



Is Ohio's school funding system *still* unconstitutional?

An analysis of four key issues in school funding policy

Aaron Churchill
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Contents

| | |
|---|----|
| Preface and acknowledgments | 1 |
| Introduction and summary | 3 |
| Issue 1: Is Ohio's school funding "adequate"? | 7 |
| Issue 2: Does Ohio rely excessively on property taxes? | 15 |
| Issue 3: Is Ohio's school funding system equitable? | 18 |
| Issue 4: Is school choice eroding district funding in Ohio? | 23 |
| Conclusion | 27 |
| Appendixes | 29 |

Preface

School funding is a perennial topic of debate, and we at the Fordham Institute have striven to bring a reform-minded voice to the discussions. In 2006, our national team published *Fund the Child*, a report signed by dozens of top minds in K–12 education, that outlines the principles of a student-centered funding system. We’ve also encouraged practices that “stretch the school dollar,” the most recent work of which is an edited volume titled *Getting the Most Bang for the Education Buck*.¹

Fordham has also engaged deeply in Ohio’s funding debates. We’ve regularly published analyses of governors’ school funding plans.² In 2017, we teamed up with a national think tank, Bellwether Education Partners, to analyze the state funding formula and offer recommendations for improvement. We’ve done deep-dive analyses of charter school funding.³ In these works and elsewhere, we’ve flagged policies that need attention, including the following:

- Providing additional funding for low-income students is critical to ensure that they receive extra supports for their education. However, due to recent changes in federal subsidized-meals policy, some higher-income students are now being incorrectly deemed as “economically disadvantaged,” thus misdirecting a certain portion of state aid that relies on this identification.
- Caps and guarantees undermine the state funding formula and limit its ability to drive dollars to districts with greater needs. Caps deny school districts funding increases prescribed under the formula when enrollment rises. Conversely, guarantees shield districts from losses when enrollment falls, thus effectively funding “phantom students.”
- Students who exercise school choice via public charter schools and publicly funded vouchers receive less overall funding than their peers who enroll in the local district. As a matter of policy, Ohio should ensure that choice students are funded at a similar level as their district counterparts.

These policies deviate from the principles of a fair, student-centered funding system. We at Fordham stand ready to work with legislators who seek solutions to problems such as these. At the same time, specific policy weaknesses aren’t necessarily grounds for calling the entire funding system “unconstitutional,” a criticism that continues to be heard around the state. Based on the 1997 Ohio Supreme Court ruling in *DeRolph v. State of Ohio*, the argument is typically used by school districts to push for funding increases and even to criticize school choice programs.

¹ Thomas B. Fordham Institute, *Fund the Child: Tackling Inequity and Antiquity in School Finance* (Washington, D.C.: Thomas B. Fordham Institute, 2006), and Frederick M. Hess and Brandon L. Wright, eds., *Getting the Most for the Education Buck* (New York, NY: Teachers College Press, 2020).

² See Paul T. Hill, *Ohio at the Crossroads: School funding—more of the same or changing the model?* (Columbus, OH: Thomas B. Fordham Institute, 2009), and Paul T. Hill, *Steps in the Right Direction: Assessing “Ohio Achievement Everywhere”—the Kasich Plan* (Columbus, OH: Thomas B. Fordham Institute, 2013).

³ Jennifer O’Neal Schiess, Max Marchitello, and Juliet Squire, *A Formula That Works: Five ways to strengthen school funding in Ohio* (Columbus, OH: Thomas B. Fordham Institute, 2017), and Aaron Churchill, *Shortchanging Ohio’s Charter Students: An analysis of charter funding in fiscal years 2015–17* (Columbus, OH: Thomas B. Fordham Institute, 2019).

This report considers whether claims of unconstitutionality remain valid today. After all, school funding policies are far from static, and almost three decades have passed since the initial *DeRolph* case filing in 1991 and two decades have passed since the Supreme Court decision. Indeed, Ohio has implemented multiple funding formulas over the past two decades. They include Governor Taft’s “building-blocks” model, which then shifted to Governor Strickland’s “evidence-based” framework, which then gave way to Governor Kasich’s “achievement-everywhere” plan. Have these reforms, along with other factors impacting funding, strengthened Ohio’s funding system? Does the current system still fall short of the state constitution’s call for a “thorough and efficient system of common schools”?⁴ Or has the state made advancements in funding public education that render this line of argument outdated and obsolete?

To examine these questions, the following analysis takes a long-term, big-picture look at school funding data since the 1990s. When we focus on the forest rather than the trees, we see significant progress being made in funding Ohio public schools. Since the 1990s, spending on K–12 education (adjusted for inflation) has risen significantly, the state has devoted an increasing portion of its budget to education, and the overall system today ensures that high-poverty districts receive more dollars than the average Ohio district.

The plaintiffs in *DeRolph* argued that the courts ought to evaluate the funding system as it existed at the time of their lawsuit.⁵ That was the right principle then, and that’s the right principle now. Based on the data presented in this report, Ohio’s current funding arrangements are quite different than the ones on trial a quarter century ago. It’s not a perfect system, to be sure, and there many reasons we should all continue to work to improve it. But it’s a system that might very well pass constitutional muster.

Acknowledgements

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Aaron Churchill

Ohio Research Director, Thomas B. Fordham Institute

⁴ In *DeRolph v. State of Ohio*, the Ohio Supreme Court declared the funding system unconstitutional on grounds that it violated Article VI, Section 2, of the state constitution, which requires the General Assembly to make provision for a “thorough and efficient system of common schools throughout the state.” For a review of the widely varying ways in which the “thorough and efficient” clause has been interpreted not only in Ohio but also in other states with this education clause in their constitutions, see Jeffery Neff, “A Thorough and Efficient Definition of ‘Thorough and Efficient’: The Starting Point for Meaningful School Funding Reform,” *Journal of Education Finance* 33 (2007): 69–104. Dartmouth College economist William Fischel notes the ambiguity of the phrase and writes, “The only clear violations of having a ‘thorough and efficient’ system would be for the legislature to neglect to set up a school district in some parts of the state in which school-age children could reside” in “The Courts and Public School Finance: Judge-Made Centralization and Economic Research,” in *Handbook of the Economics of Education, volume 2*, eds. Eric A. Hanushek and Finis Welch (Amsterdam: Elsevier, 2011): 1300.

⁵ In 1979, the Ohio Supreme Court upheld the state’s funding system (*Board of Education v. Walter*).

Introduction and summary

In 1991, a coalition of five school districts brought a lawsuit in the Perry County courts, alleging that Ohio's school funding system violated the state constitution. To make their case, the plaintiffs offered a raft of anecdotes about deteriorating school facilities, outdated textbooks, and antiquated technology—conditions that they contrasted with the lavish amenities found in Ohio's wealthiest districts. Various experts gave testimony discussing the flaws of the funding system, which they believed led to these disparities.

A county judge was swayed by these arguments and ruled the entire state system unconstitutional. An appeals court disagreed and so the case—*DeRolph v. State of Ohio*—eventually reached the Ohio Supreme Court. In a narrow four to three decision, that court declared in 1997 that the funding system was unconstitutional on the grounds that the system failed to provide for a “thorough and efficient” system of public schools. The majority wrote the following:

*We find that exhaustive evidence was presented to establish that the appellant school districts were starved of funds, lacked teachers, buildings, and equipment, and had inferior educational programs, and that their pupils were being deprived of educational opportunity.*⁶

The state Supreme Court ordered a “complete, systematic overhaul” of school funding but left it to the legislature to sort out specific policy changes. A flurry of activity followed, though not everyone was pleased with the majority's decision.⁷ In dissent, Chief Justice Thomas Moyer argued that the judicial branch had overreached—the case was “nonjusticiable” in his view—and held that plaintiffs had failed to prove that the funding system violated the constitution.⁸ Some legislators also expressed lukewarm reactions,⁹ and in a sharp rebuke, the *Columbus Dispatch* editorial board wrote that *DeRolph* was “judicial activism at the extreme” and noted the state's increasing role in funding K–12 education.¹⁰

Almost a quarter century later, some of the original debates have faded, yet Ohio's school funding system is still regularly labelled “unconstitutional.” In spring 2019, for instance, the *Cincinnati Enquirer* published an article under the headline “Ohio's school funding formula is unconstitutional. Two lawmakers say they have a solution.” Thomas Suddes, an opinion writer for the *Cleveland Plain Dealer*, recently argued that

⁶ *DeRolph v. State of Ohio*, 677 N.E. 2d 733 (Ohio 1997). Court documents can be accessed via the Ohio Supreme Court website and Bricker and Eckler's “Chronology of the DeRolph v. Ohio School Funding Litigation” website.

⁷ For a brief overview of the court case and legislative activity, see Gongwer, “The *DeRolph* school funding case: 1991–2003,” October 20, 2003, <http://www.gongwer-oh.com/public/xref/derolph/derolph03.pdf>.

⁸ “The issues of the level and method of funding, and thereby the quality of the system, are committed by the Constitution to the collective will of the people through the legislative branch.” *DeRolph v. State of Ohio*, 677 N.E. 2d 733 (Ohio 1997) (Moyer, T., dissenting). *Ibid.*, “We simply do not find, on this record, that the plaintiffs carried their burden of proving that school districts have been unable to provide students with an adequate education due to a lack of funds.”

⁹ Legislator (and future Speaker) William Batchelder said, “A majority of legislators had a real reservation about the Supreme Court getting involved to the extent that they did. Our view in Ohio has generally been that the Court does not have the power to fiddle with formula numbers.” Quoted in Larry J. Obhof, “*DeRolph v. State* and Ohio's Long Road to an Adequate Education,” *Brigham Young University Education and Law Journal* 2005, no. 1 (2005): 83–149.

¹⁰ Editorial, “Judicial lawmaking high court wrecks havoc on Ohio schools,” *Columbus Dispatch*, March 25, 1997.

the system remains unconstitutional: “Essentially nothing has changed” since the court’s decision, he opined.¹¹

But has nothing really changed? Does Ohio’s current funding system—not the one on trial in the 1990s—still deserve the “unconstitutional” label? Are the Buckeye state’s public schools “starving” for funds and still “lacking teachers, buildings, and equipment”?

Answers to these questions are important, as policymakers and citizens hear constant grumbling about the state’s funding system, now exacerbated by two additional factors:

- A proposed school funding plan crafted by Representatives Bob Cupp and John Patterson, advised by district officials around the state, has been billed by some as the long-awaited solution to Ohio’s constitutional problem. That plan was initially rolled out in early 2019 and debated throughout the year, but concerns about its \$2 billion price tag and its funding for high-poverty districts have thus far stymied enactment.¹² With Representative Cupp’s recent ascent to House Speaker, the “Cupp-Patterson” funding plan is sure to attract increasing attention. Whether the state needs to and is capable of pursuing this type of overhaul—especially in a time of economic uncertainty and a precarious state budget situation—are questions worth pondering.
- The constitutionality of the current funding arrangement is expected to be raised again via a new lawsuit, led once more by a coalition of school districts. The allegations this time will likely focus on the impacts on district funding of Ohio’s EdChoice voucher program—which did not exist at the time of DeRolph.¹³ Whether the growth of EdChoice (and charter schools, as well) has actually hurt district funding will likely be a point of contention.

This report relies on federal and state funding data to shed light on (and dispel some myths about) Ohio’s funding system. Federal data allow us to capture trends over a longer period of time than the available state data and also permit national and cross-state comparisons. State data are used primarily to make district-to-district funding comparisons. This report asks—and offers answers to—four key questions about Ohio’s current funding system. Here, in summary, are its main findings.

- Is Ohio’s school funding “adequate”? At its heart, the *DeRolph* lawsuit challenged the system’s “adequacy.” Allegations of inadequacy may have resonated in 1990, but as this report demonstrates, K–12 spending in Ohio has grown significantly since that time. Depending on how one measures inflation, overall expenditures on K–12 education have risen by an average of 1.67 to 2.44 percent per year in constant dollars from 1990 to 2017. Today, the

¹¹ Jackie Borchart, “Ohio’s school funding formula is unconstitutional. Two lawmakers say they have a solution,” *Cincinnati Enquirer*, March 26, 2019, and Thomas Suddes, “Ohio’s ongoing school-funding failures underlie the EdChoice voucher mess,” *Cleveland Plain Dealer*, February 23, 2020.

¹² Cathy Candisky and Darrel Rowland, “Bottom line of new ‘constitutional’ school funding plan: \$1.5 billion,” *Columbus Dispatch*, July 10, 2019, and Jim Siegel, “Wealthy districts would gain money in new Ohio schools plan,” *Columbus Dispatch*, April 8, 2019.

