, the local share responsibility for all districts below the statewide median FAGI is in direct relationship to the statewide median percentage (See Table 6).

Table 6. Local Share Multiplier for Districts with an Index Ratio  
Less than 1.0

$$\text{District Ratio} < 1.0 * 2.25 =$$

**Local Share Percentage for Districts Below the Median**

Districts with median FAGI values above the statewide median would have a higher percentage “charge-off” applied, but not higher than 2.50 percent. The computation of the same ratio would occur. Districts would then be placed in rank order for purposes of determining the 40th highest capacity district. The 40 highest-capacity districts are capped at the 2.50 percent local share multiplier value. The remaining 264 highest capacity districts “fit” between 2.25 percent and 2.50 percent using a similar computation as for the districts below the statewide median with one adjustment to the calculation to assign the appropriate percentage within the remaining range (See Table 7).

Table 7. Local Share Multiplier for Districts with an Index Ratio  
Greater than 1.0

$$\frac{\{(\text{District Ratio} > 1 - 1) * 0.0025 /$$
$$(\text{District Ratio 40th District} - 1)\} * 0.0225 =$$

**Local Share Percentage for Districts Above the Median**

A second question that arises is why there is essentially no proposed floor, but there is a cap for this multiplier? All districts have some level of income and property capacity, so no district will be at a 0.00% charge-off, but factors of poverty and low property wealth do create a “floor” and a limited ability for taxpayers to support schools. Conversely, the ability to increase revenue and property valuation is essentially unlimited and with that growth potential, the capacity to support schools at the local level increases. At some point, however, a limit is necessary for high-capacity districts as it is inherently logical that the state should provide some level of funding for all students in Ohio.

By extending the low-capacity range to zero we fund the students in Ohio with the greatest need in direct relationship to the median with minimal cost impact to the overall plan. For students in high-capacity districts, the cap serves to ensure that the state is still providing some level of funding for all students where districts at the highest levels would otherwise receive no state support.

Once the local share per pupil amount is determined, the state pays for the balance of the calculated base cost per pupil amount for the district so that the district is assured of having the full amount of the calculated base cost funding.

The local share calculation provides greater sensitivity to issues of equity for low-capacity (below the median) districts, a more effective/logical flow for categorical funding and a better overall fit for high-capacity (above the median) districts.

A final example of the distribution methodology is provided in Table 8 on the following page with the conceptual elements for calculating state and local cost share included in one example:

## Table 8. Example of Base Cost Distribution Calculation

A - District Per Pupil Base Cost Funding Amount	\$7,200
B - District Enrollment	1,000
C - District Base Cost	\$7,200,000

### **CALCULATION OF PROPERTY VALUATION CAPACITY**

D - Total Taxable Property Valuation	\$166,666,667
E - Valuation Per Pupil (D/B)	\$166,667
F - Per Pupil Property Valuation Capacity (E*.60)	\$100,000

### **CALCULATION OF TOTAL INCOME CAPACITY**

G - Total Federal Adjusted Gross Income (FAGI)	\$200,000,000
H - Total FAGI Per Pupil (G/B)	\$200,000
I - Per Pupil Total Income-Based FAGI Capacity (H*.20)	\$40,000

### **CALCULATION OF MEDIAN INCOME CAPACITY**

J - Median Federal Adjusted Gross Income (FAGI)	\$30,000
K - Number of Federal Tax Returns	3,333
L - Total Median Income-Based FAGI (J*K)	\$100,000,000
M - Total Median Income-Based FAGI Per Pupil (L/B)	\$100,000
N - Per Pupil Median Income-Based FAGI Capacity (M*.20)	\$20,000

### **CALCULATION OF TOTAL LOCAL CAPACITY/LOCAL SHARE OF BASE FUNDING**

O - Total Per Pupil Local Capacity (F+I+N)	\$160,000
P - Local Share Percentage Multiplier	2.00%
Q - Per Pupil Local Share of Base Funding (O*P)	\$3,200
R - Local Share of Total Base Funding (Q*B)	\$3,200,000

### **CALCULATION OF STATE SHARE OF BASE FUNDING**

S - State Share of Base Cost Funding (C-R)	\$4,000,000
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To summarize the impact of the FSFP on school districts, the following:

- Districts with lower income wealth and higher concentrations of poverty will see greater support through the model.
- Previously “capped” districts will see increases commensurate with enrollment levels. When fully phased-in, these districts will then see future increases based on enrollment growth or additional capacity changes.
- Districts that are lower in property wealth but higher in income will see moderate adjustment in funding levels due to income now being a consistent factor in the determination of capacity.

Chair Brenner, Vide Chair Blessing, Ranking Member Fedor and members of the Committee, thank you for this opportunity to offer testimony on the proposed Fair School Funding Plan for Ohio’s Schools. I am prepared to address questions from the committee at the pleasure of the Chair.