

“Recent Trends in K-12 Education Funding In Ohio”

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Since the first *DeRolph* decision on March 24, 1997 Ohio’s school funding formula has undergone significant change. Below are some of the most notable changes (good and bad) to Ohio’s method of funding K-12 education over the past 10-15 years.

I. Positive Changes

Increased Funding for Operations – According to data compiled by the Legislative Services Commission, since FY94 total state expenditures on K-12 education, not including reimbursement for state real property rollbacks and reductions in tangible personal property taxes, has increased from \$3,835.9 billion to \$7,439.5 billion. This is an increase of 93.9%. At the same time, LSC data shows that total state expenditures increased by 76.7%. As a result, state K-12 expenditures (not including tax relief) increased from the 30.9% of total state expenditures in FY94 to 33.9% of total state expenditures in FY08. Similarly, data from ODE shows that total state funds received by Ohio’s 613 school districts increased by 82.7% from FY95-FY07 (the LSC data shows an 82.6% increase over this two year shorter time frame). This data is in Table 1 below.

Table 1: State Education and Total Spending, FY94-FY08

Fiscal Year	K-12 State Spending (LSC)	Total State Spending (LSC)	K-12 as % of Total State (LSC)	K-12 State Revenue (ODE)
1994	\$3,835.9	\$12,415.4	30.9%	
1995	\$4,021.9	\$13,040.8	30.8%	\$3,868.5
1996	\$4,284.3	\$13,722.3	31.2%	\$4,181.1
1997	\$4,534.7	\$14,532.3	31.2%	\$4,320.4
1998	\$4,896.6	\$15,576.3	31.4%	\$4,669.6
1999	\$5,310.8	\$16,457.1	32.3%	\$5,101.7
2000	\$5,650.4	\$17,422.3	32.4%	\$5,372.0
2001	\$6,071.5	\$18,504.0	32.8%	\$5,722.8
2002	\$6,559.9	\$19,155.2	34.2%	\$6,261.8
2003	\$6,784.8	\$19,753.1	34.3%	\$6,403.2
2004	\$6,973.1	\$20,294.4	34.4%	\$6,628.1
2005	\$7,144.1	\$21,015.8	34.0%	\$6,724.3
2006	\$7,222.0	\$21,102.4	34.2%	\$6,748.2
2007	\$7,342.5	\$21,627.7	33.9%	\$7,066.2
2008	\$7,439.5	\$21,938.1	33.9%	
Increase FY94-08	93.9%	76.7%	--	--
Increase FY95-07	82.6%	65.8%	--	82.7%

Development of a Methodology for Determining the Foundation Level – The foundation level (also known as the “base cost” per pupil) is the starting point for Ohio’s school funding formula. At the time of the initial *DeRolph* ruling, this all-important figure was determined solely on the basis of the amount of money the Ohio General Assembly was willing to allocate to K-12 education, rather than in accordance with the amount necessary to provide each student with a high-quality education. In the aftermath of the Supreme Court’s ruling, the state hired John Augenblick to develop a method to determine an adequate per pupil funding level. The legislature enacted a modified version of Augenblick’s approach (which lowered his foundation amount by \$206 per pupil,) in FY99. Since this time, the methodology for computing the foundation level has been changed a number of times by the legislature, and the state is now using an approach known as “building blocks”. Each methodology has also incorporated an annual inflationary increase, which began at 2.8% in FY99, was lowered to 2.2% in FY04, and has subsequently been raised again in FY08.

Critics have continued to allege that the methodology employed by the legislature is not truly adequate (see page 6), however, the fact that there is a methodology at all represents a significant improvement from the old method of legislative judgment. The foundation level is currently \$5732 per pupil in FY09. Table 2 shows the foundation level from FY90 through FY09.