¹³ Darrel Rowland, “Group that won Ohio school-funding suit now challenging vouchers for private schools,” *Columbus Dispatch*, May 14, 2020.

average Ohio district spends more than \$12,500 per pupil (excluding capital expenses), an amount that is in line with the national average and competitive with neighboring states. **Yes, Ohio's current school funding system seems to provide districts with "adequate" funding by today's standards.**

- Does Ohio rely excessively on property taxes? One reason the *DeRolph* court ruled the funding system unconstitutional is because it relied too much on property taxes to fund education. To this day, critics continue to protest such an "overreliance." Yet Ohio's reliance on local property taxes to fund education mirrors the national average, and Ohio is less reliant on local taxes than states such as Pennsylvania, Massachusetts, and New York.¹⁴ Moreover, the use of property taxes to fund schools offers some advantages, often unacknowledged by critics. It provides fiscal stability to districts—especially important during economic downturns—and offers citizens a direct say in the funding of local schools through tax referenda. Perhaps paradoxically, neighboring states of Indiana and Michigan have reduced their reliance on property taxes—what the plaintiffs in *DeRolph* were seeking—but have subsequently suffered stagnant K–12 spending. On the other hand, Pennsylvania, a state with a heavier reliance on property taxes, has seen more consistent funding growth. **On balance, by national standards, Ohio does not over rely on property taxes. Though there may be advantages to shifting to a more centralized system via changes in tax policy, doing so may increase fiscal instability by reducing some districts' funding.**
- Is Ohio's school funding system equitable? Although not primarily an "equity" lawsuit, *DeRolph* spotlighted funding disparities between high- and low-poverty districts. Such perceived inequities continue to be a large part of today's funding conversations. Contrary to much opinion, however, the overall school funding system delivers more dollars per pupil to Ohio's highest poverty school districts. In 2018–19, the poorest 20 percent of districts—as measured by their percentage of low-income students—spent on average \$14,992 per pupil versus \$12,387 among the wealthiest 20 percent. Funding levels rise further when focusing on the state's large, urban districts known as the "Ohio Eight": On average, these very high-poverty districts spent \$16,167 per pupil in 2018–19.¹⁵ The state's funding system, however, remains inequitable to public charter schools and private school voucher programs. Charters in the Ohio Eight cities receive about \$4,000 to \$8,000 less per pupil (depending on city), while the EdChoice and Cleveland voucher funding disparities are even greater. **Yes, Ohio's funding system is, on average, reasonably fair to high-poverty school districts. But the system is not equitable to similarly disadvantaged students who attend public charter schools and private schools via vouchers.**
- Is school choice eroding district funding in Ohio? As noted above, an impending lawsuit is likely to claim that Ohio's school choice programs have badly eroded district funding. To assess this argument, we focus on the Ohio Eight where, by legislative policy design, charter

¹⁴ Pennsylvania's funding system has been upheld by its courts, Massachusetts' system was ruled unconstitutional in 1993 but upheld in 2005, and New York's system was deemed unconstitutional in 2003. For a summary of school finance litigation in these states and elsewhere through 2005, see the appendix in Martin R. West and Paul E. Peterson, eds., *School Money Trial: The legal pursuit of educational adequacy* (Washington, D.C.: Brookings Institution, 2007).

¹⁵ The Ohio Eight districts—traditionally known as the "Big Eight"—consist of Akron, Canton, Cincinnati, Cleveland, Columbus, Dayton, Toledo, and Youngstown.

school and voucher opportunities have been concentrated since the late 1990s. One might therefore expect to see those eight districts' per-pupil expenditures decline as choice programs grew. But we see just the opposite. Spending per pupil across the Ohio Eight districts *rose* from 2000 to 2019, with significant increases in cities such as Akron, Cleveland, and Youngstown. The reason is likely rooted in the fact that local funding, which is not linked to enrollment, rises on a per-pupil basis when districts lose students, whether due to school choice, residential moves, or demographic shifts. **No, school choice has not eroded per-pupil district funding, at least not in the Ohio Eight.**

The answers to the questions above are based on a reasonable reading of the data. But there's always room for disagreement about what exactly "adequate," "overreliance," and "equitable" mean in the context of school finance. In the end, these judgments are subjective more than scientific. Some, for example, might say that \$15,000 per pupil is "adequate," while others might say \$10,000 is the magical number. Unfortunately, no scientific method exists that can produce a right answer to this and kindred questions.¹⁶ Financing public education remains a political issue that elected officials, school leaders, and taxpayers all have a say in—and over which they often tussle.

Much like questions about which baseball player is the greatest of all time, the issue of whether Ohio's funding system passes constitutional muster may never be finally settled. But given the growth in overall funding since *DeRolph*, the rhetoric of unconstitutionality no longer matches reality. That doesn't mean the system is without flaw. There remain problems to be resolved, including overdue refinements to the funding formula and designing policies that ensure greater fairness to students who prefer non-district options. Yet as former Chief Justice Moyer wrote, "the existence of weaknesses in a legislatively devised funding system cannot be the basis of a finding of unconstitutionality."¹⁷ Rather than spending our time arguing over issues of constitutionality, Ohioans would be better served by rolling up their sleeves and working to improve education for all.

¹⁶ For example, what constitutes an "adequate" base cost for funding has been much debated, with analysts developing a variety of methods that they believe capture the right amount of baseline funding needed to educate a typical student. The methods suffer from questionable assumptions and sometimes produce conflicting results. For more discussion, see Eric A. Hanushek, "The Alchemy of 'Costing Out' an Adequate Education," in *School Money Trials: The legal pursuit of educational adequacy*, Martin West and Paul Peterson eds. (Washington, D.C.: Brookings Institution Press, 2007): 77–101. School finance experts Martin F. Leuken and James V. Shuls put it concisely in *The Future of K-12 Funding* (Indianapolis, IN: EdChoice, 2019): "The definition of 'adequate' is amorphous."

¹⁷ *DeRolph v. State of Ohio*, 677 N.E. 2d 733 (Ohio 1997) (Moyer, T., dissenting).

Issue 1: Is Ohio’s school funding “adequate”?

In the specialized parlance of school finance, *DeRolph* was an “adequacy” lawsuit alleging that Ohio was spending insufficient funds on its K–12 schools, thus violating the “thorough and efficient” clause in the state constitution. To make their case, the plaintiffs reported many examples of poor conditions in some Ohio schools, that being something of a hallmark of adequacy cases nationwide.¹⁸ They also argued that funding was inadequate to meet state minimum standards, which at the time of the initial filing were check-box operating standards about courses of study, school procedures, and health and safety. Last, they attacked the state’s “base amounts”—the minimum per-pupil amount that should be spent across all districts—as being too low.

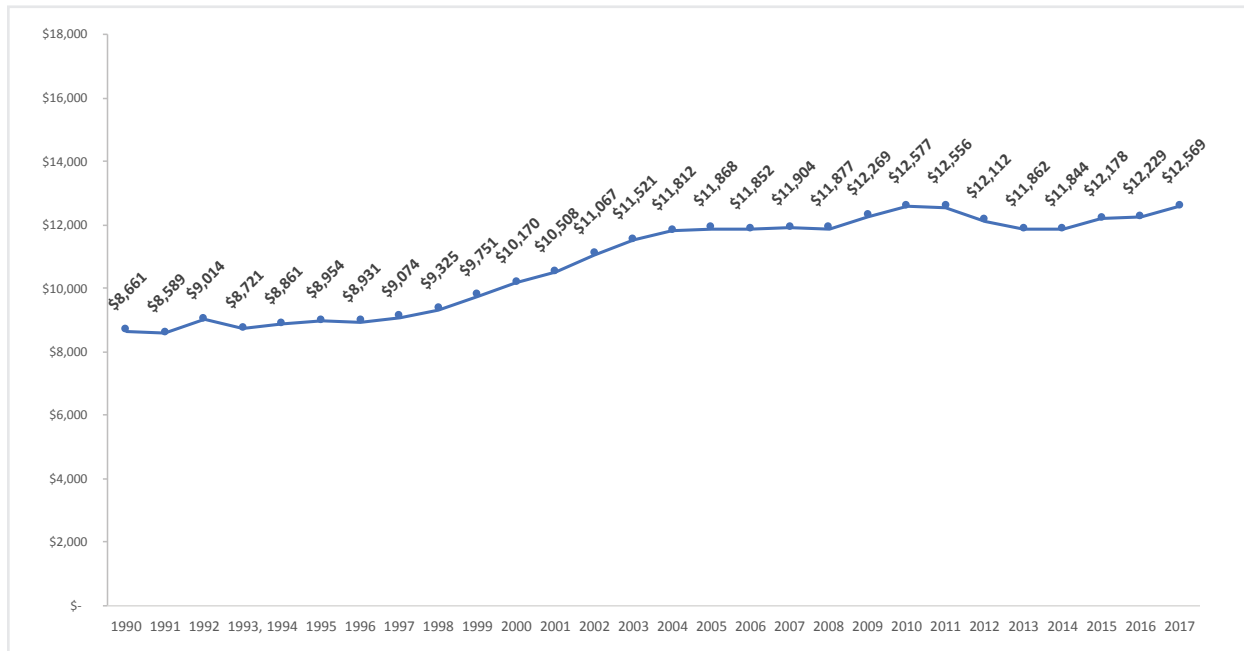
The Supreme Court agreed with the plaintiffs, setting off a series of events intended to remedy these issues, including attempts to define an adequate base amount. To this day, questions about the adequacy of the funding system still swirl, especially with respect to the base amount—currently set at \$6,020 per pupil—and whether it covers the cost of educating a typical student.¹⁹ In fact, a central feature of the Cupp-Patterson funding plan is its effort to determine, via extensive calculations relying on salary data and staff-to-pupil ratios, just how much it costs to educate the average Ohio child.

It’s crucial to understand that the base amount isn’t the only factor that determines the overall amount spent on K–12 education. Figure 1 shows that, as of 2017, Ohio spent an average of \$12,569 per pupil in operational expenses—funds generated from federal, state, and local sources—which is more than double the state’s base figure. This expenditure amount excludes capital outlays and debt payments, a topic discussed in more detail on page 11. This large discrepancy arises for three reasons. First, the base amount excludes other substantial state funding for education, including early literacy, career and technical education, special education, share of economically disadvantaged students, and pupil transportation. Second, it omits billions in supplemental local tax revenues generated when districts levy taxes above the state-required 2 percent floor. Third, it omits federal aid that supports high-poverty schools and special education. When focusing on overall funding levels—which is what matters most when considering the resources available to educate students—Ohio’s school funding system is far more “adequate” than the base figure itself suggests.

¹⁸ For an introduction to “adequacy” lawsuits, see Martin West and Paul Peterson, eds., *School Money Trials: The legal pursuit of educational adequacy* (Washington, D.C.: Brookings Institution Press, 2007).

¹⁹ Today, the base amount is used to allocate the state’s “Opportunity Grant,” the largest component of the state funding formula. Districts generally achieve the targeted base amount (\$6,020 per pupil as of FY 2020) through the opportunity grant amount, plus a state-required 2 percent local property tax. Charter schools, because they cannot levy local taxes, receive the full base amount. This type of “foundation grant” program to fund schools is the most common of the models currently in use nationally: See, for example, the Urban Institute’s webpage, “How do school funding formulas work?” (2017) and Education Commission of the States’ webpage “50-state comparison: K–12 funding” (2019).

Figure 1. Real operational expenditures per pupil in Ohio K–12 schools (in 2017 dollars)



Notes. Nominal expenditures were obtained via the U.S. Department of Education’s *Digest of Education Statistics* (table titled “current expenditure per pupil in fall enrollment in public elementary and secondary schools, by state or jurisdiction”). These expenditure data include operational expenses such as salaries and benefits, transportation, and administration but exclude capital expenses such as debt and construction. Total expenditures, which include both operational and capital expenses, were \$14,028 per pupil in FY 2017. Nominal amounts are adjusted for inflation to 2017 prices using the consumer price index (CPI-U) data reported by the Federal Reserve Bank of St. Louis.

