

Ohio House Finance Extended Subcommittee on Primary and Secondary Education

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Background

All school funding formulas work in essentially the same way. First a “base cost” or “foundation amount” is determined that delineates the starting point for the funding system. This figure reflects the fact that all districts have the same basic goals and objectives. Then additional funding elements are incorporated which adjust for the fact that differences in students, costs, size, location, and other factors make all districts unique to some extent. Consequently, an adequate funding system is one that both gets the starting point right and also makes appropriate adjustments for special education, career technical education, economically disadvantaged students, transportation, and cost differences due to location (both urban and rural) and district size.

In addition, each state must all determine how funding responsibility will be apportioned between the state and local school districts. In this regard every state has an “equalizing” funding system which provides more state aid to poorer school districts and less state aid to wealthier school districts. However, states differ in terms of the extent to which property wealth varies across school districts, the extent to which school districts are allowed to pass local levies to provide additional revenues beyond those provided through the state aid formula, and the mechanics of the property tax. These issues in turn influence the equity of funding for high and low wealth districts as well as the predictability and reliability of funding over time.

Summary of Education Law Institute Report

Last week the Education Law Institute in the Rutgers School of Education (Ed Law) released a report entitled, *Is School Funding Fair? A National Report Card*. The report used data collected by the Census Bureau and other federal agencies and developed a method for comparing states' school finance systems on four measures of fairness. Ed Law prepared its report for a national audience rather than specifically for Ohio education interests. As explained on page 5, the overriding objective of the report is explained as follows: *In this report, “fair” school funding is defined as a state finance system that ensures equal educational opportunity by providing a sufficient level of funding distributed to districts within the state to account for additional needs generated by student poverty.*

Data and Limitations

Any comparison of the performance of school finance systems in 50 states (and DC) must rely upon federal data collection resources to provide the information needed for analysis. Such data has the advantage of objectivity and standardization to the maximum possible extent given the differences in states and their education policies. These benefits come at the cost of some time lag in the availability of data. The data on which the 2012 National Report Card relied came from school years ending in 2007, 2008, and 2009.

Methodology

The study examined four aspects of fairness: Funding Level, Funding Distribution, Effort, and Coverage. "Funding level" compares the amounts of state and local revenues per pupil among the

states and also to a national average. "Funding Distribution" considers the extent to which states provide more funding to school districts as the concentrations of poverty in them increase. "Effort" measures the extent to which a state's fiscal commitment to education relates to that state's wealth as indicated by its state Gross Domestic Product (GDP). "Coverage" compares states based on the percentage of pupils in each state who attend public schools.

Findings

Funding Level - Ohio ranked 17th in 2007 and dropped to 21st in 2009. In the process, Ohio's per pupil funding fell from slightly above the national average in 2007 to slightly below in 2009. The funding level analysis does not rate state and local education revenue data. Rather, this part of the study uses statistical techniques to compare education spending after holding certain variables constant, such as child poverty, regional wage variations, economies of scale, and population density.

Funding Distribution – This measure examines the extent to which school funding increases along with student poverty. Ohio received an "A" grade for its education revenue system for the three years in the study. Only two other states (Utah, New Jersey) received an "A" in 2009. Only three other states merited even a "B" grade. The results mean that Ohio funding per pupil increased as the poverty concentration in a school district increased. An alternate measure by which to examine funding distribution is to evaluate the extent to which funding per pupil is related to local property wealth.

Effort - Ohio's grade for effort improved from a "B" in 2007 to an "A" in 2009. The effort measure compares the percentage obtained by dividing state and local education revenue by State GDP. While Ohio's grade on this aspect of fairness improved by a letter, its percentage of GDP spent on education remained constant at .042. In 2009, ten other states made a greater effort than Ohio, although seven of the ten states exceeded Ohio's effort by .001 to .003.

Coverage - In 2009, 85% of Ohio's 6 to 16 year old children attended public schools, and the ratio of income of private school families to public school families equaled 1.51 to 1.00. By this measure, Ohio ranked 37th.

