



# **A Formula That Works:**

## **Five ways to strengthen school funding in Ohio**

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# Foreword

By Aaron Churchill and Chad L. Aldis

School funding debates are as predictable as the seasons, and right on cue, the release of Governor John Kasich’s biennial budget has precipitated hand-wringing from various corners of Ohio. Why? Like many other states, Ohio’s budget is tightening and his plan would reduce the amount of state aid for dozens of districts that have been consistently losing student enrollment.

No public entity anywhere has ever been happy about receiving less money than the year before; every elected leader worth their salt is going to fight for more resources for their own constituents. The challenge ahead for thoughtful policy makers is to distinguish the typical bellyaching from legitimate and serious problems in Ohio’s school funding policies.

To help, we are pleased to present this analysis of Ohio’s school finance policies. It gets under the hood of the Buckeye State’s education funding formula and tax policies and seeks to understand how well they promote two essential values: Fairness and efficiency. Why these two? Consider:

- Ohio must lift student achievement to meet the demands of colleges and employers—an especially urgent imperative for children from low-income backgrounds. According to last year’s state test results, proficiency rates for economically disadvantaged students fell a staggering 30 percentage points below their peers. **Funding structures should ensure that public funds are being fairly distributed to the districts and schools whose pupils have the greatest educational needs.**<sup>1</sup>
- Like many states, Ohio is experiencing increasing demand for school choice, including inter-district open enrollment, charter schools, private school vouchers, independent STEM schools, and college dual enrollment. **Funding structures should be designed in ways that recognize the fact that more students are availing themselves of educational opportunities that do not follow the traditional organizational patterns by which K-12 education has long been funded.**
- According to the National Association of State Budget Officers’ December 2016 report, [The Fiscal Survey of States](#), states are reporting tightening budget conditions in 2017. In recent comments, state budget director Tim Keen has indicated that Ohio will face budgetary constraints in the coming biennium. **Challenging fiscal conditions only reinforce the need for an efficient allocation structures that make certain that every dollar is being used to educate students.**

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<sup>1</sup> This paper doesn’t touch on policies and practices that can promote the productive use of school funds at a local level. For Fordham policy briefs on this issue, see for example, [Stretching the School Dollar](#) and [Getting Out of the Way](#).

To offer an independent, critical review of Ohio’s funding policies in light of these concerns, we turned to Andy Smarick, formerly at Bellwether Education Partners and now at the American Enterprise Institute. In 2014, we teamed up with Andy in a successful review of [Ohio charter-school policies](#); we were exceptionally pleased when he accepted the challenge of analyzing our home state’s school-funding system. He enlisted Bellwether’s Jennifer O’Neal Schiess, who spent a decade working with the Texas legislature on school finance and education policy to lead the research efforts along with her colleagues Max Marchitello and Juliet Squire.

As readers will see, Ohio’s present approach has several strengths, including its ability to drive more state aid to more disadvantaged districts—via the State Share Index—and the added dollars for students with greater educational needs (e.g., pupils with disabilities or English language learners). Yet Bellwether also explains several elements of the present system that subvert its fairness and efficiency. Three issues are particularly worrisome:

- **Caps and guarantees.** More than half of Ohio districts were affected by funding caps or guarantees as recently as fiscal year 2016. A funding cap withholds state dollars that a district should receive under the formula, while a guarantee provides districts with state funds they should *not* receive under the formula. Caps and guarantees fail to meet standards of fairness and efficiency by undercutting the state’s own formula and the core principle that Ohio provides funding to districts based on the students whom they are responsible for educating. For example, the guarantee holds harmless certain districts with declining enrollment, effectively delivering state aid to educate “phantom students” who are no longer enrolled in that district. **To ensure that all districts are funded according to the formula, legislators should eliminate the cap and guarantee.**
- **Pass-through funding.** Students exercising choice—e.g., charters, inter-district open enrollment, or independent STEM schools—are included in their home district’s funding formula. State funds are then deducted from their district and transferred to their school of choice. But more Ohio students are choosing non-home-district options every year, making this “pass-through” structure increasingly problematic. It creates the illusion that pupils exercising choice are “taking” money from their home district, when in fact state dollars go to the school that educates the child—as indeed they should. In addition, the inclusion of choice students in a district’s formula makes it look needier than it actually is (i.e., the district appears to have more kids to educate relative to its local tax base). This in turn muddles the calculations that ultimately determine the state’s funding obligation to that district. **To create a cleaner and more efficient funding formula, legislators should eliminate the pass-through and instead fund schools of choice directly from the state.**
- **Phantom property tax revenue.** Since the mid-1970s, state law has prohibited districts from capturing additional tax revenue when property values rise due to inflation. While this law—referred to as “tax reduction factors”—protects homeowners from abrupt tax hikes, it also denies

districts a certain amount of local revenue. Think of it this way: You have a home that was worth \$100,000 but is now assessed at \$150,000 because housing prices are booming. With few exceptions, your district does not generate revenue on that extra \$50,000 absent a tax rate election. That's a plus for the property owner, of course, and some would argue that voters should weigh in on increases in local revenue for schools. But the state's formula automatically and incorrectly assumes the district earns tax revenue on that additional value—sometimes called “phantom revenue.” This in turn causes a miscalculation of the state's funding obligation under the formula. **To ensure fair funding calculations, legislators should discount the value of property that is impacted by tax reduction factors in the state funding formula.** This recommendation would not affect a property owner's tax burden, but would likely increase the state's obligation to districts that, as a result of state law, are denied revenue tied to increasing property values.

These recommendations, along with a couple of others discussed in the paper, would greatly improve Ohio's school finance system and drive limited state dollars to where they're most needed. We urge that this be done.

Much work remains to be accomplished if Ohio is to craft a transparent, modern school-funding structure. We realize that the profound complexities and political realities of school funding policy make this a daunting task. In our view, the best course forward is to take one manageable step at a time. If state leaders make these essential repairs, Ohio will take its next step in the long journey toward a school-funding system that supports an excellent education for all.

## Acknowledgments

The time and talents of many individuals helped to create this report. We offer our deepest gratitude to Jennifer O’Neal Schiess, Max Marchitello, and Juliet Squire for their careful, painstaking work on this project. As many know, school funding policy is no easy lift, and we appreciate their trenchant analysis of Ohio’s funding system. On the Fordham side, we wish to thank Michael Petrilli and Chester E. Finn, Jr. for their thoughtful feedback during the drafting process. From the Fordham–Ohio team, we thank Jamie Davies O’Leary, Jeff Murray, and Jessica Poiner who supported the publication and release of the paper. Finally, we wish to thank Pamela Tatz, who copyedited the report, and Andy Kittles for his typesetting and design work.

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## Executive summary

Ohio's state constitution establishes the state's responsibility for providing public elementary and secondary education. At the backbone of this responsibility is how the state funds the system. Unfortunately, despite decades of reform and litigation, the Buckeye State struggles to provide all students with equitable access to a high-quality education.

On one hand, Ohio's funding formula laudably provides 9 percent more funding to students in high-poverty districts than low-poverty districts (after adjusting for students' additional instructional needs). On the other hand, the funding formula has become increasingly complicated. In its current form, it fails to adequately reconcile the conflicting features of Ohio's tax law to ensure schools are fully funded at the level the state formula prescribes. It relies on artificial funding caps and guarantees that undermine the ability of the school-funding system to direct funds to schools based primarily on students' instructional needs. And the formula is based on where students live, rather than where they attend school. This system poorly integrates charter schools (also referred to as "community schools" in state law).

Despite legislative changes made as recently as the 2015 session, Ohio policymakers should take additional steps to ensure an equitable and efficient allocation of school dollars. We conducted a comprehensive review of funding statutes and interviewed numerous individuals with experience and expertise in Ohio's school-funding system. We surfaced several pressing problems and recommend policy changes to address them.

Ideally, a school-finance system delivers public funds equitably and efficiently—treating students, all public schools, communities, and taxpayers consistently and fairly, while considering the individual needs and circumstances of each stakeholder. And in accomplishing this goal, the system should strive to minimize the administrative burden on state, district, and school-level leaders and maximize transparency to the public.

With these guiding principles in mind, we focused on challenges to the efficiency and equity of Ohio's school-finance system, looking for formula elements and policies that stymie the ability of the formula to function well for all students and schools. Our findings center on:

- The intersection of state tax policy and the way Ohio's school-finance system assigns school-funding responsibility between the state and local taxpayers;
- Cap-and-guarantee policies that sit on top of the core funding formula, acting as budget-control elements but compromising the system's ability to efficiently allocate limited financial resources;
- The unnecessarily complex and divisive way in which the state funds charter schools;
- An unstable statutory structure for delivering targeted funds for instructional supports for disadvantaged students; and



- The system’s reliance on real-time data, which drive unnecessary unpredictability in state and local budgets and increases the administrative burden at the state level.

Our recommendations for funding policy changes in the Buckeye State are as follows:

1. Tie state and local funding obligations more closely to actual local revenue capacity.

All Ohio school districts participate in a shared system of school funding in which state law determines the total funding allotment per pupil and the state and districts share the cost of that allotment. Ohio requires that school districts levy a local property-tax rate of at least twenty mills to receive state funds, though districts are free to levy a higher tax rate with voter approval.

The state determines the ratio of state-to-local funding based on a district’s **state share index (SSI)**, which is based on measures of the district’s wealth (that is, property value and resident incomes) and applies to several significant state funding streams. High-wealth districts generate a lower SSI, which translates to less state aid and more reliance on local funding. Low-wealth districts generate a higher SSI, resulting in more state aid and less reliance on local funding.

However, the structure of the SSI calculation and its interaction with Ohio tax policy inhibit its ability to fairly and consistently assess the capacity of school districts to generate local revenues. The SSI assesses district wealth based in part on property values, not property-tax revenues. But **tax-reduction factors (TRFs)**, a longstanding feature of Ohio’s state tax policy, prevent local districts from realizing a revenue benefit tied to growth in property values due to inflation.

Districts experiencing inflationary growth in property values will look wealthier on paper, but they won’t generate additional revenue unless voters approve. With a reduced SSI caused by property-value inflation, such districts will experience reduced state aid. But due to TRFs, they may not generate an offsetting increase in local revenues. Districts in these situations face the unintended effect of a net decline in total funding.

Proponents of local control and local voter discretion over school funding may view that option as a sufficient remedy, but the interaction of TRFs with the required twenty-mill minimum tax rate means the state funding system does not treat districts (and taxpayers) consistently.

**To address some of these challenges, we recommend that state policymakers base the SSI calculation on an effective property value that discounts local property value based on the impact of TRFs.** This way, the SSI would factor in local property value but adjust for TRFs or other tax exemptions. Districts would still have discretion to tax property value at whatever rates voters approve, but the SSI calculation would not disadvantage districts that experience increasing property values and don’t receive voter approval to tax that growth. Because such an adjustment would likely increase the state’s share of funding, policymakers could phase in the new calculation over time.

## 2. Phase out guaranteed funding and the revenue cap

Ohio statute guarantees that each district will receive at least as much state aid as it received in the previous school year, regardless of whether enrollment declines or how its student population may have changed. This **guarantee** shields districts from the fiscal impact of declining enrollment. It also benefits districts with increasing local wealth, as the SSI calculation would otherwise reduce the state's share of funding to adjust for increased local capacity. In fiscal year 2016, the state spent \$124 million across 174 districts through the guarantee.

State law also prohibits districts from receiving more than a 7.5 percent increase in state funding from the previous year—an arbitrary **cap** on funding increases. This provision protects the state from unexpected jumps in funding obligations, but it also disadvantages districts with increasing enrollment or declining local wealth, which would otherwise increase the state's funding obligation. The revenue cap affected 188 districts in fiscal year 2016, suppressing \$604 million in state revenue. The guarantee and cap create inefficient allocations of funding and prevent the state's formula from delivering per-pupil funding, as designed, to more than half of Ohio's 600-plus school districts.

**We recommend phasing out the guarantee and cap completely and moving to a formula-based approach to funding all districts.** To do so, the state could steadily increase funding for districts currently subject to the cap and decrease funding for districts currently subject to the guarantee. For districts facing extreme declines in enrollment, state policymakers can implement a failsafe measure to temporarily support districts through fiscal emergencies or help them adjust to volatile circumstances.