Figure 1 also addresses another longstanding criticism of Ohio’s school funding system: that it fails to ensure that spending keeps pace with inflation. Part of the concern, and a point of contention as far back as the *DeRolph* case, stems from a state law that prohibits districts from automatically capturing additional property tax revenues due to increases in real estate values.²⁰ Regardless of one’s views about these “tax-reduction factors,” the policy has not prevented spending from keeping pace with inflation. As the chart above indicates, real (that is, inflation-adjusted) per-pupil operational expenditures have risen significantly over the past three decades, though spending growth has slowed in the years since the Great Recession. In 1990, Ohio spent an average of \$8,661 per student in 2017 dollars, and by 1997, the year in which *DeRolph* was decided, spending stood at \$9,074 per pupil. In the years after the decision, operational expenditures rose sharply, reaching \$12,577 per pupil by 2010. However, in the aftermath of the recession, spending fell, though it recovered to \$12,569 per pupil by 2017.²¹ Overall, during this nearly three-decade period, spending on K–12 education outpaced inflation, rising by 45 percent above the rate of inflation or an average of 1.67 percent per year.²²

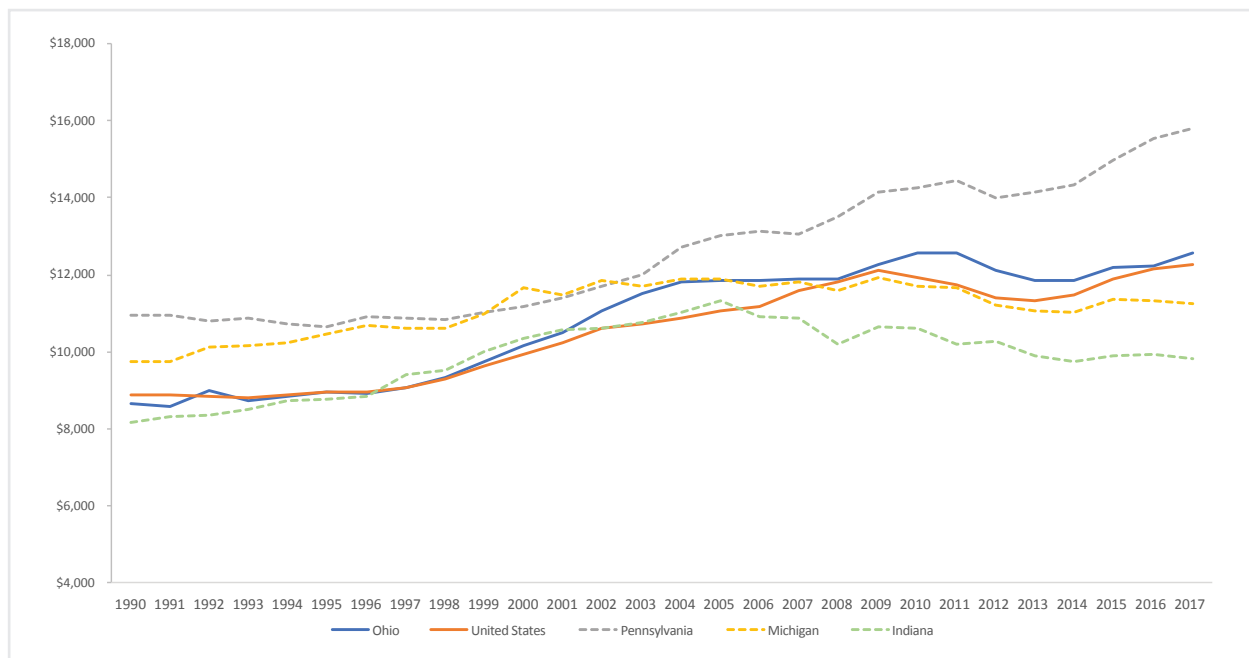
²⁰ Named after a bill passed in 1976, the “HB 920 tax reduction factors” protect property owners from unvoted tax increases due to real estate inflation. The reduction factors apply to most (though not all) local property taxes.

²¹ State funding statistics show slight increases in funding levels for 2017–18 and 2018–19 relative to 2016–17. For those data, see Thomas B. Fordham Institute’s webpage “Ohio By The Numbers.”

²² Using an alternative measure of inflation, the personal consumption expenditures (PCE) price index, real K–12 education spending in Ohio has increased by 66 percent, or 2.44 percent per year, during this period. The larger increase in real spending (relative to CPI-U) reflects PCE’s lower estimates of inflation. For an overview of the different inflation measures, see Joseph G. Haubrich and Sara Millington, “PCE and CPI inflation: What’s the difference?” Federal Reserve Bank of Cleveland, April 17, 2014.

As we see in Figure 1, Ohio’s operational spending stands at about \$12,500 per pupil and, since 1990, expenditure increases have exceeded the rate of inflation. But it could still be the case that this funding level is low by today’s spending standards and that Ohio might be lagging behind nearby states. So we turn to Figure 2, which displays Ohio’s spending trends in comparison with the national average and with three similarly sized neighboring states—Indiana, Michigan, and Pennsylvania. We see that Ohio’s operational expenditures have closely followed the national trend, in terms of both spending levels and growth over time. In 1990, Ohio spent \$8,661 per pupil versus a national average of \$8,875 (in 2017 dollars). Spending was again almost identical in 2017: \$12,569 in Ohio versus \$12,258 nationally.²³ In comparison to Indiana and Michigan, spending in Ohio has grown much faster, though it has lagged behind Pennsylvania. That divergence is interesting because Pennsylvania relies more heavily on local property taxes, while Michigan and Indiana have state-centered funding models, a topic we’ll return to later.

Figure 2. Real operational expenditures per pupil, Ohio versus the nation and three neighboring states (in 2017 dollars)

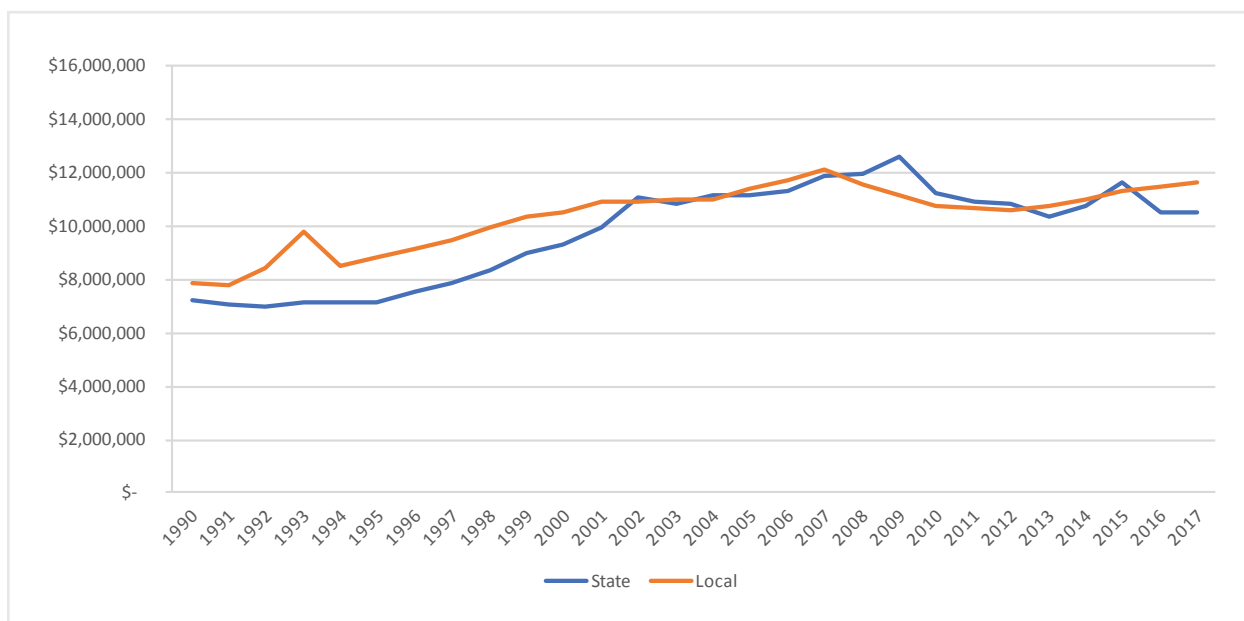


Notes. See notes under Figure 1 for sources and information about nominal and real spending. The data are not adjusted for differences in cost of living, though those costs are generally comparable between Ohio, Indiana, and Michigan, while Pennsylvania’s are somewhat higher (see U.S. Bureau of Economic Analysis’ regional price parities data). During this period, Ohio’s national ranking in (non-cost-adjusted) K–12 spending has ranged between sixteenth and twenty-third among the fifty states and District of Columbia; in 2017, it was the twentieth-highest-spending state. On a cost-adjusted basis, *Education Week’s* most recent analysis ranks Ohio as the twentieth-highest-spending state.

²³ In FY 2017, total expenditures per pupil (including both operational and capital/debt) were \$14,028 per pupil in Ohio versus \$13,834 per pupil nationally. See the U.S. Department of Education’s *Digest of Education Statistics* (table titled “Total and current expenditure per pupil in fall enrollment in public elementary and secondary schools, by state or jurisdiction, 2016–17”).

Overall operational expenditures offer a birds-eye view of the funding system, but they don't help us understand whether state or local outlays are behind the trend. Ohio's spending growth could be due to increasing local tax revenues—not rising state outlays. Examining this possibility is important because one of the criticisms leveled against the funding system in *DeRolph* was that the state had failed to make K–12 education a priority.²⁴ Figure 3 shows funding by source. Federal funds are excluded from this figure, but they generally represent less than 10 percent of total funding (see Figure 8). We see that state funding (adjusted for inflation) rose sharply between 1995—even before the *DeRolph* decision—and 2002. State funding continued to rise, albeit more gradually, until 2009, when the Great Recession diminished state revenues. It rebounded somewhat starting in 2013.²⁵ As of 2017, the state contribution to K–12 education was \$10.5 billion, while the local contribution was \$11.6 billion. Both sums are significantly higher than 1990, when the state contributed \$7.2 billion and the local contribution was \$7.8 billion (in 2017 dollars). Thus, the spending growth in Ohio is attributable to increases in both state and local outlays for K–12 education.

Figure 3. State and local funding for K–12 education in Ohio (in thousands of 2017 dollars)



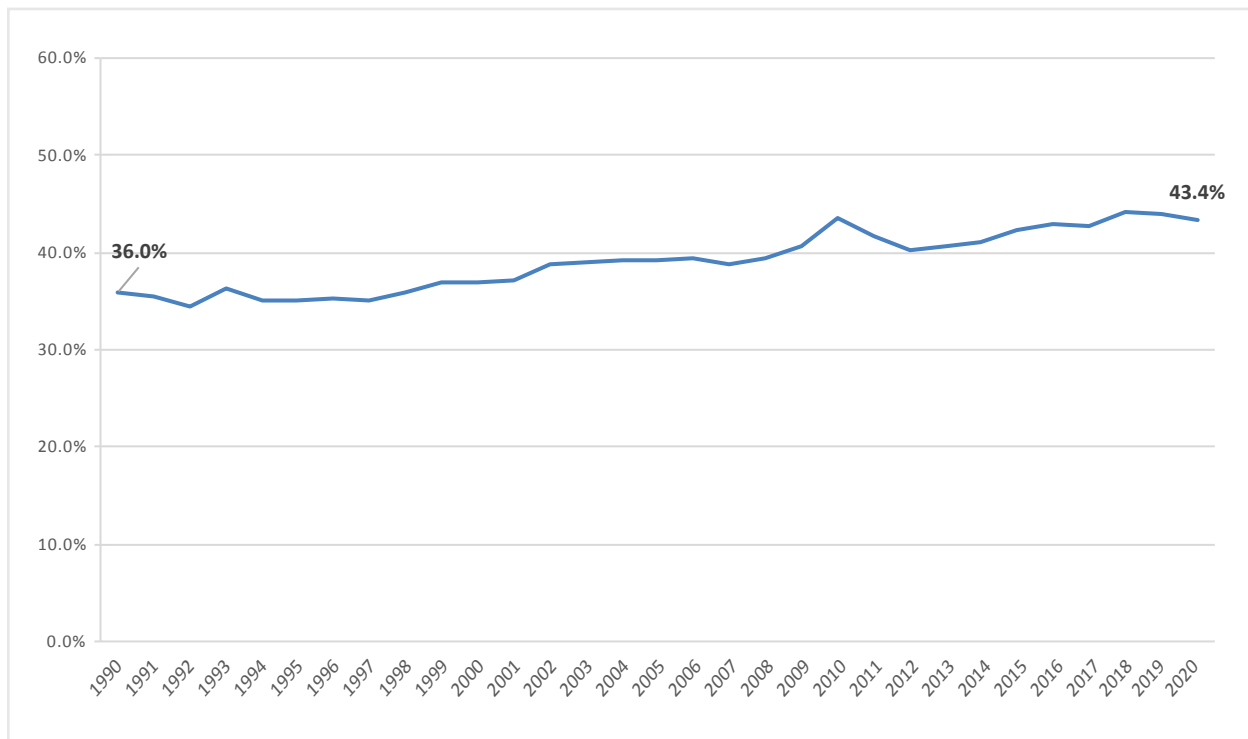
Notes. Nominal funding amounts were obtained via the U.S. Department of Education's *Digest of Education Statistics* (table titled "Revenues for public elementary and secondary schools, by source of funds and state or jurisdiction"). The U.S. Department of Education revenue statistics only report total amounts by funding source (per-pupil amounts aren't available). Nominal amounts are adjusted for inflation using the CPI-U.

²⁴ The plaintiffs in *DeRolph* argued that state legislators engaged in a practice they called "residual budgeting," whereby other state programs receive allocations first and K–12 education receives whatever is left over. Whether this was or still is true is not altogether clear. Citing various spending initiatives, the state responded in one of the follow-up *DeRolph* cases, "Far from being a 'budgetary residual,' educational spending has become the first among equals in the State budget"; see *DeRolph v. State*, 728 N.E.2d 993, 1034-35 (2000) (brief of state appellants).

²⁵ For more on the recession and its impacts on K–12 education funding, see William N. Evans, Robert M. Schwab, and Kathryn L. Wagner, "The Great Recession and Public Education," *Education Finance and Policy* 14, no. 1 (2014): 1–50.