Why Does Ohio Rank so Highly on the School Funding Distribution Measure?

Ohio's exceptional performance on the funding distribution measure suggests that the state's school finance system provided a relatively fair method for dividing the state's wealth among school districts in the 2007 to 2009 period. The system in those years used several methods to target high needs districts so that more revenue per pupil went to those school districts with higher concentrations of poverty. This characteristic of the Ohio system in those years earned the state's "A" grade for fairness.

While the Ed Law report makes no attempt to describe the specific aspects of Ohio's school finance formulas responsible for its favorable outcome on the distributional fairness measure, several details of the funding system in those years probably contributed to that result. Specifically, the state's school finance formulas included Gap Aid, Poverty Based Aid, and Parity Aid. These adjustments to State Aid formulas in the 2007 to 2009 period targeted more state revenue to districts with low property valuation or high percentages of pupils from economically disadvantaged homes.

In this regard, the attached report, "**Recent Trends in K-12 Education Funding In Ohio**", prepared in December 2008 for the Education Tax Policy Institute, provides useful information about the various components of Ohio's school funding system during the period examined by the Education Law Institute analysis. While the entire ETPI report provides a detailed summary of the evolution of Ohio's

school funding formula over the past 20 years which acts as a useful companion to the historical funding overview provided to this committee by Paolo DeMaria on May 2, 2012, for the purposes of this presentation focus can be directed to the sections discussing Parity Aid and Funding for districts with high concentrations of Economically Disadvantaged students. These sections are reproduced below.

Parity Aid - In FY02, the legislature replaced \$32 million in Power Equalizing Assistance with \$100 million of Parity Aid funding. Like Power Equalizing Assistance, the objective of Parity Aid is to provide additional funding to less wealthy school districts so that they can provide additional education programs beyond the basic educational program allowed by the foundation funding formula. In this manner, less wealthy districts are provided additional funding so that they can maintain some level of “parity” with wealthier districts that have greater local resources. Even though the legislature changed the parameters of the parity aid formula in FY06 so that it never reached full funding as initially intended, the advent of parity aid has been perhaps the single best improvement to Ohio’s school funding formula since the *DeRolph* rulings. In FY08, Governor Strickland and the Legislature further modified the Parity Aid formula so that fewer districts would qualify for Parity Aid (though these districts would receive more money). Table shows parity aid funding since 2002.

Table 5: Parity Aid Funding Parameters and Amounts, FY02–FY09

Fiscal Year	Total Funding (Millions)	Increase in \$	Phase-in Percentage	Base Millage Rate Used	Local Wealth Threshold	# of Districts Receiving Aid
2002	\$99.9	--	20%	9.5 Mills	490th lowest district	490
2003	\$209.3	\$109.4	40%	9.5 Mills	490th lowest district	490
2004	\$321.3	\$112.0	58%	9.5 Mills	490th lowest district	490
2005	\$425.3	\$104.0	76%	9.5 Mills	490th lowest district	490
2006	\$459.3	\$34.0	100%*	7.5 Mills	490th lowest district	490
2007	\$480.0	\$20.7	100%*	7.5 Mills	490th lowest	490

					district	
2008**	\$483.1	\$3.1	100%*	8.0 Mills	411th lowest district	411
2009**	\$510.9	\$27.8	100%*	8.5 Mills	368th lowest district	368

* HB 66 (2005) modified the Parity Aid formula so that 76% phase-in level from FY05 was redefined to be 100% in FY06 and subsequent years. This was accompanied by a reduction in the base millage rate used in the parity aid calculation from 9.5 mills to 7.5 mills.

** In HB 119 (2007) the local property wealth threshold in the Parity Aid formula was changed so that fewer districts would receive funding in FY08 and beyond. The millage multiplier was also increased in FY08 and FY09 so that the lower wealth districts still receiving Parity Aid received greater amounts.