## 3. Directly fund charter schools

The current process for funding charter schools is circuitous and creates unnecessary tension with districts. Currently, districts' funding allocations are based on a count of all students who attend public school and reside within their boundaries—regardless of whether those students attend district schools. Funding allocations for charter schools are then deducted from the state funding allocation for the school district in which charter students reside. Because charter schools are not eligible to receive locally generated funding, the full cost of the charter school allocation is paid from districts' state funds. Districts retain all their local revenue, which should fill the resulting gap in state funds, but this system perpetuates a perception that charter schools “take” funding from the district. This is not the case. In fact, with local revenues, districts can and do access more funding per pupil on average than charter schools. Moreover, charter students are included in the district's enrollment for the purposes of calculating the SSI. This increases the denominator, decreases per-pupil wealth, and results in a higher level of state funding.

**We recommend that the state of Ohio directly fund its charter schools.** Under direct funding, the state would calculate allotments for each school district and charter school separately, based on the number of enrolled students. The transition to direct funding would come with challenges. For instance, removing charter schools from districts' enrollment counts would increase districts' per-pupil

wealth and reduce the state's share of funding, as the SSI would adjust downward. Another challenge with direct funding is that it perpetuates the assumption that charter schools ought to be ineligible for locally generated dollars. Ohio is hardly unique in limiting local funding for charter schools, but several states have implemented provisions that require districts to share local revenue—and direct funding could stall similar progress in Ohio.

Despite these challenges, we believe that the benefits of direct funding warrant this change. It would simplify how the state assesses student enrollment in districts and charter schools, and it would help to ensure that funding allocated based on a student's characteristics is delivered to the schools that serve each pupil.

#### 4. Index student weights to protect proportionate funding

Ohio's funding formula adjusts funding levels based on student characteristics. The outcome is admirable: students with various disabilities or other characteristics that drive higher instructional costs receive a higher per-pupil allocation. However, the process uses incremental dollar amounts instead of an index to weight student funding. In short, this opens the door to unnecessarily complex and risky adjustments in legislation.

Under the current system, each time the Opportunity Grant is adjusted, the dollar amount for each individual student characteristic must be adjusted in tandem to maintain proportional relationships among funding tied to different student needs. For instance, when the legislature increased the Opportunity Grant from \$5,900 to \$6,000 in 2016, it also adjusted the allocation for students with special needs and for career and technical education (CTE) by 2 percent and 4 percent, respectively, each fiscal year.<sup>1</sup>

**Instead, we recommend an indexed weight, which would automatically adjust allocations for student characteristics in proportion to the base funding.** With an indexed weight, an English language learner might receive a weight of 0.25, and the dollar amount would adjust automatically in proportion to increases or decreases to the Opportunity Grant. A relatively minor adjustment to statute, indexed weights would reduce the instances in which legislative missteps or political jockeying could undermine the proportionality of the system or jeopardize the important support for students' individual instructional needs that these weights provide.

#### 5. Pay districts based on prior-year data

The state allocates school funding twice monthly, based on current-year student counts adjusted three times per year. Enrollment data and other data that support funding calculations are updated regularly, and payment amounts are adjusted frequently. This presents challenges for the state, districts, and charter schools. First, in districts with highly volatile enrollment, funding can be unpredictable and make it difficult to plan for staffing and other school operations. The funding guarantees and revenue caps have mitigated this effect in the past, but policymakers will need a new fix if they eliminate them.

Second, the continuous updates to student enrollment numbers create a substantial administrative burden for the state and for districts.

**We recommend that Ohio shift to funding schools based on prior-year enrollment data.** This would increase the predictability of funding levels for districts while providing a one-year cushion for districts to adjust to substantial changes in enrollment. It would also lessen the administrative burden for counting and recounting students every quarter and give schools and the state a chance to verify and audit student counts to decrease payment corrections. The benefits are substantial, though policymakers would need to make special allowances for new charter schools, which often grow rapidly in their early years of operation, or other schools experiencing unusually high growth in a single year.

## Introduction

One foundational principle of the modern American education system is the notion that all students are entitled to a quality education, and traditionally, states bear the primary responsibility for providing it. Nearly every state constitution establishes this obligation. Education-related litigation over several decades has reaffirmed this responsibility and has, in particular, pushed policymakers, advocates, stakeholders, and courts to define how this state duty translates to financial support for schools.

School-finance litigation has spurred important debates about the principles of educational equity and adequacy—and how states can ensure that resources are both sufficient to meet educational goals and fairly distributed. These issues have evolved over time and informed a series of efforts to revise and refine school-finance systems across the country. Yet states are still struggling to ensure that each student has equitable access to the resources required to meet his or her educational needs. Ohio is no exception.

Ohioans are no strangers to the challenges that school-finance systems pose to providing equitable access to a high-quality education. Since the turn of the twentieth century, the Ohio Supreme Court has ruled repeatedly on the state's school-funding system.<sup>2</sup> The state legislature has enacted and revised numerous state funding systems.<sup>3</sup> And communities across Ohio have voted on thousands of local tax levies to generate revenues for local schools.<sup>4</sup>

Legislative tinkering with the school-funding system in Ohio has been nearly continuous, including a significant overhaul as recently as the 2015 legislative session. The results of the many

iterations of the state school-finance system have been mixed.

On one hand, some changes have improved equity, in part by providing additional funding that targets disadvantaged students. Ohio fares relatively well compared to other states in measures of whether districts serving high proportions of economically disadvantaged students receive more state and local resources than those serving more affluent student populations. In 2015, Ohio's highest-poverty districts received \$2,564 (22 percent) more state and local funding than its lowest-poverty districts before adjusting for additional instructional needs of low-income students. Even after adjusting for those additional needs, high-poverty districts Ohio retained a \$1,061 (9 percent) funding advantage over low-poverty districts.<sup>5</sup>

The state also developed and implemented several new grants to better support districts with lower capacity to generate local revenue. These grants improve funding equity among districts in a state that has traditionally relied on roughly equal measures of state and local resources to fund schools. And the state has also assumed a significantly larger role in funding facilities construction and maintenance, taking additional pressure off local taxes and further lessening reliance on revenues that vary significantly among school districts.<sup>6</sup>

On the other hand, Ohio's school-funding formula has become increasingly complicated. The state now incorporates thirteen separate grants within its overall funding structure, and individual calculations within the funding formula are themselves complex, leaving many districts hard-pressed to predict their own formula allocations from year to year. Additionally, the state adjusts funding al-

locations on an ongoing basis, updating for shifts in enrollment and other factors. Districts experiencing dramatic changes in student enrollment or property value find themselves adopting budgets with uncertainty as to how much revenue they will receive.

Another challenge with Ohio's current school-funding structure arises from its orientation around where students live, rather than where they attend school. Ohio offers several school-choice options through which students can enroll in public (or private) schools outside the district in which they live. In the 2017 fiscal year, approximately 120,000 students attend charter schools, another almost 80,000 students participate in the interdistrict open-enrollment program, and almost 30,000 students take advantage of Ohio's voucher programs.<sup>7</sup> Yet the current funding system bases its accounting on the school districts in which students and families reside. Rather than counting students and allocating funds based on where public school students enroll and attend school, the state determines state and local funding levels for schools as if all public school students attend a district-run school in their resident district. It then adjusts the resident district's funding for students who exercise options to enroll in charter schools or use the interdistrict-choice program to enroll in another district. This

orientation around residence can produce inequities and tension. It creates perceptions that schools of choice take money unfairly from resident district schools and fails to acknowledge real disparities in per-student funding among schools of different types and between different districts.

Further, the current state funding system is largely based on previous years' funding levels and not on any recent rigorous evaluation of the level of funding resources required to meet state educational goals and standards for all students. As a result, funding levels may or may not be calibrated to the current needs of students and schools. Finally, most Ohioans struggle to understand how the system works and whether it provides sufficient resources for their children.

To be sure, Ohio has made progress in how it funds its schools. But work remains. This paper is intended to guide Ohio policymakers by identifying concrete policy options for driving to a more adequate, equitable, and reasonably transparent funding system for all Ohio public schools. Based on analysis of Ohio's state funding statutes and tax code as well as input from numerous in-state experts, it identifies challenges related to the system's efficiency and equity and proposes options for improvement. These recommendations range from relatively small changes to the complete restructuring of some features of the state funding system.

# How Ohio school funding works

To frame the challenges and opportunities for Ohio’s school-finance system, the following section provides an overview of how the current funding system functions and how tax revenues are raised and used to support public schools. Subsequent sections then assess key challenges in the current system and provide recommendations for how policymakers can address them.

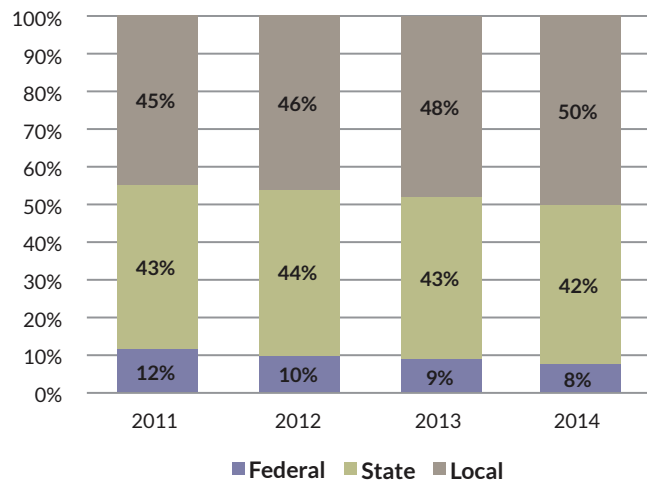
## Major revenue sources for school funding

Across the country, public schools receive funding from three primary sources: federal, state, and local revenues. Like most states, the vast majority (92 percent) of Ohio’s revenue comes from the state and school districts (figure 1). The federal government allocates around \$1.7 billion<sup>8</sup> a year to Ohio for K–12 schooling, largely to provide additional financial support for low-income students and students with disabilities. In recent years, the percentage of funding derived from the federal government for Ohio has hovered within one percentage point of the national average.<sup>9</sup>

On average, local revenues comprise the largest share of Ohio’s school funding, followed closely by state funding sources. Those proportions reflect the average funding mix among all states. Twenty-one states derive a larger share of school funding from local sources, with New Hampshire relying the most heavily on local taxes (60 percent of total funding in 2014). On the other end of the spectrum, eighteen states rely on local sources for one-third or less of total school revenues (excluding the District of Columbia and Hawaii, which are both state-run school systems). For example, as of the 2014 fiscal year, Indiana provided about 63 percent of school funding from the state, and in Michigan, state spending accounted for about 57 percent of the overall K–12 budget.<sup>10</sup> At the far end

of the spectrum, a few states, including New Mexico and Vermont, assume a much greater share of overall education spending, with local funds only making up between 4 and 12 percent.<sup>11</sup>

**Figure 1. Ohio public education revenue by source, 2011–14 school years**



**Source:** U.S. Department of Education, National Center for Education Statistics, Common Core of Data (CCD) and U.S. Census Bureau, 2014 Annual Survey of School System Finances.

Analysis in this paper focuses exclusively on state and local school funding, which is allocated based on state law and local decisions by school boards and voters. Like most states, Ohio funds its public school districts through a shared system. In a shared system, state law determines a total funding allotment, and the state and the district then share the cost of that allotment. The relative district and state shares of that cost vary based on the district’s property value and resident incomes.