Another indicator of priorities is to examine K–12 education funding as a proportion of the state budget. Figure 4 shows that Ohio has steadily increased education spending as a fraction of the state-only general revenue fund (GRF), the lottery profits education fund, and the local government fund, which together comprise the large majority of the budget derived from state revenue sources. As the chart below indicates, K–12 education has consumed a steadily increasing portion of the state budget, up from 36 percent in 1990 to 43 percent three decades later.

Figure 4. K–12 education as a share of the Ohio state budget



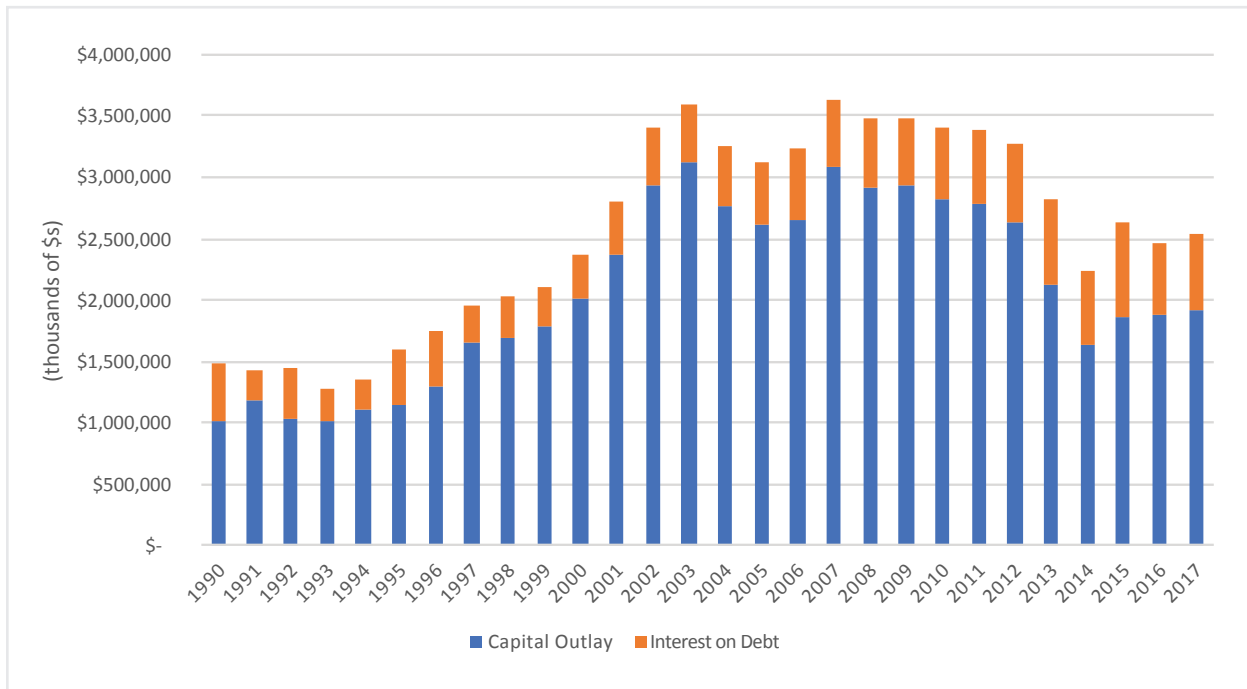
Notes. Data are from Ohio Legislative Service Commission, Historical Revenues and Expenditures (Table 2). The chart shows K–12 education spending as a percentage of the state-only GRF, lottery profits education fund, and local government fund. It excludes federal dollars that are included in the overall state budget (including federal funds for K–12 education) and minor state funding categories. The GRF is largely supported by state sales and income taxes, the two major sources of state revenue.²⁶

Figures 1 and 2 above focused on operational spending—dollars that are used for salaries and benefits, supplies, and transportation—but exclude capital expenditures such as school construction expenses and associated financing costs. The plaintiffs in *DeRolph* focused on poor facilities as evidence of the state’s failure to fund education adequately. Are substandard buildings still a widespread problem? Figure 5 displays the trend in capital outlays and interest payments over time (derived from both state and local sources). As is evident from the chart, these expenditures have risen markedly from the early 1990s, when annual outlays for K–12 schooling were about \$1.5 billion. By 2000, Ohio spent roughly \$2.3 billion, and the amounts escalated to just over \$3.5 billion by 2003, likely reflecting the ramping up of the state’s school construction program, begun in 1997. Capital spending has fallen somewhat since

²⁶ See Ohio Department of Taxation, *Fiscal Year 2019, Annual Report* (Table 4).

then and in 2017 stood at about \$2.5 billion. Given the large increase in capital expenditures over the past two decades, many in Ohio agree that the state has made major progress in the area of school facilities.²⁷

Figure 5. Capital expenditures for K–12 education in Ohio (in 2017 dollars)

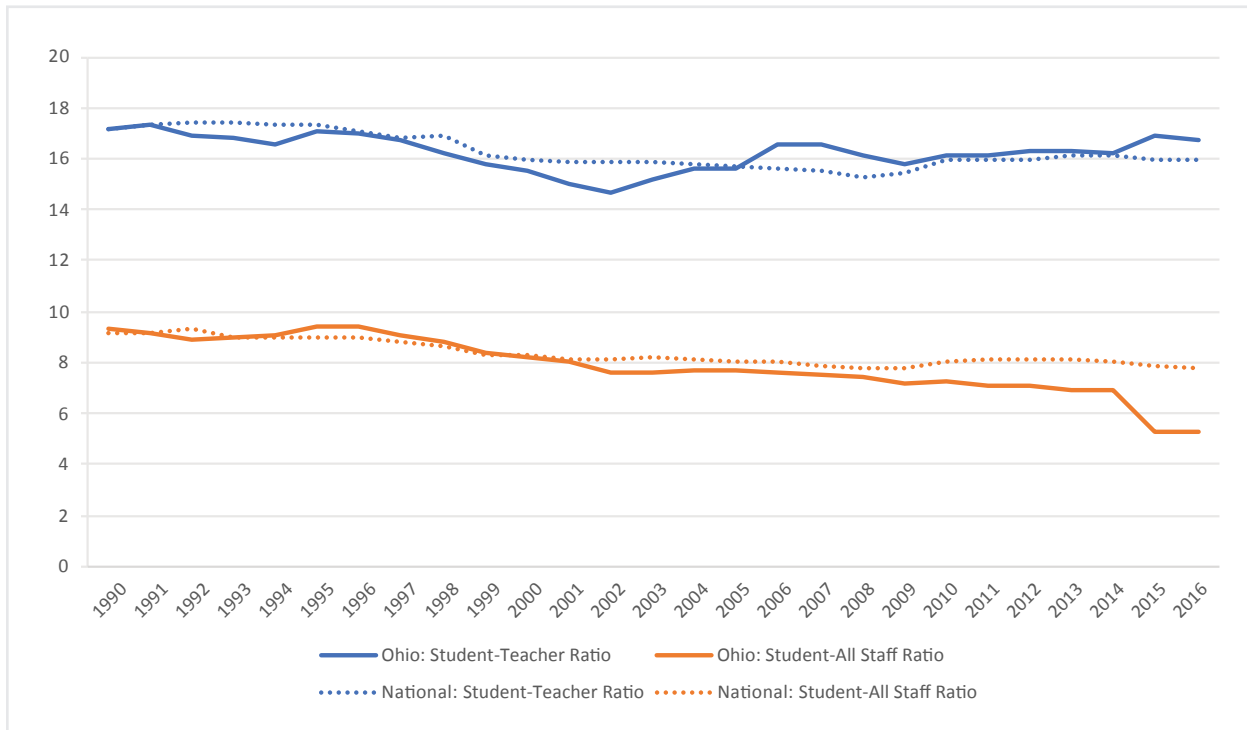


Notes. Nominal expenditure amounts were obtained via the U.S. Department of Education’s *Digest of Education Statistics* (table titled “Total expenditures for public elementary and secondary education and other related programs, by function and state or jurisdiction”). Nominal amounts are adjusted for inflation using the CPI-U.

Finally, in this section, we consider staffing data to gauge whether funding is adequate for schools to hire sufficient teachers and support staff (recall that the *DeRolph* ruling stated that Ohio schools “lacked teachers”). Figure 6 shows that Ohio’s student-to-teacher ratios have remained relatively flat over the past three decades—between fourteen and eighteen students per teacher—and in 2017, Ohio’s ratio was just above the national average of roughly 16:1. In sharp contrast, however, when considering the overall staff ratio (including teachers, administrators, and support staff), we see a large increase in the number of adults employed per student—thus reducing the student-to-staff ratios during this period. In 1990, there were 9.2 students per staff member, but by 2016, the number had fallen to 5.3. Put another way, there were 10.7 staff members per hundred Ohio students in 1990, and by 2016, the number had nearly doubled to 19.0.

²⁷ See for example, the quotes from Julie Carr Smyth, “Ohio school-funding suit *DeRolph v. State* leaves mark after 20 years,” *Akron Beacon Journal*, March 24, 2017.

Figure 6. Student-to-teacher and student-to-all-staff ratios, Ohio and national

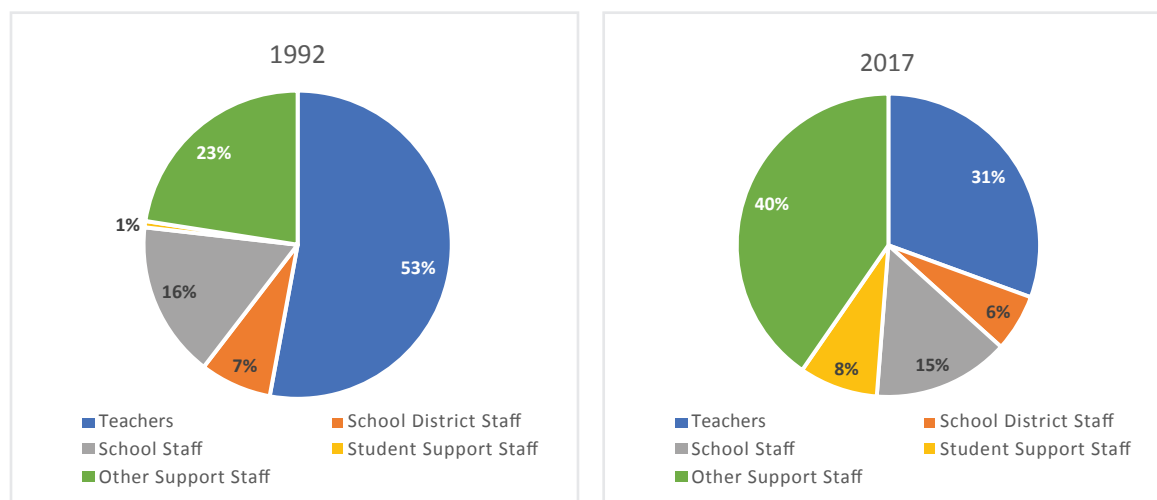


Notes. Student-to-teacher and student-to-all-staff ratios were obtained via the U.S. Department of Education’s *Digest of Education Statistics* (tables titled “Public elementary and secondary teachers, enrollment, and pupil/teacher ratios, by state or jurisdiction” and “Staff, enrollment, and pupil/staff ratios in public elementary and secondary school systems, by state or jurisdiction”).

The increase in school employees is being driven by the hiring of more support staff. On the chart to the left below, we see that support staff comprised just 24 percent of Ohio’s overall K–12 education workforce in 1992 but had risen to 48 percent by 2017. Teachers now comprise just one in three school employees—a significant change from 1992, when they accounted for 53 percent of schools’ overall staff. Ohio, therefore, has experienced a major shift in the mix of school employees—from a teacher-centered workforce to one dominated by support staff. The costs of hiring more support staff has likely crowded out dollars available for teacher pay, probably contributing to the stagnant teacher salaries that we see in Ohio and elsewhere.²⁸ That’s an important conversation to have on policy grounds but not a sign of insufficient funding.

²⁸ Michael Petrilli, “You might be surprised which states prioritize higher teacher salaries,” *Education Next*, April 26, 2019.

Figure 7. Employees in Ohio schools by staff type, 1992 and 2017



Notes. Staffing data were obtained via the U.S. Department of Education’s *Digest of Education Statistics* (table titled “Staff employed in public school systems, by type of assignment and state”). School staff includes principals, librarians, instructional aides, and guidance counselors; school district staff includes superintendents, administrative support, and instructional coordinators; student support staff includes healthcare workers, social-service workers, and attendance officers; and other support staff includes maintenance workers, bus drivers, security, and food service workers. For more on staffing categories, see the U.S Department of Education, *Documentation to the 2015-16 Common Core of Data (CCD) Universe Files*. The earliest year of data in which the federal government uses the same staffing categories as 2017 is 1992.