In effect, Parity Aid is Ohio’s version of a “Tier II” component to the school funding formula. In other states the Tier II funding component is typically in the form of a state matching grant provided to districts that pass additional school levies. However, because Ohio’s property tax law works in such a way that local property tax rates do not remain fixed and Ohio school districts need to appear on the ballot regularly just to maintain stable effective tax rates, such an approach does not work.

Funding for Economically Disadvantaged Pupils - Funding for districts with large concentrations of economically disadvantaged students is the one area of the formula that has never been objectively studied. As a result, funding has fluctuated significantly over the past 15 years. After a sizable increase in FY95, funding for pupils in poverty fell for 3 consecutive years. After another sizable increase in FY99, funding for pupils in poverty (either DPIA or PBA) declined or remained flat for the next seven years (through FY06). It was not until FY07 that funding exceeded the level of FY99. In addition, this aspect of the funding formula has become more and more structured and restricted in the past 15 years. The enactment of the federal No Child Left Behind law only makes the need for providing adequate funding to districts with large concentrations of poverty even greater. Table 8 shows poverty funding in Ohio from 1994 through 2009.

Table 8: Funding for Districts with High Concentrations of Economically Disadvantaged Students, FY94–FY09

Year	DPPF	DPIA	PBA	TOTAL	% Increase
FY94	\$39,435,468	\$239,186,933		\$278,622,401	
FY95	\$39,548,623	\$348,383,204		\$387,931,827	39.23%
FY96		\$297,163,702		\$297,163,702	-23.40%
FY97		\$280,129,959		\$280,129,959	-5.73%

FY98		\$276,764,077		\$276,764,077	-1.20%
FY99		\$369,053,623		\$369,053,623	33.35%
FY00		\$367,072,980		\$367,072,980	-0.54%
FY01		\$342,061,558		\$342,061,558	-6.81%
FY02		\$345,638,782		\$345,638,782	1.05%
FY03		\$320,722,965		\$320,722,965	-7.21%
FY04		\$347,031,125		\$347,031,125	8.20%
FY05		\$348,588,897		\$348,588,897	0.45%
FY06			\$361,350,111	\$361,350,111	3.66%
FY07			\$408,753,281	\$408,753,281	13.12%
FY08			\$451,538,161	\$451,538,161	10.47%
FY09 Est.			\$471,178,883	\$471,178,883	4.35%
Growth in Funding from FY95 to FY06					-6.85%
Growth in Funding from FY06 to FY09					30.4%

Gap Aid – Ohio implemented “Gap Aid” and the “Excess Cost Supplement” into the school funding formula in the aftermath of the *DeRolph* decision. The purpose of these two components was to provide some insulation for local districts from the effects of one form of “Phantom Revenue”. This problem was caused by the fact that the local chargeoff (23 mills at the time, since lowered to 22 mills) is higher than the millage floor of 20 mills. As a result, school districts in Ohio can have a lower local tax rate than is presumed by the school funding formula. In such an event the district would end up with less state and local revenue than intended by the formula. Consequently, Gap Aid was introduced to bridge the gap between a districts actual effective millage rate and the chargeoff millage rate.

The Excess Cost Supplement was introduced to address a similar problem relating to funding for categorical programs such as special education and career technical education. In this case, an additional 3.3 mills of local effort was presumed to be necessary to provide the local shares for these programs. Districts that did not have the additional 3.3 mills of local effort were provided the Excess Cost Supplement aid.

Neither Gap Aid or the Excess Cost Supplement were discussed in the 2008 ETPI report, however, these two components of the state aid formula likely contributed to Ohio’s A grade on Funding Distribution in the Ed Law report.

Conclusion

Fairness and equity of school funding can be viewed in a number of ways. One way is to consider the variations in local wealth that enable wealthier school districts to spend more than poorer school districts at a given level of tax effort. Another way is to examine the funding provided to economically disadvantaged students as compared to other students. While the Education Law analysis focused on the second notion of equity, any state’s school funding system should address both notions of equity. Even so, no matter how well a state does in addressing issues of equity on school funding, the funding system also needs to address adequacy and reliability of funding as well.