Through the legislative process, state lawmakers and leaders have established the total funding allotment as the base funding level necessary to meet the state’s education goals. To fund its share



of this base funding, Ohio school districts levy local property taxes. However, state law does not restrict the ability of school districts to levy local funds in excess of the amount required to fund the local share. Taxpayers can vote to increase local funding for their district schools well above the base level. Because charter schools lack taxing authority and do not share local revenues with school districts, the state funds the entirety of their share of the base funding. But because the vast majority of charter schools cannot access additional local funds through property taxes, unlike school districts, they cannot supplement the funding base. Because of this difference in local funding access, disparities exist in per-pupil funding between charter schools and district schools. In the 2016 fiscal year, school districts spent on average \$2,000 more per pupil for school operations than did charter schools.<sup>12</sup> This \$2,000 disparity reflects a comparison of the average expenditure levels of all charter schools with that of all school districts in Ohio, regardless of whether charter schools operate within their boundaries. Because Ohio's charter schools are concentrated in urban areas, this reliance on overall averages may tend to diminish the funding gap between districts and charters that exists within the education markets in which charters actually operate. A recent analysis comparing the two after accounting for the extent to which students residing in a given district opted to enroll in charter schools found that charters in Ohio on average receive about 27 percent less funding than school districts. This gap is among the largest district-charter funding disparities in the country.<sup>13</sup>

### **Ohio's state school-funding allocation structure**

State law establishes numerous funding streams that collectively make up the total funding allotment for school districts and charter schools. For school districts with local taxing authority, the

system includes a calculation to determine the mix of state and local revenues that fund that allotment.

### The Opportunity Grant

The largest component of a district's total funding allocation comes from the Opportunity Grant. The Opportunity Grant comprises almost 60 percent of the total state formula funding for school operations, delivering \$4.4 billion of a total \$7.5 billion in state funds in the 2016 fiscal year.<sup>14</sup> It provides a basic level of funding per student at a level set in state statute. In the 2017 fiscal year, Ohio statute sets the grant amount per student at \$6,000, increased from \$5,900 in the previous year.<sup>15</sup> The current grant amount results from legislative decisions primarily based on historic funding levels.

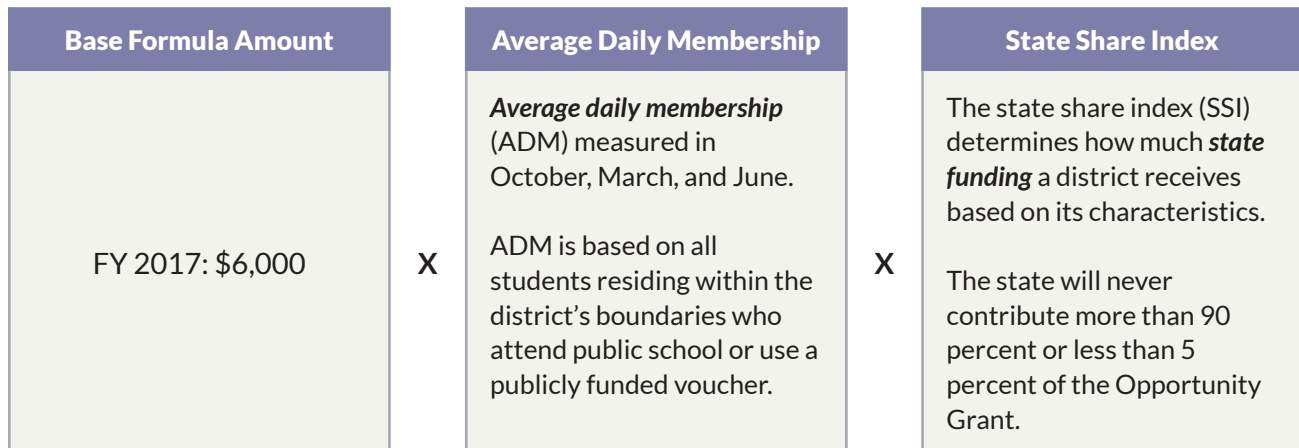
To determine the total district allocation under the Opportunity Grant, the base funding amount is multiplied by the district's average daily membership (ADM). A district's ADM includes all students who reside within the district's boundaries and attend any public school or use a state-funded voucher to attend private school. A district's ADM includes student enrollment in charter schools, and those attending school in another district or private school through open-enrollment or one of the state's voucher programs. ADM is measured three times per year—in October, March, and June—and school-funding payments are adjusted accordingly.

Because Ohio's school funding is a shared system, the state does not simply fund the total Opportunity Grant allocation. Instead, the total district allocation under the Opportunity Grant is multiplied by the state share index (SSI), a concept discussed in greater detail in the section *State share index* below. In brief, districts with higher property wealth and median resident income have lower SSIs, resulting in a greater reliance on local revenues to

fully fund the Opportunity Grant.

There are limits to how much and how little the state will contribute. Based on the SSI formula design, the state never contributes more than 90 percent or less than 5 percent of a district’s Opportunity Grant allotment. In contrast, charter schools receive the full amount of the opportunity grant (\$6,000 per student in the 2016 fiscal year) from state funds (with no application of an SSI), as they do not levy local taxes.

**Figure 2. Overview of the Opportunity Grant calculation**



There is a slight difference in terminology describing how the ADM is determined for charter schools. As a matter of practice, instead of using the term ADM, charter school student counts are referred to as full-time equivalent (FTE) counts. Operationally, the methodologies are the same. However, for funding purposes, charter school enrollment is reported to the state by school districts.

Additional grants for specific purposes

In addition to the Opportunity Grant, the state distributes about \$3 billion to districts through thirteen separate grants for specific purposes or categories of students (figure 3). Those grants can be categorized into four groups, focused on

- District characteristics,
- Student characteristics,
- Specialized instructional programs, and
- Student performance.

It is important to note, however, that the SSI is not applied to all of these grants. For example, the SSI does not apply to grants based on enrollment of economically disadvantaged students but does apply to career and technical education (CTE) funds and the K-3 Literacy Grant. Where the SSI does not apply, the state funds the full grant amount, rather than sharing the cost between state and local resources.

Figure 3. Additional grants in Ohio’s state school–finance system, 2016 fiscal year<sup>16</sup>

Grant	Total state funding amount <sup>17</sup>	Description	Subject to SSI
<b>District characteristics</b>			
Targeted Assistance	\$785 million	These funds are targeted to districts with low wealth, with wealth defined both in terms of resident personal incomes and property values.	Yes
Capacity Aid	\$143 million	These funds are distributed to districts based on districts’ local taxing capacity.	No
Transportation	\$501 million	State funding to support district transportation costs based on the number of students and the mileage they travel. These funds are adjusted for district wealth and geographic density.	No
<b>Student characteristics</b>			
Economically disadvantaged	\$377 million	These funds provide additional support to districts based on their concentration of student poverty relative to the statewide student poverty rate. A district’s grant is determined by multiplying \$272 by the number of economically disadvantaged students, adjusted for the ratio of the district and statewide student poverty rates (approximately 46 percent of public school students statewide enrolled in the 2016 fiscal year were classified as economically disadvantaged based on eligibility for free and reduced-price meals).	No
Limited English proficiency	\$25 million	Funds for districts based on their ADM of students with limited English proficiency.	Yes
K–3 literacy	\$97 million	Funds for districts based on their ADM of K–3 students.	Yes
Special education	\$813 million	Funds for districts based on the enrollment of students with disabilities. The allocation varies by disability.	Yes
Additional aid for students with disabilities	\$55 million	These funds are targeted financial support to districts based on their enrollment of students with disabilities associated with higher-cost educational services.	No
Students with disabilities, pre–K	\$109 million	Additional funding for districts based on their enrollment of pre-K students with disabilities. The allocation varies by disability.	Yes
<b>Specialized instructional programs</b>			
Career and technical education (CTE)	\$55 million	Funding based on the number of students enrolled in qualifying CTE programs.	Yes
Gifted education	\$19 million	These funds are distributed to districts based on their ADM.	No
<b>Student performance</b>			
Graduation bonus	\$19 million	Additional funds rewarding districts for their graduation rates. The higher the rate, the greater the amount of the grant.	Yes
Third-grade reading bonus	\$16 million	Additional funds rewarding districts based on high percentage of third-grade students achieving proficiency on the state’s reading test.	Yes

Source: Ohio Department of Education.

The grants based on district characteristics—in particular, Targeted Assistance and Capacity Aid—are designed to provide additional support for districts with lower wealth and therefore less ability to generate local tax revenue. The Targeted Assistance grant allocates nearly \$800 million to districts that have low resident incomes and property values and have difficulty generating local revenues to support district schools.

Capacity Aid grants also drive approximately \$150 million in additional state aid to districts with low taxing capacity. In general, these funds target smaller and more rural districts to compensate for the compounding effects of low property values, sparse populations, and lower incomes on local tax capacity.

As is the case with the Opportunity Grant, funds from the Targeted Assistance and Capacity Aid grants enhance districts' general operating funds. (Charter schools are eligible for the Targeted Assistance grant but not the Capacity Aid grant; see figure 4.) State law does not restrict or direct the use of these funds for particular purposes.

In contrast, the grants based on student characteristics are structured to provide districts with additional support for students with characteristics that are associated with increased instructional costs. In these cases, districts must spend the funding per requirements in state law.

These grants provide additional funding based on the populations of students served who meet certain criteria for eligibility, including English language learners, economically disadvantaged students, and students with disabilities. Although many states provide increased funds based on student characteristics through indexed funding weights, Ohio specifies dollar amounts (defined in statute) per eligible student within each grant. Like the Opportunity Grant, these set dollar

amounts are based largely on historical funding levels rather than a recent evaluation of the actual cost of providing the relevant instructional services. As a result, the amount of funding to support these students may not fully align with the cost of providing the services these students need.

Ohio provides three funding streams focused on funding for students with disabilities. Over \$800 million is provided in general support for all students with disabilities. The funds are distributed based on the needs of individual students, including the severity of the disability and the intensity of supports required. The state also provides an additional \$55 million grant based on the enrollment of students with disabilities in higher-cost categories.<sup>18</sup> Finally, the state provides just over \$100 million specifically for students with disabilities in pre-K.

Other grants provide funds targeting specific instructional programs, such as career and technical education (CTE) and instruction for gifted students. Each of these grants provides set dollar amounts per student enrolled in the targeted program.

The state distributes just over \$30 million to districts based on performance in two areas: graduation rates and early literacy. The state legislature added these relatively small grants to the formula in 2015. The funds are intended to encourage and reward districts that focus on improving graduation rates and early reading proficiency, based on evidence that these factors predict future academic and career success.<sup>19</sup>

All school districts in Ohio are eligible for all the additional grants. However, charter schools are only eligible for some of them (figure 4). Even when charter schools qualify for an allocation, sometimes they are eligible only for a portion of what they would receive if they were a district. For

instance, charter schools are not eligible for the Capacity Aid grant and are eligible for only 25 percent of the per-pupil allocation of the Targeted Assistance grants for the district in which the charter is located.

The rationale for the restrictions on charter school eligibility for Capacity Aid and Targeted Assistance is that those grants provide additional funds based largely on low-wealth districts’ diminished capacity to raise local revenue. As nontaxing entities, charter schools neither bear responsibility for nor benefit from raising local funds and have no tax base for which these grants would compensate. As a result, the criteria for the Capacity Aid and Targeted Assistance grants do not easily translate to charter schools. Charter schools do receive the full value of the Opportunity Grant and other SSI-adjusted grants from the state. Full state funding for several funding streams within the state’s system of formulas and the partial eligibility for the Targeted Assistance grant do provide some additional support, but there is still a significant discrepancy in per-pupil operating dollars between districts and charter schools, largely resulting from districts’ ability to supplement formula funding with additional local revenues at the discretion of voters.<sup>20</sup>

**Figure 4. Additional grant funding for charter schools<sup>21</sup>**

Grant	Charter school eligibility	Funding differences
<b>District characteristics</b>		
Targeted Assistance	Yes	Targeted assistance to districts is calculated based on a district’s wealth. However, since charter schools do not have the same measure of wealth for the students they serve, they instead receive a blanket 25 percent of the per-pupil allocation of the funds allocated to the district in which the charter school is located.
Capacity Aid	No	N/A
Transportation	Yes	Charter schools fully qualify for these funds if they decline to receive transportation services from districts.
<b>Student characteristics</b>		
Economically disadvantaged	Yes	Charter schools qualify for these funds. Their grant is based on \$272 multiplied by the ratio of the student poverty of the school district in which the charter school is located to the statewide student poverty rate.
Limited English proficiency	Yes	None
K-3 literacy	Yes	None
<b>Specialized instructional programs</b>		
Special education	Yes	None
Additional aid for students with disabilities	Yes	The state funds all charter schools’ costs in excess of the threshold catastrophic cost per student.
Students with disabilities, pre-K	Yes	None
Career and technical education (CTE)	Yes	None
Gifted	Yes	None
<b>Student performance</b>		
Graduation bonus	Yes	None
Third-grade reading bonus	Yes	None

## The state share index

The SSI determines the mix of state and local revenue in a district's funding allotment under the Opportunity Grant and most of the additional funding streams. The current version of the SSI was added to the formula in the 2014 fiscal year and determines a district's share based on economic conditions in the district, as measured by a calculation of district wealth per student.<sup>22</sup> A higher SSI means that the state will pay a greater share of the Opportunity Grant, while a lower SSI means that a greater share of the grant will fall to the district. This structure provides a tool for equalizing school funding across higher- and lower-wealth districts by providing a greater share of state funding to lower-wealth districts.