Discussion

Although it’s unlikely there will ever be universal agreement on what constitutes an “adequate” level of school funding, the foregoing analysis makes clear that Ohio’s funding levels are in line with national trends, have outpaced the rate of inflation, and enable schools to hire an adult for every five students. Moreover, we see here a strengthening commitment to education funding at the state level: Adjusted for inflation, state outlays today are more than \$3 billion higher than in 1990—even though statewide enrollments have been in slight decline²⁹—and K–12 education represents a larger portion of the state budget. Although the higher academic expectations Ohio has implemented since *DeRolph* may have justified such investments in education, it’s hard to keep a straight face while asserting that the present funding system starves the average public school or that State of Ohio neglects K–12 education.

Much of the analysis above focuses on statewide averages. But what about the lowest-spending districts in the state? Appendix Table A1 lists Ohio’s twenty lowest-spending districts in 2018–19. Although they spend roughly \$3,000 to \$4,000 less per pupil than the statewide average, all of them fare reasonably well on state accountability metrics. All but two, for example, surpass the state average on the performance index—a key measure of student proficiency—and nineteen post four-year graduation rates of 90 percent or higher. None of these districts are “academically distressed” or are even close to meeting that threshold.³⁰ In fact, as Appendix Figure A1 indicates, the four districts receiving overall F’s in 2018–19

²⁹ According to national statistics, statewide public school enrollment was 1,771,516 in 1990 and 1,710,143 in 2016.

³⁰ For more on Ohio’s academic distress commissions, see Ohio Department of Education’s webpage “Academic Distress Commission.”

spent well above the average district statewide. The lower spending across these twenty districts might reflect their locations outside of higher-cost metropolitan areas and their smaller fractions of low-income students (all but three report lower percentages of economically disadvantaged students than the statewide average).

Issue 2: Does Ohio rely excessively on property taxes?

Ohio, like almost every other state, relies on a hybrid funding model that splits responsibility for funding K–12 education between state and local governments (that is, school districts). Ohio's system requires districts to levy at least a 2 percent property tax in order to receive state aid. Subject to local voter approval, districts may levy higher property tax rates and add those dollars to their school funding. In practice, most districts do that, as the average effective property tax rate across the state was 3.74 percent in 2019.³¹

Property taxes have long been used in the U.S. to fund K–12 education, and they have some notable strengths. They provide districts with a reasonably stable source of income that is not subject to state budgetary fluctuations or shifting political winds at the Statehouse. Property taxes also tend to be less sensitive to economic downturns compared to sales or income tax revenues. Last, the voter approval process to pass levies is also a form of local accountability. Yet criticism of property taxes is widespread. In fact, surveys have found them to be the most disliked form of taxation.³² The revenues they generate also vary widely from district to district, as some districts have a larger tax base than others, leading to concerns about funding equity. And, of course, district officials complain about having to go to voters to increase, and in some situations to maintain, school funding levels.

The plaintiffs in *DeRolph* focused on disparities in property wealth, and the court agreed that this form of taxation contributed to the “unworkability” of the state’s funding system. Yet the majority opinion did not outlaw the use of property taxes or call for property tax reductions, nor did it demand a redistribution of local tax revenues. Instead, the judges wrote the following:

We recognize that disparities between school districts will always exist. By our decision today, we are not stating that a new financing system must provide equal educational opportunities for all. . . . Nor do we advocate for a ‘Robin Hood’ approach to school financing reform. We are not suggesting that funds be diverted from wealthy districts and given to the less fortunate.”³³

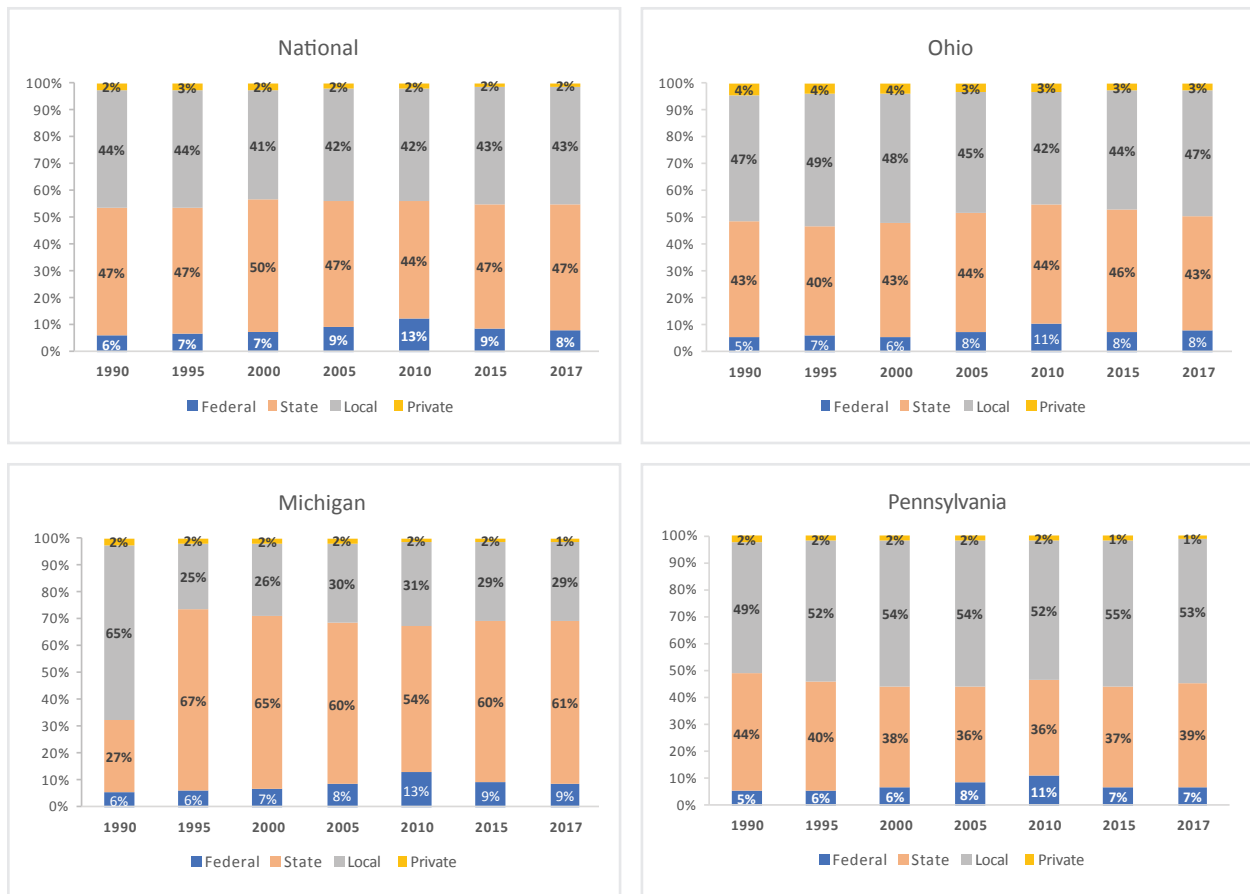
³¹ The effective tax rate takes into account tax-reduction factors that protect property owners from automatic tax increases when property values increase. For district tax rates, see the Ohio Department of Taxation’s webpage “Property Tax by School District, Tax Year 2019.” School districts may also levy local income taxes to fund schools. However, only about one in three districts levy income taxes, and they represent a small portion of overall local revenues. For more on income taxes, see the Ohio Department of Taxation’s webpage “School District Income Tax.”

³² See, for example, NPR/Kaiser Family Foundation/Harvard’s Kennedy School of Government, “National Survey of Americans’ Views of Taxes” (2003).

³³ *DeRolph v. State of Ohio*, 677 N.E. 2d 733 (Ohio 1997).

The court’s reluctance to demand radical changes in the local tax system likely meant that the basic structure of education funding in Ohio—a hybrid model—would endure for some time. Figure 8 shows that, indeed, little has changed regarding the distribution of K–12 funding between the state and localities. Accordingly, critics continue to decry what they insist is an “overreliance” on property taxes.³⁴ But is Ohio an outlier? The figure below reveals that Ohio’s roughly even state-local split has tracked closely with the national average. Moreover, Ohio relies less on property taxes than Pennsylvania and (though not shown below) a number of Northeastern states, including Massachusetts, New Jersey, and New York. Ohio does, however, rely more on local funding than Michigan and Indiana, both of which have state-centered funding models.³⁵

Figure 8. Sources of school funding, selected years and states



Notes. These data were obtained via the U.S. Department of Education’s *Digest of Education Statistics* (table titled “Revenues for public elementary and secondary schools, by source of funds and state or jurisdiction”).

³⁴ See, for example, Thomas Suddes, “School funding and reform continue to vex state lawmakers,” *Columbus Dispatch*, May 24, 2020, and Susie Kaeser, “Diversion of Ohio school dollars to nonpublic schools has become a raging river. It must stop,” *Cleveland Plain-Dealer*, January 11, 2020.

³⁵ Michigan significantly altered its funding system in 1994 by moving to a state-centered approach. For more, see Michigan Office of Revenue and Tax Analysis, “School finance reform in Michigan” (2002). Indiana passed legislation in 2008 that shifted the state to a more state-centered funding system. For more, see Dale Chu, “Indiana’s property tax, choice, and accountability reforms,” Johns Hopkins University, Institute for Education Policy (2019).

Discussion

Important tradeoffs exist in the use of property taxes to fund education. On the one hand, they provide districts with a reliable source of income and give communities a say in the funding of their public schools. On the other hand, they can create funding inequities from district to district (although, as discussed in the next section, these are largely offset by state funding). On the whole, Ohio's current funding model, with its near-even state-local split, appears to balance the pros and cons of property taxes.

It's true that a few states have shifted to a more state-centered funding model, including nearby Michigan and Indiana. Although these centralizing efforts may have improved the equity of their funding systems, they may also have contributed to slower funding growth. Indiana, for example, has experienced noticeable declines in recent years (see Figure 2 above). At the least, a highly centralized model puts "all the eggs in one basket." In good economic times—or perhaps with an especially enthusiastic legislature—K–12 schools might reap the benefit of a state-centered model. But in tough times, schools should expect to see larger dips.

A recent legislative proposal in Ohio would move the state toward a state-centered school-funding model. Introduced by then-Representative (now Senator) Andrew Brenner in the 132nd General Assembly, House Bill 102 would eliminate local property taxes and instead fund education through a 2 percent statewide property tax as well as higher state sales tax rates. It would distribute state education dollars in a generally even manner across all district, charter, and even private schools.³⁶ By capping property taxes at 2 percent—it would prohibit local supplementation—the proposal could end concerns about overreliance on such taxes. Yet this plan has won few plaudits among those who call for a system that's more centralized and less reliant on local taxes. Meanwhile, the Cupp-Patterson plan has garnered wider support from legislators and school officials, despite its lack of provisions to reduce local property taxes. It increases state outlays, without requiring any compensatory reduction to property taxes.³⁷

³⁶ For a review of House Bill 102, see Aaron Churchill, "Does Ohio need a revolution in school funding?" *Ohio Gadfly Daily*, February 5, 2018.

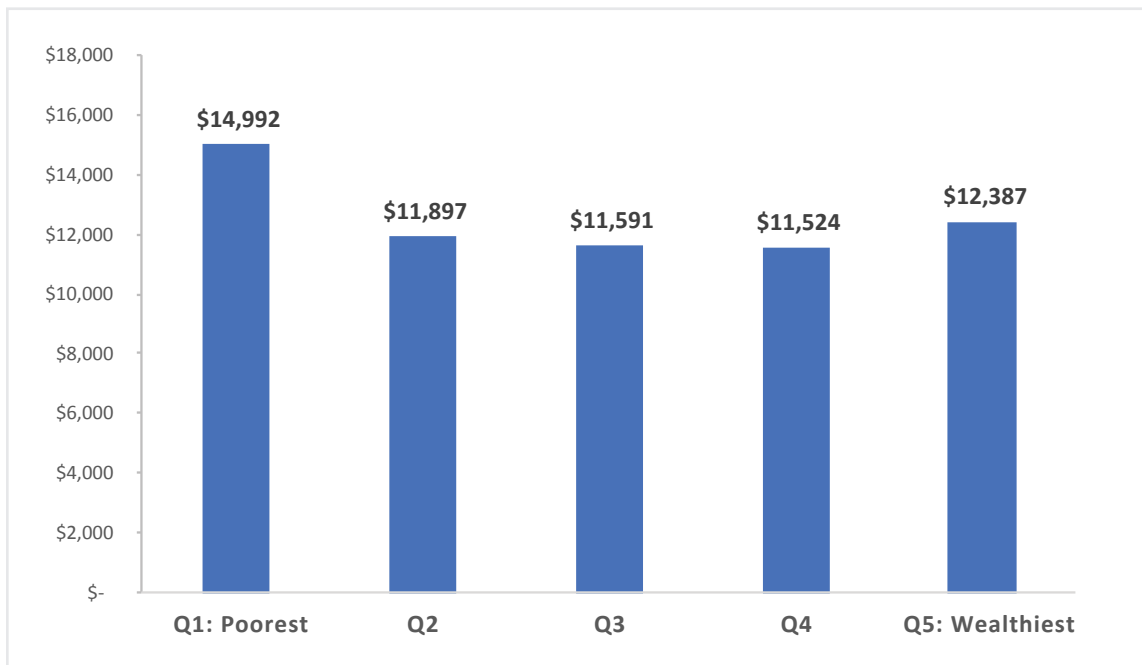
³⁷ One might argue that with increased state spending, local districts could make fewer tax requests. The historical data, however, don't appear to support that notion. As Figure 3 indicates, during the late 1990s and early 2000s, state spending increased sharply, but that did not lead to reductions in local funding.