Table 2: Ohio Foundation Level and Percent Change, FY90–FY09

Year	Foundation Level	% Increase		Year	Foundation Level	% Increase
1990	\$2,530	7.2%		2000	\$4,052	5.2%*
1991	\$2,636	4.2%		2001	\$4,294	6.0%*
1992	\$2,710	2.8%		2002	\$4,814	12.1%**
1993	\$2,817	3.9%		2003	\$4,949	2.8%
1994	\$2,871	1.9%		2004	\$5,058	2.2%
1995	\$3,035	5.7%		2005	\$5,169	2.2%
1996	\$3,315	9.2%		2006	\$5,283	2.2%
1997	\$3,500	5.6%		2007	\$5,403	2.3%
1998	\$3,663	4.7%		2008	\$5,565	3.0%
1999	\$3,851	5.1%*		2009	\$5,732	3.0%

* Increases in FY99, FY00 and FY01 are larger than 2.8% because they reflect phase-ins to a higher foundation level.

** Increase of 12.1% in FY02 is much greater than 2.8% in large part because it was accompanied by a reduction in the CDB factor from 13.8% to 7.5%.

Creation and Funding of the Ohio School Facilities Commission – Prior to the *DeRolph* ruling funding of school facilities construction and maintenance was entirely a local responsibility in Ohio. Since its creation, the Ohio School Facilities Commission (OSFC) has provided state funding for the renovation and construction of new school buildings in partnership with hundreds of local school districts. OSFC has received \$8.5 billion in appropriations from FY98 through FY09, with an additional \$1.7 billion planned in FY10 and FY11, for a total of \$10.2 billion since its inception in FY98. Total

disbursements to school districts for classroom facilities assistance, exceptional needs, vocational facilities, disability access, and other programs were \$5.5 billion from FY98 through FY07. These figures are shown in Table 3 below.

Table 3: OSFC Appropriations and Disbursements, FY98-FY11

Fiscal Year	OSFC Appropriations (\$ in Millions)	OSFC Disbursements (\$ in Millions)
1998	\$550.0	\$107.6
1999	\$375.0	\$208.9
2000	\$684.6	\$352.6
2001	\$533.0	\$644.8
2002	\$533.0	\$814.3
2003	\$463.8	\$645.9
2004	\$463.8	\$581.0
2005	\$644.8	\$516.6
2006	\$665.6	\$743.1
2007	\$1,006.1	\$899.0
2008	\$1,245.2	
2009	\$1,370.7	
2010	\$1,370.7	
2011	\$342.7	
Total	\$10,249.0	\$5,513.8

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). Tables 4 and 5 show power equalizing and parity aid funding since 1999.

Table 4: Power Equalizing Assistance Funding, FY99-FY01

Fiscal Year	Total Funding (Millions)	Phase-in Percentage	# of Districts Receiving Aid
1999	\$10.5	25%	329
2000	\$21.6	50%	324
2001	\$32.0	75%	301

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 district	490
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.

II. Not-So-Positive Changes

Elimination of the Cost-of-Doing-Business Factor –In FY96 the legislature began an expansion of the cost-of-doing business factor. This factor, which provided an adjustment for differences in the wage rate across different regions of the state was intended to be expanded from a maximum of 7.5% to a range of 18%. It reached a range of 13.8% in FY01 and then was lowered back to 7.5% in FY02. In FY06 the legislature began a phase-out of the cost-of-doing business (CDB) factor, with the CDB factor eliminated entirely in FY08.

Table 6 below shows the maximum range of the CDB factor from 1990 through 2009. Again, the large increase in the foundation level from FY01 to FY02 is partly related to the reduction in the CDB factor from 13.8% to 7.5% (instead of the planned expansion to 15.2%, and ultimately 18.0% by FY04).