The SSI determines a district's wealth per student based on the relationship between the median income of district residents per student<sup>23</sup> and the district's property value per student, all relative to state averages. In the calculation of wealth per student, the lower a district's resident income, the greater weight income receives in the SSI calculation relative to property value. This adjustment accounts for districts with lower resident incomes but somewhat higher property values, decreasing the influence of property wealth in the determination of state aid. In effect, the heavier reliance on income as a proxy for district wealth in these circumstances depresses districts' wealth per student and generally leads to a higher SSI and a greater level of state support. Without the adjustment for income versus property wealth, a district with relatively higher property values would tend look more "wealthy," resulting in lower levels of state funding and creating pressure to increase the local property-tax burden on lower-income residents. By emphasizing income factors more heavily in the SSI calcu-

lation, the formula reduces the overall measure of local wealth and increases the level of state aid the district receives.

## The disconnect between property value and tax revenue

It is important to note that the SSI is based on total property value and not the district's actual property-tax revenues. As such, the SSI calculation potentially assumes that a district has more revenue from local tax levies than it actually does. School districts are required to levy a minimum tax rate of twenty mills (see *Local Taxes and Revenues* below), and they are permitted to levy more than twenty mills (with voter approval). However, the tax rates that districts levy and the actual revenues that they generate from those rates are not considered in the determination of state aid. Therefore, a very affluent school district with high property values will receive less state aid under the SSI structure regardless of how local voters opt to tax that wealth. As a result, the SSI calculation does not consider whether or not a district actually generates sufficient local tax revenue to fully fund the local share of its total funding allotment, which could create a funding gap that the district must either fill by calling on voters to increase taxes or address through reductions in expenditures.

If the total funding allotment under the formula represents the legislature's determination of the level of resources required to meet state goals, this lack of attention to actual local revenues in the formula could result in underfunding. On the other hand, shared funding systems like Ohio's are predicated on joint responsibility for funding and the authority of local taxpayers to play a role in determining the appropriate level of funding for local schools. These competing principles are

complicated by various limitations on local taxing authority set forth in Ohio state law that create inequities in the way school districts access local revenues, treating some districts differently than others, explained in more detail below.



# State payment structure for districts and charter schools

In Ohio, the state makes payments of state aid to school districts twice monthly using counts of ADM that are updated throughout the school year. The state determines funding for school districts based on the total number of students within the district, including

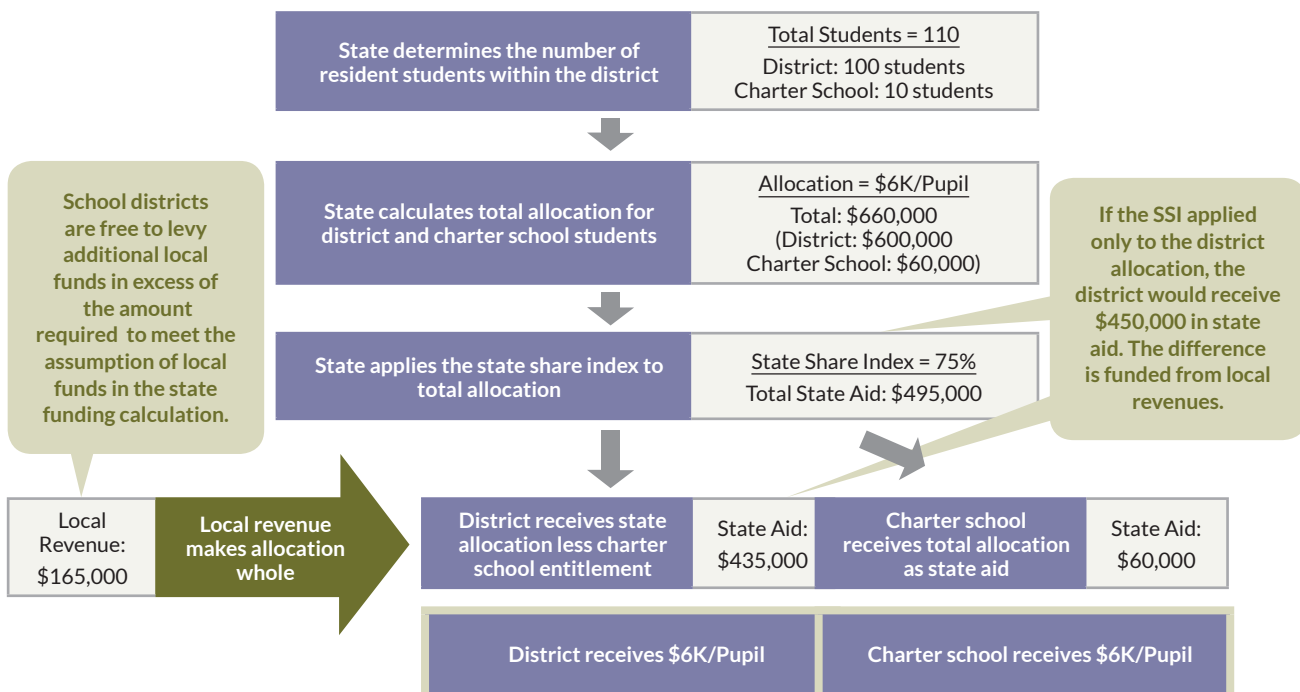
- Students who attend district schools,
- Students who reside in the district and attend charter schools,
- Students who reside in the district but exercise the state’s public school open-enrollment policy to attend school in another district, and
- Students who reside in the district and take advantage of a state-funded voucher program to attend a private school.

In other words, students are counted based on where they live, not based on where they attend school.

Based on the total count of all publicly funded students residing within the district, the state determines the combined funding allocation for the district and charter schools. The state then applies the SSI to determine the proportions of the total funding allocation from state and local funds.

The state pays districts its portion of the funding allocation less the total per-pupil allocation to charter schools. Because charter schools are nontaxing entities and cannot raise their own local revenues, the SSI does not apply to them. Instead, the funding allocation to charter schools includes the total funding allocation driven by the formula with no assumption of any local funding. As a result, 100 percent of charter schools’ funding is deducted from the state aid allocation to the district. Districts, in turn, fund the balance of their total funding allocation from local revenues (figure 5), and districts retain 100 percent of the local revenues generated from their tax base. No local revenues are transferred to charter schools.

**Figure 5. Illustration of how school districts and charter schools receive state aid**



### **Perceived competition for school funding between districts and charter schools**

This payment structure, in part, drives a perception that charter schools “take” revenues from districts. As the generalized example in figure 5 shows, this is not the case. In the example, the district and the charter school each generate \$6,000 per pupil. The difference is that the district must use local revenues to fund a greater share of its total allotment because students who attend charter schools are funded entirely from state dollars. If those charter school students remained in the district schools, the district would receive a greater share of funding as state aid. In short, the total amount of state aid per pupil remains the same, the local aid per pupil goes up (same amount of aid spread over fewer students), and the proportion of state-to-local aid is lower.

One caveat on the high-level example presented above is that the SSI is based on local property values and doesn’t factor in the actual local tax levy or revenues generated from those values. So in reality, the actual amount of local revenue available to fund the district’s local share and to fill the gap when state aid shifts to charter schools could be less than what is needed to fully fund the total funding allocation defined by the statutory

formulas. In practice, because districts are free to generate local revenues above the minimum required to fund their local share of the state formula and retain 100 percent of local revenues regardless of whether students residing in the district attend district schools, districts can and do access more funding per student on average than do charter schools.

In the 2016 fiscal year, school districts reported operating expenditures totaling \$9,000 per student on average from all sources (federal, state, and local), while charter schools reported spending only \$6,936 per student for school operations. Though charter schools on average receive a higher allocation per student of revenue from both state and federal funds, districts’ access to local revenues more than makes up for that difference, resulting in the more than \$2,000 disparity in spending per student.<sup>24</sup>

Nonetheless, the pass-through funding structure creates tension between school districts and charter schools. In addition to concerns about moving funding between districts and charter schools, the process of accounting for and verifying enrollment for students who live in the district but do not attend district schools creates administrative burden.

## Beyond formula funding: Guaranteed funding and the revenue cap

Together, the calculation of the Opportunity Grant and the additional grants, adjusted by the SSI, comprise a district’s state funding allocation for operations. But the aggregate state share from these grants does not necessarily indicate how much state funding a district actually receives. Two structures within Ohio’s school-funding laws supersede the formula-based determination of funding: the guarantee and the revenue cap.

Under the guarantee structure, the state guarantees that a district will receive no less than the total state revenues received in the previous year’s budget. Based on the budget adopted in 2015, the cap-and-guarantee amounts are currently based on the 2012–13 school year.<sup>25</sup> In other words, assuming little change in local revenues, even if a district’s enrollment declines and it is serving fewer students, the district will continue to receive the same amount of state aid as it did in the 2012–13 school year. With enrollments declining in over 85 percent of Ohio school districts (figure 6),<sup>26</sup> the state spends more money in state aid than the formula would otherwise provide in many school districts. The guarantee structure favors districts with declining enrollment and those with increasing local shares under the SSI resulting from increased district wealth. In the 2016 fiscal year, the state spent \$124 million across 174 districts in total through the guarantee (figure 7), an amount that has declined over several years.

**Figure 6. Changes in student enrollment from 2014 to 2016**

District type	Description	Count of districts	Count of districts with declining enrollment	Percent with declining enrollment	Average percent decline in enrollment	Count of districts with enrollment decline greater than 10%	Percent with declining enrollment greater than 10%
Rural-1	High poverty & small population	124	118	95.2%	8.4%	22	18.6%
Rural-2	Average poverty & very small population	107	97	90.7%	8.7%	14	14.4%
Small Town-1	Low poverty & small population	111	97	87.4%	6.6%	19	19.6%
Small Town-2	High poverty & average population	89	85	95.5%	5.5%	9	10.6%
Suburban-1	Low poverty & average population	77	68	88.3%	6.4%	4	5.9%
Suburban-2	Very low poverty & average population	46	25	54.4%	3.0%	0	0%
Urban-1	High poverty & average population	47	34	72.3%	4.8%	2	5.9%
Urban-2	Very high poverty & very large population	8	7	87.5%	4.0%	0	0%
Total		609	531	87.2%	6.7%*	70	13.2%

**Source:** Enrollment: Ohio Department of Education, “Enrollment Data,” available at: <http://education.ohio.gov/Topics/Data/Frequently-Requested-Data/Enrollment-Data>. Typology: Ohio Department of Education, “Typology of Ohio School Districts,” available at: <http://education.ohio.gov/Topics/Data/Report-Card-Resources/Ohio-Report-Cards/Typology-of-Ohio-School-Districts>.

\* Note: This is a weighted average.

In addition to the guarantee, which acts as a floor for state aid, the state sets a cap on revenue growth. Under the revenue cap, no district can receive more than 7.5 percent above its state allocation from the prior year.<sup>27</sup> Absent the cap, under the formula, a district with high growth in student enrollment or experiencing declining wealth would generate more state revenue. Under the cap, such a district becomes ineligible to receive state funds in excess of a 7.5 percent increase. In the 2016 fiscal year, the cap affected 188 districts and suppressed \$604 million in revenue that would have otherwise been delivered under the formula, resulting in a state savings. Like the guarantee, the cap has declined both in terms of the number of districts affected and the total dollar amount suppressed over the past several years (see figure 7).