Issue 3: Is the school funding system equitable?

There has long been a perception that Ohio’s high-poverty school districts receive the short end of the fiscal stick. *DeRolph* spotlighted the plight of poor districts, and media accounts and policy debates continue to suggest that high-poverty schools are sorely underfunded. It’s an important issue, of course, as low-income pupils typically face more barriers to academic success and therefore need more, sometimes costly, support from their schools. But is Ohio’s post-*DeRolph* funding system actually inequitable?

The following figures offer a look at funding equity across Ohio school districts, using two different measures of poverty and by district typology. If the funding system were generally equitable—in the sense of providing higher-poverty districts with greater funding than wealthier ones—we would see something like Figure 9. Here, we view district per-pupil operational spending through the lens of student poverty rates, as measured by U.S. Census data on the percentage of school-aged children who live in households with incomes less than 185 percent of the federal poverty level. On the left side of the chart, we see that the state’s poorest quintile of districts (Q1) spent on average \$14,992 per pupil, while the wealthiest districts (Q5) spent an average of \$12,387 per pupil in 2019.³⁸

Figure 9. Average operational expenditure per pupil by districts’ student poverty, 2019



Notes. Operational expenditure data were obtained via the Ohio Department of Education, “District Profile Reports” (FY 2019). These data exclude capital outlays. Due to policy changes that now classify some higher-income students as “economically disadvantaged” in state data, I use the U.S. Census Bureau’s estimates of children in a district who are aged six through seventeen and living in families with incomes at or below 185 percent of the federal poverty guideline. The statewide average was \$12,472 in 2019.

³⁸ To create quintiles (“Q”), I divide Ohio districts into five groups, with each group representing roughly 20 percent of the statewide student population. The spending averages are calculated by weighting for district enrollment so that the spending of larger districts carries appropriate weight in the averages.

Figure 10 looks at equity from another angle, this time based on districts' property values. By this yardstick, we see a somewhat less equitable system, with the poorest districts holding a smaller edge: \$13,918 per pupil versus \$13,243 per pupil in the wealthiest districts. Why the differences based on the measure of poverty? Although student poverty and property wealth are related, they aren't perfect correlates. The relatively high-spending Columbus and Cincinnati school districts, for instance, land in Q2 in property wealth (likely due in part to commercial wealth) but are among the poorest districts in terms of student poverty.

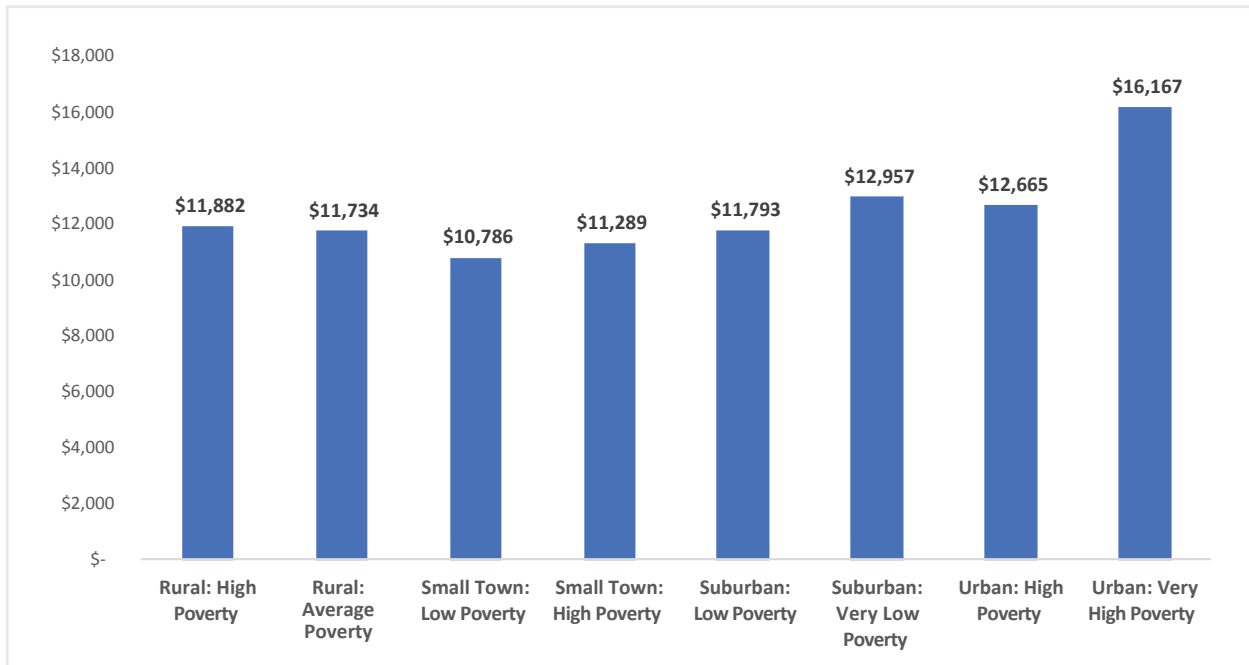
Figure 10. Average operational expenditure per pupil by districts' property values, 2019



Notes. See notes below Figure 9 for information about the spending data and the statewide averages in 2019. Property valuation data—per-pupil revenue raised by one mill of property tax—were obtained via the Ohio Department of Education, “District Profile Reports.”

Figure 11 displays spending patterns across eight district “typologies” that the Ohio Department of Education has developed based on various socioeconomic and geographic variables. The state’s urban, high-poverty districts—the “Ohio Eight”—have the highest spending levels, averaging just over \$16,000 per pupil. These eight districts all serve disproportionately low-income pupils who tend to struggle to achieve at consistently high levels on state exams. It’s thus reassuring to see that the overall funding system provides them with more resources than the average district. Ohio’s higher-poverty inner-ring urban, rural, and small-town districts receive funds that are closer to the state average. While that suggests some level of inequity, the costs of education are likely lower in rural and small towns, and the severity of student poverty is less in these districts than in the Ohio Eight.

Figure 11. Average operational expenditure per pupil by district type, 2019



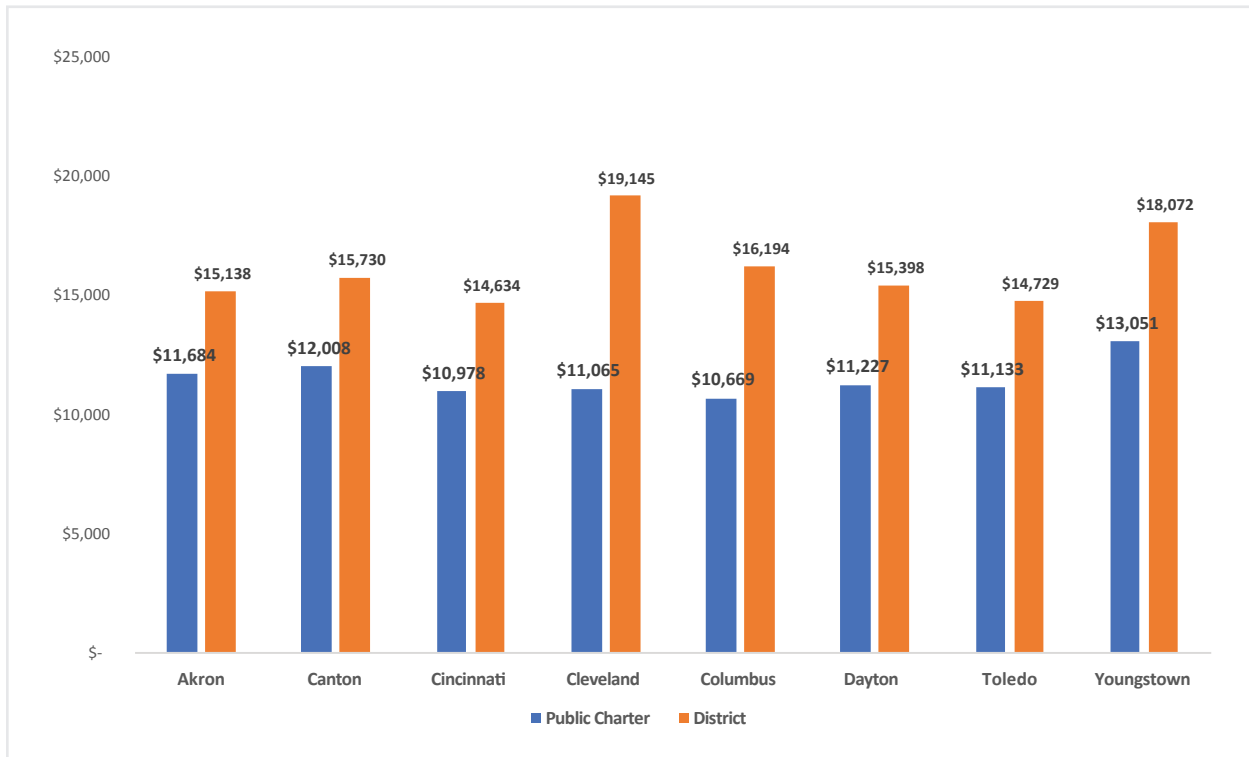
Notes. See notes below Figure 9 for information about the spending data and the statewide averages in 2019. The district typologies were obtained via the Ohio Department of Education’s webpage, “Typology of Ohio School Districts.”

Continuing our focus on the Ohio Eight, we next turn to funding equity between district schools and schools of choice, starting with charter school funding. Since their inception in 1998, public charter schools have predominately served students living in the Ohio Eight—in large part a consequence of state laws that have restricted their locations to these cities and a few other locales. In 2018–19, 75 percent of brick-and-mortar charter schools in Ohio were located in these cities. Because they serve students with similar needs, an equitable system would fund Ohio Eight charters at parity with their Ohio Eight district counterparts. Figure 12 demonstrates, however, that charter schools are not funded anywhere near equitably. The gaps range from \$8,080 per pupil in Cleveland to a \$3,569 disparity in Toledo.³⁹ These discrepancies are rooted in charter schools’ lack of access to local tax revenue. Unlike school districts, they are not authorized to levy property taxes, and districts (with a limited exception in Cleveland) are unwilling to share local funds with charters.⁴⁰

³⁹ These data understate to some extent the disparity, as they include only operational spending. Districts tend to receive more support for capital expenses than charters; see Aaron Churchill, *Shortchanging Ohio’s Charter Students* (Columbus, OH: Thomas B. Fordham Institute, 2019): 15.

⁴⁰ For a more detailed analysis of charter-district funding disparities, including data from FYs 2015–17, see Churchill, *Shortchanging Ohio’s Charter Students*.

Figure 12. Charter and district operational expenditure per pupil in the Ohio Eight, FY 2019



Notes. District expenditures were obtained via the Ohio Department of Education, “District Profile Reports,” and charter school expenditures were obtained via the Ohio Department of Education, “School Report Card” (file titled “EFM Data”). The charter averages are calculated by including all brick-and-mortar charters located in each city, and they are weighted by enrollment. The statewide average expenditure per pupil in 2019 was \$12,472.

Finally, in this section, we consider the private school voucher (or scholarship) amounts. Almost two-thirds of students using EdChoice or Cleveland vouchers are—once again—from the Ohio Eight.⁴¹ The heavy usage in these districts reflects eligibility provisions that confine these vouchers to students meeting one of these requirements: come from a low-income household, attend a low-performing public school, or reside in the city of Cleveland. The maximum scholarship amounts are \$4,650 for students in grades K–8 and \$6,000 for grades 9–12, amounts that are just a fraction of what the Ohio Eight district schools spend to educate students and even lower than charter funding. All private schools that agree to adhere to Ohio’s operating standards (regardless of their decision to accept vouchers) receive some state funding to cover expenses associated with state regulations and to purchase equipment and textbooks.⁴² But those amounts—roughly \$1,300 per pupil—hardly cover the massive funding gaps between voucher and public school expenditures.

⁴¹ There were 27,073 Ohio Eight students using an EdChoice (income or performance based) or Cleveland voucher in 2018–19 and 41,786 total students statewide using one of these vouchers.

⁴² For more on these programs, see Ohio Legislative Service Commission, *Analysis of Enacted Budget, Ohio Department of Education* (Columbus, OH: Ohio Department of Education, 2019).