Table 6: Ohio Foundation Level and Cost-of-Doing-Business Factor, FY90–FY09

Fiscal Year	Per-Pupil Amount	CDB Factor Range	Planned CDB Factor Range
FY 1990	\$2,530	7.5%	
FY 1991	\$2,636	7.5%	
FY 1992	\$2,710	7.5%	
FY 1993	\$2,817	7.5%	
FY 1994	\$2,871	7.5%	
FY 1995	\$3,035	7.5%	
FY 1996	\$3,315	8.2%	
FY 1997	\$3,500	8.9%	
FY 1998	\$3,663	9.6%	
FY 1999	\$3,851	11.0%	
FY 2000	\$4,052	12.4%	
FY 2001	\$4,294	13.8%	
FY 2002	\$4,814	7.5%	15.2%
FY 2003	\$4,949	7.5%	16.6%
FY 2004	\$5,058	7.5%	18.0%
FY 2005	\$5,169	7.5%	18.0%
FY 2006	\$5,283	5.0%	18.0%
FY 2007	\$5,403	2.5%	18.0%
FY 2008	\$5,565	0.0%	18.0%
FY 2009	\$5,732	0.0%	18.0%

Failure to Fully Fund Special Education – In FY99 the legislature adopted a weighted pupil system of funding special education. The weights were expanded and modified for FY02 and the weighted pupil system is generally agreed to be a marked improvement over the prior unit funding system of funding special education. However, after 8 years, the new special education weights are only funded at 90%. Table 7 below shows the special education weights and phase-in percentage from FY99 through FY09.

Table 7: Special Education Weights, FY99-FY09

Fiscal Year	Category 1	Category 2	Category 3	Category 4	Category 5	Category 6	Phase-in %
FY99	0.22	3.01	3.01*	NA	NA	NA	
FY00	0.22	3.01	3.01*	NA	NA	NA	
FY01	0.22	3.01	3.01*	NA	NA	NA	
FY02	0.2892	0.3691	1.7695	2.3646	3.1129	4.7342	82.5%
FY03	0.2892	0.3691	1.7695	2.3646	3.1129	4.7342	87.5%
FY04	0.2892	0.3691	1.7695	2.3646	3.1129	4.7342	88.0%
FY05	0.2892	0.3691	1.7695	2.3646	3.1129	4.7342	90.0%
FY06	0.2892	0.3691	1.7695	2.3646	3.1129	4.7342	90.0%
FY07	0.2892	0.3691	1.7695	2.3646	3.1129	4.7342	90.0%
FY08	0.2892	0.3691	1.7695	2.3646	3.1129	4.7342	90.0%
FY09	0.2892	0.3691	1.7695	2.3646	3.1129	4.7342	90.0%

* In FY99-01 districts were also eligible for partial reimbursement of costs in excess of \$25,000 for Category 3 students.

More Study Needed to Determine Sufficient 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%

Adjustments to the Methodology for Determining the Foundation Level by the

Legislature – Ever since John Augenblick first proposed his methodology for determining the base cost, the Ohio legislature has persistently and intentionally modified the methodology in use in ways that have lowered the foundation level, and hence the cost to the state. These modifications have involved (among others) changing which districts are considered outliers, concocting the misguided theory of the “echo effect”, and relying upon a group of low-spending “Gap Aid” districts who perform satisfactorily on the state Report Card but not when higher standards of performance are considered. This pattern of behavior by the legislature has significantly undermined the claim by some legislators that the current system of funding K-12 education in Ohio is now in compliance with the *DeRolph* rulings.

Table 9 below provides a comparison of the original Augenblick funding model (inflated annually by 2.8% per year) with the actual base cost per pupil from FY99 to FY09. The table shows that the actual base cost has been higher since HB94 was enacted in FY02, however, the lowering and eventual removal of the CDB factor negates this advantage for all but the lowest cost rural counties. This is shown in the two rightmost columns where the effective foundation level in the highest CDB factor county is shown under both the Augenblick model and the actual funding model.