### Inefficiency driven by the cap-and-guarantee structures

Together, the cap and guarantee upset the efficiency of the formula. To the extent that the formula elements are designed to deliver the right amount of funding to support student and school needs, those formula elements then efficiently deliver the correct amount of funding to school districts and charter schools to meet those needs. However, the cap-and-guarantee structure undermines the ability of the formula to deliver the intended allocation. The guarantee structure overfunds districts relative to the formula and absorbs scarce resources that could be used for other purposes. The cap limits the formula’s ability to provide funding to growing districts based on their needs.

The cap and guarantee also undermine elements of the state’s funding formula that are tied to students’ instructional needs, restricting adjustments to district funding even when the mix of students enrolled and the programs that serve them warrant a change.

**Figure 7. Statewide impact of the revenue cap and guarantee**

	FY14	FY15	FY16	FY17*
Total funding	\$6.6 billion	\$7.0 billion	\$7.5 billion	\$7.8 billion
Capped amount	\$917.4 million	\$678.8 million	\$603.9 million	\$476.2 million
# of districts	341	236	188	141
Guaranteed amount	\$184.4 million	\$158.8 million	\$123.6 million	\$101.1 million
# of districts	199	191	174	133

Source: Ohio Department of Education.

\* Note: FY17 is not yet complete, and these figures are subject to change.

## Local taxes and revenues in Ohio

As described earlier in this report, the state and local districts share the responsibility for funding schools in Ohio. The formula assumes that once the state determines its share of a district's overall allocation, local revenues fund at least the remainder.<sup>28</sup>

School districts can access local revenue from three primary sources (though property tax provides the majority of local revenue for schools):

1. **School district property taxes:** \$9.6 billion in revenues in the 2015 tax year.

School districts are one of several jurisdictions with the authority to levy property taxes in Ohio. Other property-taxing authorities include counties, municipalities, community college districts, various service districts (such as fire and police), and others.<sup>29</sup> Local elected school boards propose any changes to school district millage rates, most of which must be ratified by voters. School districts can issue different types of property-tax levies for different purposes. These include levies for

- Current expenses (ongoing school operations costs),
- Bonds used to finance capital projects,
- Permanent improvement (typically supporting facility maintenance), and
- Emergencies, as defined by the district at the time the levy is voted.

2. **School district income taxes:** \$393 million in revenue in the 2015 fiscal year.

State law allows school districts to issue an optional levy on personal income. School district income tax (SDIT) levies require voter approval, and

### Glossary of tax terms

**True value:** The full assessment value of a parcel of property.

**Taxable value:** The assessed value of the taxable portions of a parcel of property (for example, after applying any tax exemptions). The taxable value is always equal to or lower than the true value of a parcel or property.

**Millage:** The unit of tax effort, one mill, equals 1/10 of 1 percent—put another way, \$1 of tax on every \$1,000 of taxable value.

as of 2016, 191 school districts levied an SDIT at rates ranging from 0.5 to 2 percent.<sup>30</sup>

3. **Local sales and use taxes** (data on total revenue was unavailable at the time of publication).

Ohio counties can levy local sales and use taxes, which they can share with school districts through local agreements (use taxes are similar to sales taxes but typically apply to goods or services purchased outside the state—for instance, a consumer may pay a use tax to an out-of-state internet-based vendor). Local sales and use tax rates must be approved by voters.

Property taxes and the revenues generated by these taxes are subject to legal restrictions and requirements. Although the state does not limit the rate at which districts can tax property, other constitutional and statutory limitations affect the ability of districts to generate local revenue. Particularly relevant to the school-finance system, the Ohio Constitution limits the assessment of real property tax that local taxing jurisdictions can levy to 1 percent of true value of property without voter approval. State statute interprets this as a limit of up to ten mills levied against taxable property value.

These unvoted mills (also referred to as inside millage) must be shared across overlapping taxing jurisdictions—so school districts, counties, municipalities, service districts, and other taxing authorities with overlapping geographic boundaries split the ten mills. For example, if a county contains both a municipality and a school district within its boundaries, collectively those taxing jurisdictions can levy a combined ten unvoted mills. A local agreement determines the number of unvoted mills allocated to each jurisdiction is a matter of local agreement (that is, the school district could get five, the municipality three, and the county two). Each jurisdiction must seek voter approval for any millage levied above its individual apportionment.<sup>31</sup>

Ohio requires that school districts levy a local property-tax rate of at least twenty mills in order to receive state funds. This twenty-mill floor is considered the price of entry to participate in the state school-funding formula. To reach the twenty-mill floor, a district can levy up to ten mills without a vote, depending on its arrangement with overlapping taxing jurisdictions (that is, if the district gets just five out of the ten unvoted mills, described above, the district would need to levy an additional fifteen mills to reach the twenty-mill floor). These additional levies require voter approval.

In addition to the restrictions and requirements related to voter approval of local property taxes, state law also restricts the revenues those taxes generate. Ohio introduced these restrictions, called tax-reduction factors (TRFs), in the 1970s—in part to reduce the impact of growth in property values on property owners’ tax bills. The TRFs limit the change in property-tax revenues that would otherwise result from year-over-year appreciation or depreciation of property values.<sup>32,33</sup>

**Figure 8. Simplified example of tax-reduction factors**

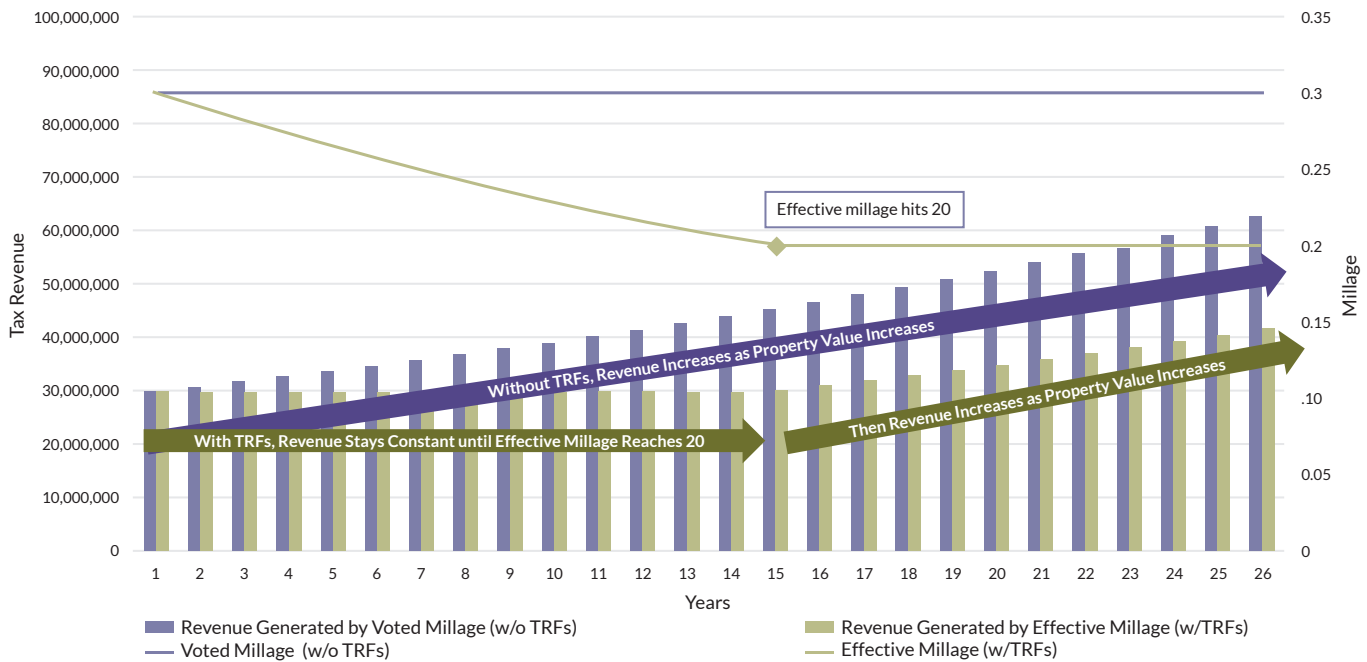
Tax year 1		Tax year 2	
Total property value	\$1,000,000	Total property value	\$1,500,000
<b>Voter-approved tax rate</b>	<b>50 mills</b>	<b>Voter-approved tax rate</b>	<b>50 mills</b>
Actual tax revenue	\$50,000	Calculated tax revenue	\$75,000
		Maximum allowable (actual) revenue	\$50,000
		“Unaccessed” revenue	\$25,000
		<b>Effective tax rate</b>	<b>33.3 mills</b>

Under the TRF structure, if property value increases year-over-year, the school district’s adopted tax rate automatically decreases so that the total revenue generated from the tax remains flat. For the most part, this means district property-tax revenues cannot benefit from inflationary growth in property value. To realize gains from value growth due to inflation, districts must seek voter approval to adjust the tax rate. The corollary is also true—when property values decline, the property-tax rate automatically adjusts upward as high as the most recent voter-approved tax rate to maintain the same level of revenue (see figure 8).

One important distinction is that the TRF structure applies to inflationary growth, not to growth due to new development or improvement. Therefore, the appreciation of a home would be subject to TRFs (and not produce new revenue), but an increase in the value of the home resulting from the owner building an addition would not be subject to TRFs (and would produce new revenue). Districts can access increased revenues resulting from property development, including new businesses and housing developments.

However, the minimum-required twenty-mill school district property-tax rate supersedes the impact of TRFs. TRFs only suppress a district's tax rate to the point that it hits the required twenty-mill floor regardless of changes in property values. As a result, a district either taxing at the twenty-mill floor or suppressed to twenty mills under the TRF structure will realize additional property-tax revenue due to inflationary gains in values without having to ask voters to weigh in (see figure 9).

**Figure 9. The effect of TRFs and 20-mill floor on local tax revenue in district with steadily increasing property values**



### Tax equity and the interaction between the 20-mill floor and tax-reduction factors

Districts taxing above the twenty-mill floor cannot access additional revenue from rising property values without a vote. However, districts at the twenty-mill floor can access those additional revenues without seeking voter approval. The interaction between the twenty-mill floor requirement and the TRFs results in inequitable access to local revenues among districts (see figure 10).



**Figure 10. Interaction between tax-reduction factors and the 20-mill floor**

District Q—20-mill tax rate			District M—40-mill tax rate		
Revenue benefit from value growth			No revenue benefit from value growth		
	Tax year 1	Tax year 2		Tax year 1	Tax year 2
Total property value	\$1,000,000	\$1,500,000	Total property value	\$500,000	\$1,000,000
Revenue based on adopted rate	\$20,000	\$30,000	Revenue based on adopted rate	\$20,000	\$40,000
TRF impact	N/A	\$0	TRF impact	N/A	(\$20,000)
Net revenue	\$20,000	\$30,000	Net revenue	\$20,000	\$20,000
Change in revenue	\$10,000		Change in revenue	\$0	

This can create funding inequities because wealthier districts are far more likely to be able to levy lower tax rates and still generate sufficient revenues to support their schools. As shown in the generalized example above, District Q can access \$10,000 in additional revenues generated by the \$500,000 increase in its property value. This occurs because District Q can generate \$20,000 in revenue while at the twenty-mill floor and TRFs cannot suppress the tax rate any further. On the other hand, District M experiences the same \$500,000 property-value growth as District Q (example assumes all growth is due to inflation), but District M’s adopted tax rate of forty mills exceeds the twenty-mill floor. Both districts experience the same value increase, but because District M taxes at a higher rate, the TRFs prevent it from accessing the increased revenues tied to that \$500,000 gain. Unless the voters weigh in to capture that value, the tax rate in District M automatically decreases to deliver the same amount of revenue each year.

This interaction creates an incentive for districts to try to tax at the twenty-mill floor, the minimally required rate to participate in the state school-funding formula, because if they can afford the low tax rate, they can benefit from year-over-year inflationary value growth without having to hold a referendum on tax rates.

In the 2015 fiscal year, the average current operating tax rate for districts across the state was 49.46. This includes the effective class 1 and class 2 millage, which apply to different types of property—residential and agricultural versus industrial and commercial, respectively—and are calculated separately for purposes of determining the application of TRFs. A district is “at the floor” if one or both classes are below twenty mills, which included 265 districts (43 percent) in 2015.<sup>34</sup> In general, these are rural or small town districts. In fact, almost 80 percent of rural school districts in Ohio tax at the twenty-mill floor.