Discussion

The *DeRolph* court didn't rule that the state constitution guarantees equitable funding or equal opportunity—indeed (as noted above in the discussion of property taxes), the majority wrote, “By our decision today, we are not stating that a new financing system must provide equal education opportunities for all.” Despite this opinion, ensuring that low-income students receive sufficient funding ought to remain a high priority. Disparities in district wealth do create uneven funding when focusing on local tax revenues, but the state offsets those inequities by driving additional funds to the districts with the greatest needs (see Appendix B for data showing the “progressivity” of the state funding system). Moreover, federal dollars, many of which are also targeted toward high-poverty schools, provide further help to equalize the system.

Contrary to conventional wisdom, Ohio's overall funding system is quite fair to high-poverty districts, especially the Ohio Eight, which receive more funding than the average district. One could make the case that further expenditures are needed in these districts to dramatically improve student achievement.⁴³ But whether even more resources in already high-spending districts would actually move the achievement needle may depend on the effective use of funds—for instance, on initiatives that boost pay to attract and retain high-performing teachers or provide high-dosage tutoring options.⁴⁴ In contrast to high-poverty districts, the data above indicate that school-choice programs—both public charter and voucher—are not funded equitably. Despite educating pupils with needs similar to their local district counterparts, public charter schools and voucher-accepting private schools receive far less funding.⁴⁵

Due to data limitations, this section does not assess long-term trends in the equity of Ohio's funding system, nor does it make comparisons to other states. Howard Fleeter, an Ohio-based finance expert, has examined funding equity across Ohio districts from 1999–2019, relying on several measures of equity. He includes state and local funds but excludes federal dollars. His results differ depending on how equity is gauged. Two of the four measures he uses indicate that Ohio's system was less equitable in 2019 compared to 1999, while the other two reveal a more equitable system.⁴⁶ As for comparisons to other states, Ohio's system fares differently depending on the equity measure: In *Education Week's* most recent analysis, Ohio ranks twelfth in the nation on the “wealth-neutrality” score, but along three other measures, it falls in the

⁴³ The research examining the link between spending and educational outcomes has been the subject of significant debate. For reviews of the research that reach somewhat different conclusions, see Eric A. Hanushek, “School Resources” in *Handbook of the Economics of Education, Volume 2*, Eric A. Hanushek and Finis Welch, eds. (Amsterdam: Elsevier, 2011): 865–908, and C. Kirabo Jackson “Does School Spending Matter? The new literature on an old question,” National Bureau of Economic Research working paper 25368 (December 2018), doi:10.3386/w25368.

⁴⁴ For evidence indicating that these types of initiatives can raise achievement, see Andrew Wayne, et al., *Promoting Educator Effectiveness: The effects of two key strategies* (Cambridge, MA: Mathematica Policy Research, 2018), and Matthew Kraft, “How to Make Additional Time Matter: Integrating Individualized Tutorials into an Extended Day,” *Education Finance and Policy* 10, n. 1 (2015): 81–116.

⁴⁵ There is evidence that funding increases in low-spending schools are more likely to improve student achievement than increases in already high-spending schools. See Carolyn Abott, Vladimir Kogan, Stéphane Lavertu, and Zachary Peskowitz, “School District Operational Spending and Student Outcomes: Evidence from Tax Elections in Seven States,” *Journal of Public Economics* 183 (2020), doi:10.1016/j.jpubeco.2020.104142.

⁴⁶ When comparing the fifth to ninety-fifth percentile district in funding and the McLoone index, Ohio's funding system is less equitable in 2019 than 1999. However, using the coefficient of variation and a quintile analysis (somewhat akin to what this report uses), the funding system is more equitable. See Howard Fleeter, *Analysis of changes in the equity in Ohio school funding FY91–FY19* (Ohio Education Policy Institute, 2018).

bottom half of states (between thirty-eighth and forty-third).⁴⁷ Other national analyses have reported that Ohio is among the best states for funding equity, but those analyses are likely flawed.⁴⁸

Issue 4: Is school choice eroding district funding in Ohio?

In the years since *DeRolph*, school options have expanded in Ohio, especially for families living in the state’s largest cities. The Cleveland Scholarship Program launched in 1997, offering that city’s students opportunities to attend private schools with the help of a state voucher. A year later, the state’s first public charter schools opened their doors, and the EdChoice voucher program began in 2007. As of 2018–19, roughly 150,000 Ohio children either participate in a voucher program or attend a charter school—about 9 percent of the overall public school student population. Due to eligibility requirements for voucher programs and limitations on where charters may locate, a majority of these school-choice participants are from the Ohio Eight. We see in Table 1 that anywhere from 17 to 43 percent of students living in these cities attended a charter school or received a voucher in 2018–19.

Table 1. Enrollment in school choice programs, Ohio Eight districts, 2018–19

| City | District enrollment | Charter enrollment | EdChoice or Cleveland voucher | Autism or Jon Peterson special-needs voucher | Share of students using charter or voucher options |
|-------------------------|---------------------|--------------------|-------------------------------|--|--|
| Akron | 21,181 | 2,811 | 1,590 | 181 | 18% |
| Canton | 8,402 | 1,005 | 712 | 41 | 17% |
| Cincinnati | 35,977 | 6,236 | 5,192 | 429 | 25% |
| Cleveland | 37,701 | 15,278 | 7,274 | 347 | 38% |
| Columbus | 48,928 | 18,661 | 5,561 | 490 | 34% |
| Dayton | 12,700 | 6,426 | 2,894 | 135 | 43% |
| Toledo | 23,160 | 7,549 | 2,485 | 167 | 31% |
| Youngstown | 5,264 | 2,064 | 1,365 | 225 | 41% |
| Total—Ohio Eight | 193,313 | 60,030 | 27,073 | 2,015 | 32% |

Note. Enrollment data are from districts’ school report cards.

An oft-heard complaint about these programs is that they drain money from school districts. In the recent debates over expanding eligibility for EdChoice, district officials repeatedly asserted in the media that

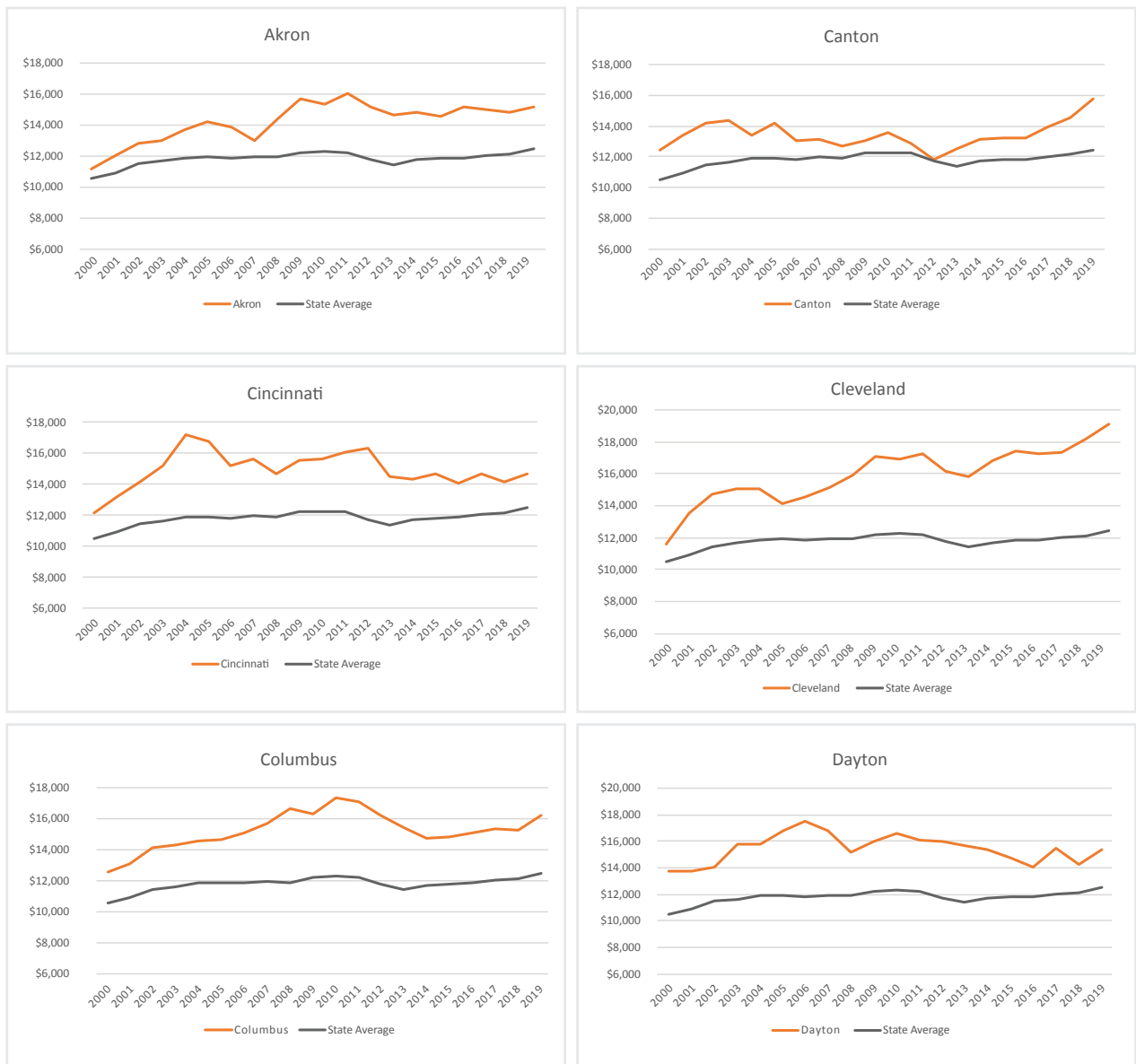
⁴⁷ Education Week, “Quality Counts 2019: Finance,” <https://www.edweek.org/media/qc-2019-finance-table.pdf>.

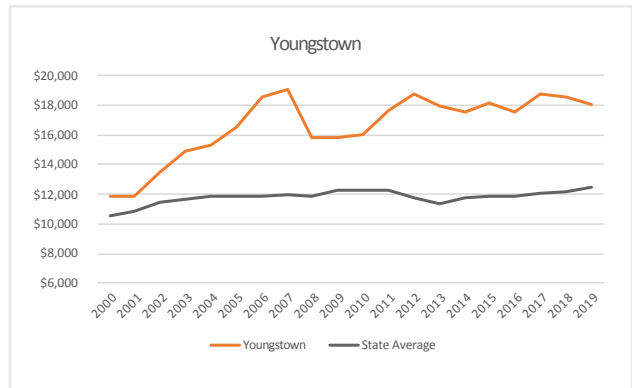
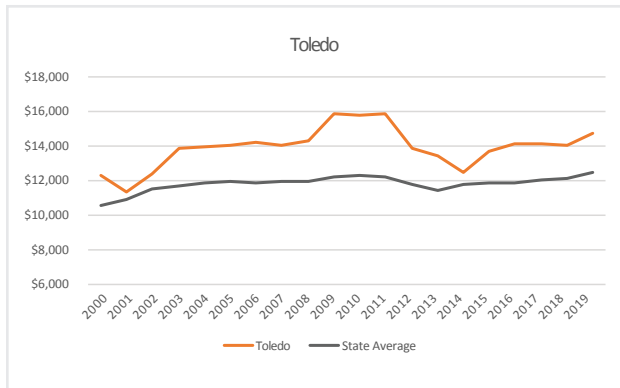
⁴⁸ National analyses of funding equity by the Urban Institute, Rutgers University’s Education Law Center, and The Education Trust appear to be inaccurate, at least with respect to Ohio’s data, because they base calculations on federal data about per-pupil revenues, which in Ohio seems to include charter school funding in the numerator but exclude charter students from denominator.

offering vouchers to more students would hurt their finances. The same criticism is often leveled against charter schools. The forthcoming lawsuit against EdChoice is likely to allege that the voucher programs have a negative fiscal impact on districts—perhaps arguing that it has made state funding even less “adequate” for districts and has forced them to rely more heavily on property taxes.

But is it true that districts with increasing choice participation actually see their funding plummet? Figure 13 calls this concern into question. It displays per-pupil operational expenditures over time, adjusted for inflation, in the Ohio Eight districts. We see that all of these districts spent more per pupil in 2019 than in 2000. Some of them, notably Akron, Cleveland, Columbus, and Youngstown, have experienced substantial spending increases, easily exceeding the rate of statewide spending growth. Cleveland, for instance, has seen spending rise from just under \$12,000 per pupil in 2000 (in 2019 dollars) to more than \$19,000 in 2019.

Figure 13. Real per-pupil operational expenditures in the Ohio Eight districts, 2000–19 (in 2019 dollars)





Notes. Nominal expenditures were obtained via the Ohio Department of Education, “District Profile Reports” (FYs 2000–19). Expenditures were adjusted for inflation using the CPI-U to 2019 dollars. I use the expenditure instead of revenue data because the state’s per-pupil revenue statistics include charter funding in districts’ numerators but exclude charter students from their denominators (thus inappropriately inflating district revenues per pupil). The state’s per-pupil expenditure data better represent dollars that are actually being spent on students attending district schools. For more, see the note about revenues and expenditures at in ODE’s “District Profile Reports” (FY 2019).