Table 9: Comparison of Augenblick Model Funding Levels with Actual Funding Levels, FY99-FY09

Year	Original Augenblick Base Cost*	Planned CDB Factor	Actual Base Cost	Actual CDB Factor	Augenblick in Highest CDB County	Actual in Highest CDB County
FY99	\$4,269	11.00%	\$3,851	11.00%	\$4,739	\$4,275
FY00	\$4,389	12.40%	\$4,052	12.40%	\$4,933	\$4,554
FY01	\$4,511	13.80%	\$4,294	13.80%	\$5,134	\$4,887
FY02**	\$4,650	15.20%	\$4,814	7.50%	\$5,357	\$5,175
FY03	\$4,780	16.60%	\$4,949	7.50%	\$5,573	\$5,320
FY04	\$4,914	18.00%	\$5,058	7.50%	\$5,799	\$5,437
FY05	\$5,051	18.00%	\$5,169	7.50%	\$5,960	\$5,557
FY06	\$5,193	18.00%	\$5,283	5.00%	\$6,128	\$5,547
FY07	\$5,338	18.00%	\$5,403	2.50%	\$6,299	\$5,538
FY08	\$5,488	18.00%	\$5,565	None	\$6,476	\$5,565
FY09	\$5,641	18.00%	\$5,732	None	\$6,656	\$5,732

* Augenblick Base Cost figure inflated by 2.8% per year.

** \$12 per pupil added in FY02 (and after) to reflect SB 2 graduation requirements

Table 10 provides a similar comparison, in this case showing the difference between the funding levels that would have been in place had the questionable adjustments made to the HB 94 funding model not been adopted and the actual base cost from FY02 through FY09. In this case, all Ohio school districts would have been better off under the “unadjusted” HB 94 levels of funding than with the current system. This is true regardless of whether a 2.2% or 2.8% annual inflation adjustment is applied, and the gap becomes even more pronounced since FY06 due to the phaseout and eventual elimination of the CDB factor.

Table 10: Comparison of “Unadjusted” HB 94 (June 2001) Funding Levels with Actual Funding Levels, FY02-FY09

Year	“Unadjusted” HB 94* (2.2% Increase)	“Unadjusted” HB 94* (2.8% Increase)	HB 94 CDB Factor	Actual Base Cost	Actual CDB Factor
FY02	\$5,035	\$5,035	7.5%	\$4,814	7.5%
FY03	\$5,176	\$5,176	7.5%	\$4,949	7.5%
FY04	\$5,290	\$5,321	7.5%	\$5,058	7.5%
FY05	\$5,406	\$5,470	7.5%	\$5,169	7.5%
FY06	\$5,525	\$5,623	7.5%	\$5,283	5.0%
FY07	\$5,647	\$5,780	7.5%	\$5,403	2.5%
FY08	\$5,771	\$5,942	7.5%	\$5,565	None
FY09	\$5,898	\$6,109	7.5%	\$5,732	None

* “Unadjusted” HB 94 funding means no echo effect adjustment and exclusion of the 7 “almost successful” districts

III. Things Not Changed That Should Have Been

HB 920 Property Tax Rollbacks – In 1976 Ohio enacted legislation (HB 920) that provided for millage rate reductions in response to inflationary increases in real property values. While this rollbacks have proven to be an effective way to protect taxpayers from increases in taxes, they have also prevented school districts and other local governments in Ohio from receiving adequate growth in local revenue from year to year. The two main effects of HB 920 are discussed below.

Reappraisal Phantom Revenue Not Addressed – The second main effect of HB 920 has been the creation of a quirk of the school funding formula known commonly as reappraisal “phantom revenue”. After the county auditor has reappraised a school district’s property, the district appears wealthier in the eyes of the school funding formula because its valuation has increased. This in turn, causes the school district to receive less state aid than it would have otherwise. However, the HB 920 millage reduction factors work to ensure that the school district has experienced very little additional revenue as a result of the reappraisal. Therefore, the school district gets penalized for having appearing to have revenue it does not really receive. This phenomenon, unique to Ohio, also increases the need for local levies in order for the district to maintain existing programs.

Continued Reliance on Local School Levies – The combination of lack of local revenue growth from real property and the impact of phantom revenue have led to Ohio’s tremendous reliance on local tax levies. From 1976 through 2008 Ohio school districts have placed nearly 10,000 operating levies on the ballot for voter approval. These levies are necessary to counteract the millage reduction effects of HB 920. This amount, which averages out to more than 16 levies per district, is far more local school levies than any other state has had over this time frame. In addition, the net effect of this tremendously time-consuming level of levy activity has been to essentially keep effective tax rates for

school districts at roughly the same level now as it was in 1976. Table 11 shows the number and success rate of operating levies in Ohio from 1976 through 2008.