**Figure 11. Districts taxing at the 20-mill floor<sup>35</sup>**

District type	Count	At 20-mill floor	Percent
Rural-1	124	85	69%
Rural-2	107	97	91%
Small Town-1	111	52	47%
Small Town-2	89	20	22%
Suburan-1	77	4	5%
Suburban-2	46	2	4%
Urban-1	47	1	2%
Urban-2	8	0	0%

Source: FY2014 data from the Ohio Department of Education.

It’s worth noting that not all property-tax levies count against the twenty-mill floor, including emergency levies and levies to support bonds issued for capital improvements. Those levies are also exempt from TRFs.<sup>36</sup> So, with voter approval, districts could strategically use these other levies to maximize revenues. In short, a district could keep its property-tax rate at the floor of twenty mills so that it continues to benefit from property-value growth. While at the twenty-mill floor, the district could issue emergency or bond levies to generate additional revenue that isn’t subject to TRFs. Bond levies are less useful for this purpose because the revenues they produce are limited to repaying debt for capital projects funded with bonds, but revenues from emergency levies can be used for any lawful purpose. Therefore, districts can try to maintain rates at or close to the twenty-mill floor by raising funds through emergency levies, instead. This workaround allows savvy districts to have their cake and eat it, too, raising additional revenue through increased tax rates while also ensuring the district will benefit from increases in taxable property value.

Ohio’s tax laws complicate school funding. The TRF structure means that most districts must continually ask voters for additional taxing au-

thority or make do with flat revenues. However, due to the interaction between the TRFs and the state’s twenty-mill floor, some districts with increasing property values can access additional revenue without facing the same voter-approval requirements as others.

TRFs do limit the burden on taxpayers. After all, while millage rates go down, local revenue remains constant. However, these issues are further complicated by the fact that the SSI determines the local funding obligation based on property-tax values without considering how much revenue that value generates. In short, an increase in property value does not generate additional revenue for districts taxing above twenty mills—but it does affect the SSI calculation. As a district’s property value increases, the state allocation decreases and local revenue remains constant, producing a net decline in funding for districts taxing above the twenty-mill rate.

**The impact of tax-reduction factors on the state share of school funding**

The SSI is designed to adjust the state share as local revenues change. Based on the impact of property values on the SSI alone, as property values increase, the district’s local share increases.

Alternatively, when property values decrease, the state share increases.

However, in part because of Ohio's TRFs, the property-tax values and the property-tax revenues that districts actually realize are often disconnected. In the SSI calculation, districts with rising property values still see an increase in the local share based on that value growth, regardless of whether the district realizes any new revenues tied to that growth. Critics refer to this challenge as the phantom-revenue problem because the state assumes a level of local revenue that may not exist.

The practical result is that in districts with growing property values, state aid for schools is reduced but local revenue will not fill that gap unless voters approve. The one exception is those districts that tax at the twenty-mill property-tax floor. Because TRFs cannot further suppress the property-tax rate below twenty mills, those dis-

tricts access at least a portion of an increase in revenue generated by value growth without a vote.

The impact of this phenomenon will vary from district to district depending on several factors. Districts with higher adopted tax rates and growth in values would tend to be affected more because more phantom revenue would be assumed. And school boards' willingness to repeatedly go to voters (and voters' willingness to experience real tax increases) will affect whether districts realize new revenues based on value growth. In some districts, the impact may be marginal, but in others it could drive year-over-year decreases in per student funding. On the other hand, districts at the twenty-mill floor experience neither the suppressed revenues nor the need to go to voters to fully access new revenues based on growth, which raises a question about tax equity. Neither school districts nor taxpayers are treated uniformly under Ohio's state tax laws.

# Findings and recommendations to improve Ohio's school-funding system

So far, this paper has described the basic structure of Ohio's school-finance system and the role of local taxes. This section will go into greater detail in areas where the state might improve its system, including

- Restructuring the cap and guarantee,
- Adjusting how the SSI accounts for local revenue,
- Redesigning charter school funding,
- Streamlining some state grants, and
- Stabilizing the state payment system.

Not all of the recommendations need to be enacted immediately, and there are both political and policy reasons that may require a longer runway for legislative action. For instance, some changes may affect related statutes, and it would be useful to see them play out before making additional alterations. In addition, some recommendations may shift a greater share of the cost to the state, which will require careful modeling and planning. Other changes should be phased in over time to moderate any extreme shocks to the existing system. However, each of the recommendations below will ultimately improve the equity, efficiency, and transparency of school funding in Ohio.

## Restructure the cap and guarantee

The central purpose of structures like Ohio's cap-and-guarantee structure is to protect state and district budgets from volatility. The guarantee is designed to soften the financial impact of a significant change in factors affecting the state funding allocations to districts, and the cap slows growth in state costs.

To be certain, budget volatility creates challenges in districts with rapidly changing student popu-

lations. For example, a district may experience a decline of twenty elementary school students between school years. The funds associated with those twenty students equate to the funding required to employ a teacher. However, if those twenty students are distributed across grades K-5, the district may not be able to release an individual teacher to correspond with the decreased enrollment and maintain reasonable class sizes for the students and teachers who remain. The guarantee mitigates this challenge by promising at least a minimum level of state aid year over year, regardless of changes to cost drivers.

Similarly, rapid growth in state costs for public education drives challenges for the legislature, which must balance the state budget. The revenue cap controls those costs to a certain extent and injects a certain amount of predictability into the state budgeting process.

But Ohio's cap-and-guarantee structures focus on total state funding levels and not per-student amounts. They are also permanent and not a transitional tool confined to a finite period to address short-term volatility. Thus, districts' budgets are never truly righted to reflect the student populations they actually serve. A district with declining enrollment will continue to receive state funding at the same level year over year. Therefore, budgets persist at the same level, theoretically supporting the same staffing and infrastructure patterns even in the face of changes to student populations and student needs.

Absent the cap-and-guarantee structures, Ohio's school-funding system deliberately and tactically targets funds to areas of greater need, such as students requiring higher-cost instructional

services. But the cap-and-guarantee structures undermine the ability of those funding elements to deliver funds to schools based on the needs of students. By artificially inflating or suppressing the amount of revenue those formulas deliver to schools, the cap and guarantee effectively eliminate the intent of those formulas for some districts and create inequitable funding allocations among districts that benefit and those that do not.

### Recommendation

Ohio can restructure its cap and guarantee in any of three ways.

**The first, and best, option is to phase them out completely.** Caps and guarantees typically should not be designed to exist in perpetuity. Rather, if necessary, they should be implemented as transition tools so that large budget changes can be introduced slowly to allow districts time to adjust to new circumstances. With that in mind, Ohio should institute a gradual phase out of the cap-and-guarantee mechanisms. The state could steadily increase the funding for districts on the cap and decrease funding for districts on the guarantee until they reflect their actual entitlement as determined by the state funding formula.

In lieu of this perpetual funding structure, the state could implement a failsafe measure to address districts experiencing more extreme fiscal hardship. Such districts could apply for a one-year grant as transition funding either to get them through a temporary emergency or enable them time to adjust to new circumstances.

**The second option is to retain the cap-and-guarantee structures but recalibrate them on a per-pupil basis.** The cap and guarantee in Ohio are both based on total funding levels. Switching to a per-pupil basis would remove districts whose eligibility for the cap or guarantee is tied primar-

ily to changing enrollment but retaining districts whose eligibility for the cap or guarantee is tied primarily to changing local property-tax revenue. This option would not completely eliminate the cap-and-guarantee structures, but it would partially address the issue by eliminating perpetual state funding for declining enrollment and allowing high-growth districts to generate additional state aid to support increases in student populations.

**The third option would modify the caps and guarantees to be structured on a year-over-year basis.** In this scenario, instead of always referring to 2013 revenues, the state would set certain thresholds for year-over-year gains or losses. For example, the state could establish a stop-loss mechanism under which districts with declining enrollment or value gain could only lose up to a set percentage of the prior year's revenue. Similarly, state aid could be capped at a percentage of the prior year's revenue based on thresholds of enrollment increase or value loss. This type of structure would at least allow gains and limits to adjust somewhat over time, rather than constant indexing to one arbitrary year (2013).

### **Recalibrate the state share index formula to factor in tax revenues**

The current iteration of the SSI was developed as a more sophisticated way for Ohio to determine state and local obligations for funding schools. The calculation includes both property wealth and the incomes of the district's residents to assess a district's relative wealth and revenue capacity. But the impact of TRFs in suppressing local revenues means that districts experiencing inflationary value growth will experience a decline in state funding, regardless of whether local voters approve a tax increase to compensate.

### Recommendation

To address the phantom-revenue problem and more accurately account for district tax effort in the SSI calculation, we recommend that Ohio recalibrate the SSI formula to factor in the true revenue-generating capacity of local property values.

One option would center the SSI calculation on an effective property value that discounts local property values for the impact of TRFs. Under such a scenario, the SSI would factor in local property value, but would include adjustments for TRFs and any other state-mandated tax exemptions. Districts would still have discretion to tax that value at whatever rate voters approve. However, the SSI calculation would no longer disadvantage districts that experience inflationary value growth but either don't seek or don't receive voter approval to tax that growth. Incorporating the effective value into the SSI calculation solves the phantom-revenue problem by eliminating untaxed value from the calculation.

In simple terms, an effective value would remove the impact of TRFs and other state-mandated exemptions that affect local ability to generate revenue on that property. The resulting value should represent the total property value that actually generates revenue for the district. Because of the intricacies of tax policy, there are likely other factors that should be considered in the development of a working policy, but this concept could alleviate the challenges TRFs present to the school-funding system without requiring the state to reassess a forty-year-long state tax policy tradition.

Using some determination of effective property value in the SSI would likely incur state cost, as the formula would stop overestimating local revenues, therefore dropping the local share and increasing state aid for many districts. To mitigate

impact to the state budget, a new calculation could be phased in over time.

### **Directly fund charter schools**

Charter schools operate separately from the traditional school district structure, yet their funding flows through the school districts. This system creates tension between district and charter schools stemming from perceptions that charter schools “take” funding from district schools.

### Recommendation

To create a more efficient funding system and potentially alleviate cross-sector tension, the state of Ohio should fund its charter schools directly.

To transition to direct funding, the entire system would need to shift from orienting around where students reside to where they attend school.

Total funding allotments under the statutory formulas would be calculated separately for each public school district and charter school, based on the count of students who attend that school. The SSI calculation that determines the state and local share for school districts would be determined based on the students who attend district schools, not all the public school students who reside in the district. In school districts in which resident students attend charter schools, the result would be a lower count of students, which would increase the district wealth per student produced by the SSI calculation. As a result, the local share in those districts will go up, reducing state aid obligations to those districts and freeing up state revenues to be used to fund charter schools' funding allotments under the formula. The net result would be similar to what happens now in terms of the mix of state and local funds in districts, but the mechanism would be much more straightforward and transparent.



Direct state funding for charter schools could mitigate the perceived competition between charters and traditional districts. In addition,

- Assessing student enrollment would become easier and more efficient for districts, charter schools, and the state;
- State funding would be clearer and based only on the students served by a specific district or charter school; and
- The administrative burden of tracking students in real time would be eased for districts, charter schools, and the state.

Such a transition would have challenges. First, districts would likely experience an increased local share under the SSI. Under direct funding for charter schools, districts would have the same property value but have fewer students, producing a higher wealth per pupil and therefore a lower state allocation. Although this shift would not result in a large change in districts' overall revenue compared to the pass-through methodology, it could present political challenges. A second challenge is that direct funding for charter schools reaffirms the existing assumption that districts have access to the local tax base, while charter schools almost always do not. State charter laws do not provide taxing authority to charter schools, and Ohio is no exception. Districts are generally unwillingly to share their revenues with charter schools. Thus, only a handful of charter schools have access to local revenues, based on special agreements with local school districts.<sup>37</sup> To remedy this, some other states have implemented provisions that require districts to share local revenue with charter schools operating within their boundaries.