Discussion

School-choice critics routinely claim that choice programs drain money from districts, leaving the students “left behind” with fewer resources. Though such rhetoric is politically powerful, data indicate that in the eight cities where school choice has grown the most over the past two decades, district funding has increased—hardly the catastrophic story that critics tell. Spending in Cleveland and Youngstown—where today two in every five students participate in school-choice programs—has grown especially rapidly over the past twenty years.

How is it that districts can experience rising per-pupil funding levels, even when students exercise school choice? The main explanation is straightforward: Although districts generally lose total state funds when students choose an alternative, local tax dollars remain with the district. That means that on a per-pupil basis, that local funding increases when students exit the district (regardless of the reason, whether via choice options, residential moves, or large demographic shifts). Consider a district with \$1 million in local property tax revenue. That amount generates \$1,000 per pupil when it enrolls 1,000 students. Yet because property tax revenues are unchanged when students move, it would have \$1,111 per pupil when enrollment falls to 900. Even though local dollars should in principle “follow students” to their school of choice, allowing local dollars to remain in the district tends to shield them from fiscal consequences.

It’s worth addressing fiscally driven objections to school choice that focus on the idea that districts cannot adjust their costs in proportion to funding losses. Of course, some costs are fixed in the short run: It’s difficult to reduce building expenses and interest payments in a short amount of time. However, three points must be kept in mind. First, most school expenditures aren’t fixed. In fact, they’re variable costs that can be adjusted relatively quickly (all costs are variable in the long run because organizations

can strategically adjust their costs given time).⁴⁹ Indeed, if a district's variable costs are greater than the funding reductions associated with choice programs, the district would actually benefit financially—something that appears to be the case with respect to the EdChoice and Cleveland voucher programs.⁵⁰ Second, concerns about fixed costs are almost always raised in the context of declining enrollment but are rarely considered when districts gain students. If fixed costs were a significant portion of overall costs, districts should receive much less than the per-pupil amount for an additional student, something for which few people argue in favor.⁵¹ Third, claims about the fiscal impacts of choice on district finances hinge on assumptions about which costs are variable and fixed in the short term—and associated notions about districts' ability to manage their finances. As the Center on Reinventing Public Education puts it, "Assuming less adaptability in school district spending will inflate fiscal impact estimates, and assuming more adaptability will decrease fiscal impact estimates."⁵²

⁴⁹ Based on national data from FY 2009, economist Benjamin Scafidi conservatively estimates that 36 percent of districts' expenditures are fixed in the short run: Benjamin Scafidi, *The Fiscal Effects of School Choice Programs on Public School District* (Indianapolis, IN: EdChoice, 2012), <https://www.edchoice.org/wp-content/uploads/2015/07/The-Fiscal-Effects-of-School-Choice-Programs.pdf>.

⁵⁰ Martin F. Lueken, *Fiscal Effects of School Vouchers: Examining the Savings and Costs of America's Private School Voucher Programs* (Indianapolis, IN: EdChoice, 2018), <https://www.edchoice.org/wp-content/uploads/2018/09/Fiscal-Effects-of-School-Vouchers-by-Martin-Lueken.pdf>.

⁵¹ Mike McShane, "No School Choice Is Not Gutting Ohio's Public Schools," *Forbes*, December 9, 2019.

⁵² Center on Reinventing Public Education, *Making Sense of How Charter Schools Affect School District Finances: A Reporter's Guide* (Seattle, WA: Center on Reinventing Public Education, 2019), <https://www.crpe.org/publications/reporters-guide-how-charters-affect-district-finances>.

Conclusion

Too often, school funding debates are reduced to soundbites, rhetoric, and folklore. We routinely hear that Ohio's funding system is "unconstitutional," "unfair," and "over-reliant on property taxes." In recent years, charter schools and voucher programs have been savaged for taking money away from school districts. Low-income schools are often depicted as being starved for resources.

The facts, however, don't always square with the rhetoric. Ohio public schools receive more money today than at any point within the past thirty years. The average Ohio district spends approximately \$12,500 per student—and considerably more in the state's high-poverty districts (\$16,167 in the Ohio Eight). Meanwhile, there's little indication that the growth of school-choice programs in Ohio's largest cities has significantly reduced funding for school districts. To the contrary, per-pupil spending in the Ohio Eight districts has risen over the past two decades.

Long a punching bag for critics—including, in some respects, us at Fordham—the state funding formula itself has also been improved. The current framework, albeit temporarily suspended,⁵³ includes these important features:⁵⁴

- It requires every school district to levy a minimum 2 percent local property tax in order to receive state aid. In combination with the state's core "opportunity grant," this tax provision helps to ensure that all districts receive baseline amount of funding.
- The state drives extra support to high-poverty districts through a funding stream known as "targeted assistance." Though an imperfect mechanism (see page 1 above), it also provides additional funding to districts and charters that educate economically disadvantaged students. Lower-wealth, rural districts are the primary beneficiaries of supplemental dollars that flow through yet another funding component, known as "capacity aid." For the first time in 2020, quality charter schools also received some extra support, helping to narrow funding gaps with school districts.
- The state delivers further supplemental aid to district and charter schools that support special education, English language learners, career and technical education, early literacy, and students' social-emotional learning. When allocating these "categorical" funds, the state provides low-wealth districts with larger sums per pupil.

Though not part of the state funding formula itself, Ohio has also introduced policies and programs that support facility needs and ensure that dollars are used responsibly. They include the following:

- Starting in 1997, Ohio launched the Classroom Facilities Assistance Program, which has provided state funding to help construct or renovate 1,217 Buckeye school buildings.⁵⁵ Under

⁵³ In July 2019, the legislature passed House Bill 166, which suspends the funding formula for FY 2020 and 2021 (districts are therefore generally funded at their FY 2019 levels).

⁵⁴ More details on the state funding formula can be found at Ohio Legislative Service Commission, *School Funding Complete Resource* (2019).

⁵⁵ Ohio Facilities Construction Commission, "Rebuilding Ohio Schools Program: From 1997 through 2019," https://ofcc.ohio.gov/Portals/0/ROSP%208_5x11_1.pdf.

program rules, high-poverty districts with facility needs are first in line for funding, and the state picks up a larger share of their building costs (because a local match is required to tap these funds).

- In 1996, the legislature enacted laws that ensure financially distressed districts receive technical assistance that can help them balance their budgets. The current policy framework includes an “early-warning” system that gives notice to districts on the verge of fiscal distress, while also including a state intervention model for districts in “fiscal emergency.”⁵⁶
- Beginning in the late 1990s, the state has implemented results-based accountability measures that encourage public schools to use taxpayer dollars to drive higher student achievement. Though temporarily suspended due to the pandemic, these policies include rigorous state academic standards and aligned assessments, along with a robust school report card that places an emphasis on student achievement and growth over time.

Providing a world-class education to all Ohio students remains vital to the state’s future. Ohio has come a long way since the 1990s, ramping up K–12 expenditures and implementing a solid framework for distributing dollars across the state. Lawmakers have also put into place policies that demand fiscal responsibility and challenge schools to help students excel academically. Like all public policies, there remains room for improvement. But rather than tearing down these valuable systems, let’s work to further strengthen these policies so that all students have opportunities to reach their full potential.

⁵⁶ For more on these policies, see Ohio Department of Education “District Financial Status,” <http://education.ohio.gov/Topics/Finance-and-Funding/District-Financial-Status>.

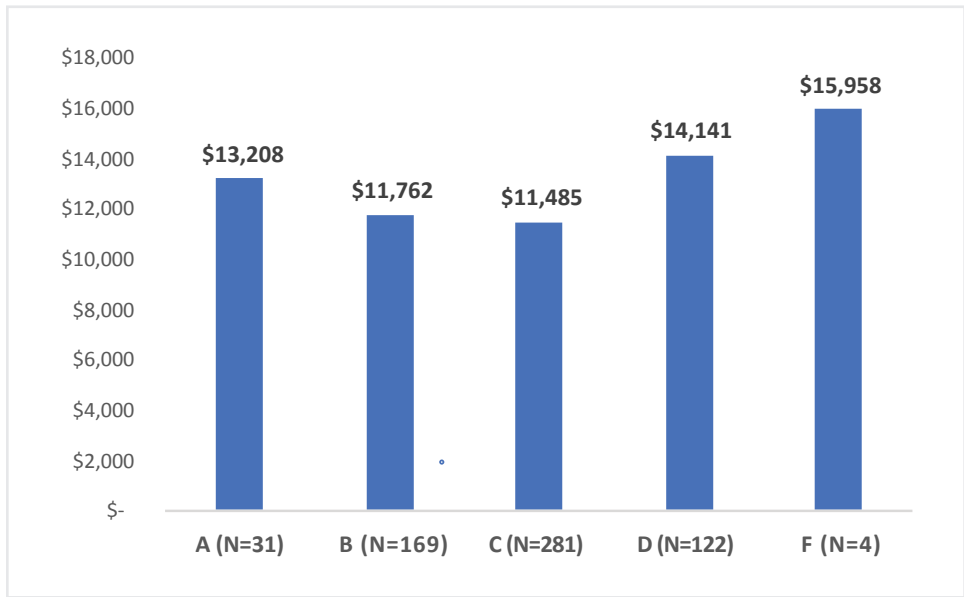
Appendix A: Expenditures and report card ratings

Table A1. Key report card results for the twenty lowest-spending districts in Ohio, 2018–19

| District | County | Operational expenditures per pupil | Overall rating | Value-added rating | Performance-index score | Four-year graduation rate |
|--------------------------|-----------|------------------------------------|----------------|--------------------|-------------------------|---------------------------|
| Statewide average | | \$12,472 | C | B/F | 84.7 | 85.3 |
| Pleasant | Marion | \$8,097 | C | B | 89.3 | 100.0 |
| Licking Heights | Licking | \$8,516 | C | D | 87.3 | 93.9 |
| Bethel | Miami | \$8,597 | C | B | 93.8 | 90.3 |
| Toronto | Jefferson | \$8,621 | C | B | 85.3 | 94.7 |
| Wheelersburg | Scioto | \$8,627 | B | B | 98.0 | 99.0 |
| Batavia | Clermont | \$8,641 | C | B | 89.9 | 94.6 |
| Ontario | Richland | \$8,662 | B | B | 92.3 | 94.2 |
| Springboro | Warren | \$8,722 | B | B | 100.3 | 96.8 |
| Shadyside | Belmont | \$8,898 | D | F | 86.0 | 91.7 |
| Jefferson Area | Ashtabula | \$8,908 | C | B | 88.0 | 95.4 |
| Allen East | Allen | \$8,922 | C | C | 93.2 | 92.5 |
| Monroe | Butler | \$8,936 | B | A | 97.2 | 94.9 |
| Norwayne | Wayne | \$9,000 | B | B | 101.2 | 90.2 |
| Maysville | Muskingum | \$9,017 | C | C | 83.5 | 96.6 |
| Hamilton | Franklin | \$9,296 | C | F | 88.8 | 90.8 |
| Williamsburg | Clermont | \$9,312 | C | B | 90.8 | 98.8 |
| Adena | Ross | \$9,369 | D | F | 82.9 | 93.7 |
| Tuslaw | Stark | \$9,396 | B | B | 97.9 | 95.7 |
| West Clermont | Clermont | \$9,414 | C | F | 87.4 | 89.7 |
| Plain | Stark | \$9,441 | C | C | 94.7 | 93.9 |

Notes. In 2018–19, the most common overall rating among all Ohio districts was a C (46 percent of districts), and the most common overall value-added ratings were a B and F (34 and 35 percent, respectively). The value-added rating captures the academic growth of students over time, while the performance-index score is a composite measure of student achievement across tested grades/subject. The overall rating is a composite rating that combines the state’s report card measures. For more on the report card system, see Ohio Department of Education’s webpage “Report Card Resources.”

Figure A1. Operational expenditures per pupil by district overall rating, 2018–19



Appendix B: State funding by district wealth

The following charts display the correlation between state funding and district wealth. Each dot on the charts represents a school district's state funding from 2018–19 and its wealth (as measured by median income and property values). The downward-sloping line on these charts indicate that the state generally provides more funding as district wealth decreases—an inverse relationship. Through a funding formula that is designed to deliver more dollars to the neediest districts, the state contribution to school funding helps to offset inequities in local tax support between districts.

Figure B1. Districts' state foundation funding per pupil versus median income, FY 2019



Figure B2. Districts' state foundation funding per pupil versus property valuation, FY 2019



Notes. Funding data were obtained via the Ohio Department of Education, “District Payment Reports” (FY 2019, Final #2 file). State foundation funding includes the core opportunity grant, categorical funds (for example, extra aid for students with disabilities, economically disadvantaged students, and career-technical education), transportation, and several smaller funding components. It excludes dollars that are designated for charter schools and private school scholarships, along with property tax rollback reimbursements. For display purposes, one outlier district with an extremely high property valuation per pupil is omitted from Figure B2.



P.O. Box 82291
Columbus, OH 43202
www.fordhaminstitute.org/ohio