Table 11: Ohio School District Operating Levies, 1976-2008

Year	# Passed	# Failed	Total Levies	% Passed
1976	174	190	364	47.8%
1977	238	184	422	56.4%
1978	142	205	347	40.9%
1979	109	131	240	45.4%
1980	164	137	301	54.5%
1981	155	203	358	43.3%
1982	131	170	301	43.5%
1983	103	84	187	55.1%
1984	104	93	197	52.8%
1985	129	121	250	51.6%
1986	159	130	289	55.0%
1987	132	187	319	41.4%
1988	169	217	386	43.8%
1989	147	195	342	43.0%
1990	161	249	410	39.3%
1991	184	236	420	43.8%
1992	184	224	408	45.1%
1993	121	204	325	37.2%
1994	164	172	336	48.8%
1995	168	153	321	52.3%
1996	153	126	279	54.8%
1997	132	95	227	58.1%
1998	113	61	174	64.9%
1999	117	69	186	62.9%
2000	149	65	214	69.6%
2001	111	60	171	64.9%
2002	122	79	201	60.7%
2003	145	125	270	53.7%
2004	188	247	435	43.2%
2005	179	183	362	49.4%
2006	144	138	282	51.1%
2007	127	120	247	51.4%
2008	133	122	255	52.2%
Totals	4,851	4,975	9,826	49.4%
Averages	147	151	298	49.4%

Districts at the 20 Mill Floor – The other primary effect of HB 920 on local school districts is the increase in the number of school districts at the 20 mill floor for Class 1 and/or Class 2 real property. The advantage to school districts of being at the 20 mill floor is that they then benefit from revenue growth due to real property reappraisal because the HB 920 tax reduction factors cannot reduce effective millage below 20 mills.

Table 12 below shows the number of districts at the twenty mill floor in 1991 and compares with the much larger number of districts at the twenty mill floor from 2001 through 2007 (the most recent year for which data is available). The advent of the school district income tax and increased utilization of emergency levies instead of regular property levies by districts near the floor are the two primary reasons the number of districts at the 20 mill floor since 1991 has more than doubled.

Table 12: Number of Ohio School Districts at the 20 Mill Floor for Each Class of Real Property, Tax Years 2001 through 2007

Year	# of Districts at Class 1 Floor	# of Districts at Class 2 Floor	# of Districts at Floor for Both Class 1 & Class 2	Total Number of Districts at Floor for Either Class
1991	139	151	100	190
2001	310	148	144	314
2002	327	153	149	331
2003	346	148	145	349
2004	344	156	150	350
2005	376	184	176	384
2006	379	177	170	386
2007	386	163	157	392

Source: 2001-2007, Ohio Department of Taxation; 1991, Howard Fleeter

IV. What Needs to Be Changed

1) Agreement Needs to be Reached on the Level of Funding Required to Reach Adequacy (or Better) – Until, legislators, policy-makers, educators, and the general public reach an agreement on the appropriate method for determining the level of funding required for Ohio to assure at least an adequate education to every student the debate over whether school funding has been “fixed” or not will never be resolved. This means that agreement must be reached on both the foundation level, as well as on the level of funding required for special education, vocational education, economically disadvantaged pupils, limited English proficient students, and other categorical programs.

2) Something Needs to be Done to Reduce Ohio’s Over-Reliance on Local School Levies – No matter how much progress is made in determining the appropriate level of state funding to ensure the success of each and every student, Ohio’s funding system cannot be considered to be “fixed” as long as hundreds of school districts need to return to the ballot box every couple of years to assure the adequacy of the local component of the revenue stream. Modification of HB 920 so that reasonable local revenue growth is balanced against taxpayer protection from inflation and/or state assumption for the consequences of phantom revenue are necessary to reduce levy frequency.