### **Shift to indexed student weights to protect proportional relationships**

During each session, Ohio's legislative appropriations process establishes the actual dollar amounts for each of the state's K-12 funding grants, as well as the individual allotments for subparts of individual grants. For example, the legislature established that schools should receive \$12,589 to serve each visually impaired student in 2016, and an English language learner enrolled for 180 days or less generates an additional \$1,515. These grant amounts, tied to specific district and student characteristics, are set in statute as dollar figures and are based on historic funding levels rather than a recent cost analysis of student services.

This approach separates funding levels from the actual incremental cost of meeting student needs and puts significant pressure on legislators to adjudicate and set funding levels for each individual grant. To ensure that one grant doesn't grow disproportionately to the rest of the system, adjusting one grant requires examining multiple individual grants at the same time. This structure is inefficient and means that at each session when new funding is added, all the funding levels have to be adjusted individually. This is less of a problem during budget surpluses, because contemplating proportional increases to grants may be more palatable to policymakers. But in a budget shortfall, this model could create competition among grants serving different purposes and different student populations. In effect, in a year or era with tightening state budgets, the existing system could pit funding for students with disabilities against funding for students with limited English proficiency, limiting districts' ability to meet the needs of specific student populations.



## Recommendation

Ohio should switch to an indexed student weights system to establish clear ties between student needs and proportional funding requirements and to simplify state school-funding adjustments. An index weight system assigns groups of students, programs, and interventions with a specific funding multiplier tied to the incremental cost of meeting student needs. That funding multiplier is applied against a base grant amount—in Ohio’s case, it could be the Opportunity Grant. For example, a state might assign English language learners a 1.2 multiplier so that these students receive 20 percent above the base funding amount to help support their educational needs. In this way, the state allocates additional dollars to schools that serve disadvantaged students, for higher-cost programs, or based on other state priorities.

Under an indexed weight system, funding for students with various needs would increase or decrease proportionally with increases to the base grant amount; the relationships among the funding levels for various student needs are fixed. In the above example, the incremental funding for ELL students remains at 20 percent. As a result, the total funding level resulting from such a set of indices adjusts easily and consistently with the characteristics and needs of the particular students served by a district or charter school.

Ideally, a system of indexed weights would be based on rigorous cost studies establishing true costs for targeted purposes such that the preserved relationships represent real cost differentials.

Although Ohio’s current system is in fact weighted for student characteristics, its method of doing so in dollar amounts introduces unnecessary complexity—and with that complexity, risk. The

lack of clarity in the relationship between funding streams for students with various needs creates room for policymakers to adjust funding in ways that inadvertently disadvantage students with various characteristics.

## **Pay districts based on prior-year data**

Currently, the ODE pays districts and charter schools based on current-year data on student counts and other funding elements. Thus, the data regularly updates, and payment amounts adjust frequently. This process creates instability in both state and district budgets. Districts with highly volatile student enrollments or very mobile, declining student enrollments may be disproportionately affected. Currently, some of this volatility is mitigated by the guarantee structure, but that structure undermines the equity and efficiency of the school-funding system. Additionally, managing such a dynamic system for more than six hundred school districts creates a large administrative burden for the state.

The funding structure for career and technical education (CTE) provides one example of this complexity. Districts receive CTE funding based on student enrollment in specifically numerated categories of courses. Each of these courses must first be state approved and fit into one of the five CTE categories recognized for funding purposes.<sup>38</sup> Additionally, state law also restricts the use of CTE funds, requiring that 75 percent of CTE funds are used for specific purposes enumerated in guidance from the Ohio Department of Education. Districts must report expenditures coded to these purposes to verify compliance. As a result, a tremendous amount of data travels between districts and the state just to support the CTE funding streams, let alone data regarding enrollment and tax data required to calculate all the other individual school-funding streams.

## Recommendation

To introduce greater stability and manageability into the state payment structure, Ohio could shift to funding school districts based on prior-year data. This would confer several benefits for both districts and the state.

For districts, being funded on prior-year data would make budgets more predictable, allowing them to make budget and staffing decisions with more certainty. Because districts would be able to anticipate their level of state funding a year in advance, they would be better positioned to plan for the impact of changes to funding elements such as changes to enrollment or property values.

The state would experience similar benefits. It, too, would have greater funding predictability and be able to budget more effectively. Funding based on prior-year data would also ease some admin-

istrative burden, as enrollment counts could be audited prior to payment and fewer real-time updates would be required.

Making this change comes with a few challenges. For example, funding on prior-year data may disadvantage high-growth districts. However, this can be mitigated by creating adjustments for when student-enrollment growth exceeds a preset threshold. The lagged payment system would also overfund districts with declining enrollment and increasing local shares, but it would correct for those circumstances within one year. At the same time, it could also mitigate some of the impact of eliminating the guarantee structure by creating a transition year during which districts could adjust to a known future funding impact.

Special consideration may need to be given to charter schools, particularly in early years of operation and where they grow rapidly.

## Conclusion

Ohio's school-funding structure has been a nearly continual work in progress for decades, with the legislature repeatedly digging into funding statutes and grappling with challenging budget conditions. Over time, policymakers have enacted changes that have increased supports to districts with lesser ability to raise local revenues for schools and targeted state funding to better support disadvantaged students, resulting in improved equity.

Despite the progress, challenges remain. For example, the state's cap-and-guarantee structure undermines a per-pupil funding structure designed to ensure that funding follows students. Due to limited access to the Capacity Aid and Targeted Assistance grants (not to mention local tax revenue), students in charter schools receive less per-pupil funding than their peers in district schools. TRFs can benefit wealthy districts, which can generate more revenue at the twenty-mill floor while also reaping the benefits of property value appreciation. Moreover, the pass-through method of funding charter schools and the quarterly updates to enrollment create inefficiencies and increase complexity. In sum, the challenges identified in this report undermine the equity, efficiency, and transparency of Ohio's school-funding system.

This paper documents several steps the state can take to improve the equity, efficiency, and transparency of its school-funding system, including:

- Phasing out the inefficient cap-and-guarantee structures to allow funding formula elements to function as designed;
- Amending the SSI so that it incorporates effective tax rates, rather than assuming a tax rate that excludes TRFs or other exemptions;
- Shifting to direct state funding for charter schools to decouple charter school funding from school district funding, reducing tension and administrative burden;
- Recalibrating the current categorical grants to an indexed weight system to stabilize the proportional relationships among different elements of the funding structure; and
- Transitioning to a prior-year payment structure to improve budget stability and predictability for the state and for schools.

Although all the above recommendations are significant shifts in state policy, not all these steps must be taken simultaneously. Some reforms could be phased in or may take longer to adopt and implement. However, altogether these changes could considerably improve the state's funding system, creating better conditions for schools to meet the needs of Ohio's students.

# Appendix

## Per-pupil funding amounts for individual Ohio school-funding grants

Grant	Funding per student in FY2017
Opportunity Grant	\$6,000
Special education:	
Category 1: Speech and language	\$1,578
Category 2: Specific learning disabled or developmentally disabled	\$4,005
Category 3: Hearing or severe behavior disabled	\$9,622
Category 4: Vision impaired	\$12,841
Category 5: Orthopedically disabled or multiple disabilities	\$17,390
Category 6: Autistic, brain injuries, both visually and hearing impaired	\$25,637
English language learners:	
Category 1: Enrolled for 180 days or less and not previously exempt from spring administration of the state's ELA assessments	\$1,515
Category 2: Enrolled in a school for more than 180 days or was previously exempted from taking the spring administration of the state's ELA assessments	\$1,136
Category 3: Student who does not qualify for inclusion in the above scenarios and is in trial mainstream period	\$758
Career and technical education:	
Category 1: CTE workforce development in agricultural and environmental systems, construction, engineering and science, finance, health science, information technology, and manufacturing	\$5,192
Category 2: Workforce development programs in business and administration, hospitality and tourism, human services, law and public safety, transportation systems, and arts and communications	\$4,921
Category 3: Career-based intervention	\$1,795
Category 4: Workforce development programs in education and training, marketing, workforce-development academics, public administration, and career development	\$1,525
Category 5: Family and consumer science	\$1,308

Grant	Funding per student in FY2017
CTE-associated services	\$245
Economically disadvantaged	$\$272 \times \text{economically disadvantaged index} \times \text{ADM}$
Gifted	$\$5.05 \times \text{district's total ADM}$
Aid for pre-K students with disabilities	
Category 1	$(\$4,000 \times \text{Category ADM}) + (\text{Category 1 ADM} \times \$1,578 \times \text{SSI} \times 0.50)$
Category 2	$(\$4,000 \times \text{Category ADM}) + (\text{Category 1 ADM} \times \$4,005 \times \text{SSI} \times 0.50)$
Category 3	$(\$4,000 \times \text{Category ADM}) + (\text{Category 1 ADM} \times \$9,622 \times \text{SSI} \times 0.50)$
Category 4	$(\$4,000 \times \text{Category ADM}) + (\text{Category 1 ADM} \times \$12,841 \times \text{SSI} \times 0.50)$
Category 5	$(\$4,000 \times \text{Category ADM}) + (\text{Category 1 ADM} \times \$17,390 \times \text{SSI} \times 0.50)$
Category 6	$(\$4,000 \times \text{Category ADM}) + (\text{Category 1 ADM} \times \$25,637 \times \text{SSI} \times 0.50)$
Additional aid for students with disabilities	
Categories 2-6	$(0.50 \times \text{costs in excess of } \$27,375) \times \text{SSI}$
Category 6	$(0.50 \times \text{costs in excess of } \$32,850) \times \text{SSI}$
K-3 literacy	$(\$193 \times \text{formula ADM} \times \text{SSI}) + (\$127 \times \text{ADM})$
Graduation bonus	$\text{Four-year adjusted cohort graduation rate} \times 0.075 \times \text{formula amount} \times \text{number of graduates}$
Third-grade reading bonus	$\text{Third-grade reading proficiency percentage} \times 0.075 \times \text{formula amount} \times \text{number of students scoring proficient or higher}$

Source: Ohio Rev. Code Ann. § 3317. Available at: <http://codes.ohio.gov/orc/3317>.

\* Note: For 2017, the graduation and third-grade reading bonuses amount to \$450 per eligible student.

## Endnotes

- <sup>1</sup> Aaron Rausch and Jessica Voltolini, “State Board of Education Budget Update,” (Ohio Department of Education, July 13, 2015), <https://education.ohio.gov/getattachment/Topics/Finance-and-Funding/Finance-Related-Data/Budgetary-Information/FY16-FY17-Budget-Information/HB-64-Overview.pdf.aspx>.
- <sup>2</sup> Ohio’s school-finance litigation dates back as far as *Miller v. Korns* in 1923. However, the following cases are among the most recent challenges to the state finance system. The Ohio Coalition for Equity & Adequacy of School Funding filed *DeRolph v. State*, a school-funding adequacy lawsuit in 1991. Six years later, the Ohio Supreme Court declared the state’s school-funding system unconstitutional. The court ordered the state to reform the system and address its overreliance on local property taxes. The court again found the state funding formula unconstitutional in *DeRolph II* in 2000. In 2001, *DeRolph III* was issued and, after failed mediation, the court declared the state system unconstitutional in 2002. The litigation ended in 2003 after a compliance conference was prohibited by the state Supreme Court. For additional information, see National Access Network, Litigation: Ohio, Columbia University Teachers College, [http://www.schoolfunding.info/states/oh/lit\\_oh.php3](http://www.schoolfunding.info/states/oh/lit_oh.php3).
- <sup>3</sup> In July 2009, Governor Ted Strickland signed Am. Sub. HB 1 (July 17, 2009). This bill revised the state’s school funding and transitioned it to “Ohio’s Evidence Based Model.” By 2011, Governor John Kasich phased out the plan in the state’s budget. In its place, the state switched to a temporary formula based on historic funding levels. But by 2013, the formula was overhauled and amended again in 2015.
- <sup>4</sup> Article XII, Ohio Constitution, [https://ballotpedia.org/Article\\_XII,\\_Ohio\\_Constitution](https://ballotpedia.org/Article_XII,_Ohio_Constitution).
- <sup>5</sup> The Education Trust, “The State of Funding Equity in Ohio,” December 19, 2016, <https://edtrust.org/graphs/?sname=Ohio>.
- <sup>6</sup> Governor Robert Taft introduced the “Rebuilding Ohio’s Schools” program in 1999. It was a twelve-year program designed to address failing school facilities in all of the state’s districts. The program was adopted into law in Senate Bill 272. Ohio Legislative Service Commission, Bill Analysis: Am. Sub. S.B. 272, <http://www.lsc.ohio.gov/analyses/s0272-rh.pdf>.
- <sup>7</sup> Interview with staff, Ohio Department of Education.
- <sup>8</sup> Author’s calculations based on data sourced from U.S. Department of Education, National Center for Education Statistics, Common Core of Data (CCD), “National Public Education Financial Survey (State Fiscal)”, 2010–11 (FY2011) v.1a, 2011–12 (FY2012) v.1a, 2012–13 (FY2013) v.1a; “State Nonfiscal Public Elementary/Secondary Education Survey”, 2013–14 v.1a. Data available at <https://nces.ed.gov/ccd/> and U.S. Census Bureau, 2014 Annual Survey of School System Finances, [https://factfinder.census.gov/faces/tableservices/jsf/pages/productview.xhtml?pid=SSF\\_2014\\_00A01&prodType=table](https://factfinder.census.gov/faces/tableservices/jsf/pages/productview.xhtml?pid=SSF_2014_00A01&prodType=table).
- <sup>9</sup> U.S. Department of Education, National Center for Education Statistics, Common Core of Data (CCD), “National Public Education Financial Survey (State Fiscal)”, 2010–11 (FY2011) v.1a, 2011–12 (FY2012) v.1a, 2012–13 (FY2013) v.1a; “State Nonfiscal Public Elementary/Secondary Education Survey”, 2013–14 v.1a., <https://nces.ed.gov/ccd/> and U.S. Census Bureau, 2014 Annual Survey of School System Finances, [https://factfinder.census.gov/faces/tableservices/jsf/pages/productview.xhtml?pid=SSF\\_2014\\_00A01&prodType=table](https://factfinder.census.gov/faces/tableservices/jsf/pages/productview.xhtml?pid=SSF_2014_00A01&prodType=table).

- <sup>10</sup> U.S. Census Bureau, 2014 Annual Survey of School System Finances, [https://factfinder.census.gov/faces/tableservices/jsf/pages/productview.xhtml?pid=SSF\\_2014\\_00A01&prodType=table](https://factfinder.census.gov/faces/tableservices/jsf/pages/productview.xhtml?pid=SSF_2014_00A01&prodType=table).
- <sup>11</sup> U.S. Department of Education, National Center for Education Statistics, Common Core of Data (CCD), “National Public Education Financial Survey (State Fiscal)”, 2010–11 (FY2011) v.1a, 2011–12 (FY2012) v.1a, 2012–13 (FY2013) v.1a; “State Nonfiscal Public Elementary/Secondary Education Survey”, 2013–14 v.1a. Data available at <https://nces.ed.gov/ccd/>.
- <sup>12</sup> In FY2016, combined per-pupil revenues for classroom and nonclassroom operations were \$9,000.17 for district schools and \$6,935.65 for charter schools. Note that these figures do not include STEM and joint vocational school districts. Ohio Department of Education, “Classroom Expenditure Rankings,” FY2016, [http://education.ohio.gov/lists\\_and\\_rankings](http://education.ohio.gov/lists_and_rankings).
- <sup>13</sup> Meagan Batdorff, Larry Maloney, et al., “Charter School Funding: Inequities Expand,” School Choice Demonstration Project, University of Arkansas, April 2014, <http://www.uaedreform.org/wp-content/uploads/charter-school-funding-report.pdf>.
- <sup>14</sup> Ohio Department of Education, *Foundation Payment Report*, FY2016 State Totals, Final #2 Payment Report, accessed from <http://odevax.ode.state.oh.us/htbin/F2016-SFPR-WEB-REPORTS.COM?act=Final+%232%28Paid+10%2F7%2F2016%29&irn=045187&county=01+Adams&DISTRICT=TOTAL&sfprsum=y>.
- <sup>15</sup> Ohio Rev. Code Ann. § 3317.02, <http://codes.ohio.gov/orc/3317.02v1>.
- <sup>16</sup> Ohio Rev. Code Ann. § 3317.022, <http://codes.ohio.gov/orc/3317.022v1>.
- <sup>17</sup> Ohio Department of Education, “FY16 Summary School Funding Report For City, Exempted Village, and Local School Districts: FY16 Final #2 Payment, Data as of 09/20/16),” <http://odevax.ode.state.oh.us/htbin/F2016-SFPR-WEB-REPORTS.COM?act=Final+%232%28Paid+10%2F7%2F2016%29&irn=045187&county=01+Adams&DISTRICT=TOTAL&sfprsum=y>.
- <sup>18</sup> The disability categories 2–6 correspond with (2) specific learning disabled or developmentally disabled, (3) hearing or severe behavior disabled, (4) vision impaired, (5) orthopedically disabled or multiple disabilities, and (6) autistic, brain injuries, and/or both visually and hearing impaired. Ohio Rev. Code Ann. § 3317.02, <http://codes.ohio.gov/orc/3317.02v1>.
- <sup>19</sup> Joy Lesnick, Robert Goerge, Cheryl Smithgall, and Julia Gwynne, “Reading on Grade Level in Third Grade: How Is It Related to High School Performance and College Enrollment?” Chapin Hall at the University of Chicago, 2010, [http://www.chapinhall.org/sites/default/files/Reading\\_on\\_Grade\\_Level\\_111710.pdf](http://www.chapinhall.org/sites/default/files/Reading_on_Grade_Level_111710.pdf); Donald Hernandez, “Double Jeopardy: How Third-Grade Reading Skills and Poverty Influence High School Graduation,” Annie E. Casey Foundation, 2012, <http://www.aecf.org/m/resourcedoc/AECF-DoubleJeopardy-2012-Full.pdf>; and Ideastream, “Ohio Offers Schools Performance Bonus,” July 15, 2015, <http://www.ideastream.org/news/ohio-offers-schools-performance-bonus>.



- <sup>20</sup> In FY2016, combined per-pupil expenditures for classroom and nonclassroom operations were \$9,000 for district schools and \$6,936 for charter schools. Note that these figures do not include STEM and joint vocational school districts. Ohio Department of Education, “Classroom Expenditure Rankings,” FY2016, [http://education.ohio.gov/lists\\_and\\_rankings](http://education.ohio.gov/lists_and_rankings).
- <sup>21</sup> Ohio Rev. Code Ann. § 3314.08, <http://codes.ohio.gov/orc/3314.08v1> and Ohio Rev. Code Ann. § 3314.085, <http://codes.ohio.gov/orc/3314.085v1>.
- <sup>22</sup> Ohio Rev. Code Ann. § 3317.017, <http://codes.ohio.gov/orc/3317.017>.
- <sup>23</sup> The SSI calculation factors in two different income measures—one based on a comparison of the average income per student in the district relative to the average income per student statewide and one based on the median district income compared to the median income in the state. Those two measures produce two indices that each indicate the level of income among district residents. An index measuring district property value per student relative to statewide property value per student is also calculated. The two wealth indices are compared with each other and with the valuation index to determine the degree to which income versus property value is weighed in the district’s SSI calculation. For a district with lower income per student compared to property value per student, the SSI will be calculated based 40 percent on the income indices and 60 percent based on the valuation index. Otherwise, the valuation index will determine the SSI. However, theoretically, a high-income district (at or above 150 percent of the median district income in the state) could benefit from this formula if the district does not also have property values significantly higher than the state median. In this scenario, the formula permits districts with high incomes but relatively lower property values to avoid the typical wealth index calculation. Instead, the formula would determine the district’s wealth index based on its (lower relative) property values. Thus, these districts would receive a greater sum of state aid. Although data are not available for analysis at the time of publication, in theory, a subset of high-income districts could benefit from this structure.
- <sup>24</sup> In FY2016, combined per-pupil expenditures for classroom and nonclassroom operations were \$9,000 for district schools and \$6,936 for charter schools. Note that these figures do not include STEM and joint vocational school districts. Ohio Department of Education, “Classroom Expenditure Rankings,” FY2016, [http://education.ohio.gov/lists\\_and\\_rankings](http://education.ohio.gov/lists_and_rankings).
- <sup>25</sup> H.B. 64, 131th Gen. Assembly (Ohio 2015), <https://www.legislature.ohio.gov/legislation/legislation-summary?id=GA131-HB-64>.
- <sup>26</sup> Ohio Department of Education, “Enrollment Data,” <http://education.ohio.gov/Topics/Data/Frequently-Requested-Data/Enrollment-Data>.
- <sup>27</sup> H.B. 64, 131th Gen. Assembly. (Ohio 2015), <https://www.legislature.ohio.gov/legislation/legislation-summary?id=GA131-HB-64>.
- <sup>28</sup> Ohio Department of Taxation, “Property Taxation and School Funding,” February 2010, [http://www.tax.ohio.gov/portals/o/research/property\\_taxation\\_school\\_funding\\_2009.pdf](http://www.tax.ohio.gov/portals/o/research/property_taxation_school_funding_2009.pdf).
- <sup>29</sup> Ohio Rev. Code Ann. § 5705.01, <http://codes.ohio.gov/orc/5705>.

- <sup>30</sup> Ohio Department of Taxation, “School Districts with an Income Tax for 2016,” accessed December 19, 2016, [http://www.tax.ohio.gov/school\\_district\\_income.aspx](http://www.tax.ohio.gov/school_district_income.aspx).
- <sup>31</sup> Ohio Department of Taxation, “Property Taxation and School Funding,” February 2010, [http://www.tax.ohio.gov/portals/o/research/property\\_taxation\\_school\\_funding\\_2012c.pdf](http://www.tax.ohio.gov/portals/o/research/property_taxation_school_funding_2012c.pdf).
- <sup>32</sup> Article XII, Ohio Constitution, [https://ballotpedia.org/Article\\_XII,\\_Ohio\\_Constitution](https://ballotpedia.org/Article_XII,_Ohio_Constitution).
- <sup>33</sup> The passage of H.B. 920 in 1976 introduced tax-reduction factors that automatically reduced real property-tax rates to the most recently voted millage rate after increases in property values. H.B. 920 amended the state constitution in Article XII, Section 2a(C)(2): “With respect to each voted tax authorized to be levied by each taxing district, the amount of taxes imposed by such tax against all land and improvements thereon in each class shall be reduced in order that the amount charged for collection against all land and improvements in that class in the current year, exclusive of land and improvements not taxed by the district in both the preceding year and in the current year and those not taxed in that class in the preceding year, equals the amount charged for collection against such land and improvements in the preceding year.” Article XII, Ohio Constitution, [https://ballotpedia.org/Article\\_XII,\\_Ohio\\_Constitution](https://ballotpedia.org/Article_XII,_Ohio_Constitution).
- <sup>34</sup> These data are based on FY2014 figures, as the FY2015 numbers are not yet available from the Ohio Department of Education.
- <sup>35</sup> Based on analysis of FY2014 data provided by the Ohio Department of Education.
- <sup>36</sup> Ohio Department of Taxation, “Property Taxation and School Funding,” February 2010, at: [http://www.tax.ohio.gov/portals/o/research/property\\_taxation\\_school\\_funding\\_2012c.pdf](http://www.tax.ohio.gov/portals/o/research/property_taxation_school_funding_2012c.pdf).
- <sup>37</sup> In FY2016, combined per-pupil revenues for classroom and non-classroom operations were \$9,000.17 for district schools and \$6,935.65 for charter schools. Note that these figures do not include STEM and joint vocational school districts. Ohio Department of Education, “Classroom Expenditure Rankings,” FY2016, [http://education.ohio.gov/lists\\_and\\_rankings](http://education.ohio.gov/lists_and_rankings).
- <sup>38</sup> The five categories of CTE programs include (1) CTE workforce development in agricultural and environmental systems, construction, engineering and science, finance, health science, information technology, and manufacturing; (2) workforce-development programs in business and administration, hospitality and tourism, human services, law and public safety, transportation systems, and arts and communications; (3) career-based intervention; (4) workforce-development programs in education and training, marketing, workforce-development academics, public administration, and career development; and (5) family and consumer science. Ohio Rev. Code Ann. § 3317.017, <http://codes.ohio.gov/orc/3317.02>.



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