



Members Brief

An informational brief prepared by the LSC staff for members and staff of the Ohio General Assembly

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Formula Funding Guarantee and Gain Cap

Ohio’s primary and secondary education funding formula contains two main mechanisms that prevent a district’s state aid from either decreasing or increasing each fiscal year beyond certain limits. Temporary transitional aid, more commonly known as the “guarantee,” ensures each district receives in FY 2019 between 95% and 100% of its FY 2017 funding while the gain cap limits the increase of aid a district can receive in FY 2019 to up to 6% of its FY 2018 aid. In FY 2019, 334 districts received \$257.0 million in funding through temporary transitional aid, while the gain cap affected 163 districts and had an effect of \$479.2 million. A separate guarantee for career-technical education aid provided 302 districts with a total of \$5.4 million. Final foundation aid, after these adjustments, totaled about \$8.1 billion in FY 2019.

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Overview

Ohio’s primary and secondary education funding formula is comprised of many components. The opportunity grant provides funding based on a uniform per-pupil amount, targeted assistance and capacity aid provide districts with funds based on district characteristics, categorical components provide districts with funds based on the student body’s characteristics, transportation aid provides funds to assist districts in transporting their students, while performance bonuses provide funds based on how well a district graduates its students and ensures third graders are reading at their grade level.¹

After the primary components of the funding formula are calculated, many districts may have their calculated funding adjusted through one or two guarantees or through a gain cap. The

¹ Please see the following *Members Briefs* for more information on these various components of the formula: [State Share Index and Opportunity Grant](#), [Targeted Assistance and Capacity Aid](#), [Categorical Add-On Aid to Ohio Schools](#), and [Pupil Transportation Formula](#).

formula contains two guarantees. The main guarantee is temporary transitional aid (often referred to as simply the “guarantee”). It was provided to districts in FY 2019 to ensure that they received a minimum of between 95% and 100% of their FY 2017 state aid. There is also a separate, smaller guarantee for career-technical education (CTE) aid that ensures that each district’s CTE funding in FY 2019 is at least 100% of their FY 2017 CTE funding. On the other side of the spectrum, the gain cap prevents a district’s FY 2019 funding from increasing by more than 6.0% compared to FY 2018. Districts with certain devalued power plants are eligible for an alternative gain cap. CTE funds, the separate CTE aid guarantee, and performance bonuses are exempt from the gain cap.

In FY 2019, the last year the foundation funding formula was active, 497 (81.5%) districts were subject to one of the two main funding adjustments. A total of 334 districts received \$257.0 million in funding through temporary transitional aid, while the gain cap reduced funding to 163 (26.7%) districts by a total of \$479.2 million.

Temporary transitional aid

Temporary transitional aid provided a school district with a level of funding security by ensuring that its FY 2019 foundation aid could not be less than the amount it received in FY 2017, with adjustments based on enrollment changes the districts experienced. Each district’s temporary transitional aid is based on three factors: its guarantee base, its guarantee base percentage, and its foundation funding for the guarantee.

A district’s guarantee base is equal to the total foundation funding, less CTE funding, the district received in FY 2017. CTE funding is excluded from the guarantee base and, instead, is subject to a separate guarantee. A district’s guarantee base percentage varies from 95% to 100% depending on the change in its enrollment between FY 2014 and FY 2016. If a district’s enrollment increased, or decreased by less than 5%, its guarantee base percentage is 100%. If a district’s enrollment decreased by more than 10%, its guarantee base percentage is 95%. Finally, if a district’s enrollment decreased by any amount between 5% and 10%, its guarantee base percentage is scaled from 100% for those with enrollment decreases close to 5% down to 95% for those with enrollment decreases close to 10%. Table 1 summarizes how districts are placed into each guarantee base percent bracket and how many districts were in each in FY 2019. You can see in the table that most districts (513, or 84.0%) have a guarantee base percentage of 100%.

Enrollment Decrease FY 2014-FY 2016	Amount of Guarantee Base Received FY 2019	Districts in Bracket FY 2019
Less than 5%	100%	513
Between 5% and 10%	Scaled amount between 95% and 100%	90
More than 10%	95%	7

The final factor, a district's foundation funding for the guarantee, is calculated in a similar manner as its guarantee base, with the main difference being that it uses the district's calculated formula aid for FY 2019. As with the guarantee base, CTE funds are not included. After the components are calculated, each district's temporary transitional aid is determined by using the formula below.

Temporary Transitional Aid

$$\text{Temporary transitional aid} = (\text{guarantee base} \times \text{guarantee base percentage}) - \text{foundation funding for the guarantee}$$

If the calculation results in a negative number, the district's temporary transitional aid is \$0

In FY 2019, 334 (54.8%) districts received funding through the temporary transitional aid funding adjustment, totaling \$257.0 million. Districts in all typologies but very high poverty urban districts received guarantee funding. Table 2 shows the typologies, how many districts and what percentage in each received temporary transitional aid, and the total aid received by the group. As the table shows, about three out of every four rural districts were on the guarantee in FY 2019. These districts also received the largest amount of funding through temporary transitional aid, together receiving \$125.1 million, nearly half (48.7%) of the total. About half of small town and suburban districts were on the guarantee for a total of \$120.0 million or 46.7% of all temporary transitional aid.

Table 2. Temporary Transitional Aid by Typology, FY 2019

District Typology	Districts That Received Temporary Transitional Aid FY 2019	Percentage of Guarantee Districts in Typology Group FY 2019	Temporary Transitional Aid (millions) FY 2019
Rural – High Student Poverty	90	73.2%	\$71.7
Rural – Average Student Poverty	79	74.5%	\$53.4
Small Town – Low Student Poverty	69	62.2%	\$51.4
Small Town – High Student Poverty	38	42.7%	\$23.7
Suburban – Low Student Poverty	32	41.6%	\$26.7
Suburban – Very Low Student Poverty	21	45.7%	\$18.2
Urban – High Student Poverty	5	10.6%	\$11.9
Urban – Very High Student Poverty	0	0%	\$0.0
Total	334	54.8%	\$257.0

Temporary transitional career-technical education aid

As noted above, CTE funds are excluded from the main guarantee calculation. Instead, these components of the formula are guaranteed separately at 100% of the district's FY 2017 CTE funding. In FY 2019, 302 districts received a total of \$5.4 million through the CTE aid guarantee, with payments to individual districts ranging from \$1 (New Albany-Plain Local School District in Franklin County) to \$307,448 (Cincinnati City School District in Hamilton County).

Gain cap

The gain cap functions similarly to temporary transitional aid except instead of guaranteeing districts no less than a certain level of funding, the gain cap restrains how much a district's foundation funding can increase compared to the prior year. As with temporary transitional aid, the amount of the allowed increase depends on the district's change in enrollment between FY 2014 and FY 2016. In FY 2019, if a district's enrollment increased by more than 3% but less than 6% between FY 2014 and FY 2016, its cap limitation was equal to its enrollment growth percentage multiplied by its FY 2018 funding. For those districts with enrollment growth of greater than 6%, the gain cap was 6% of its FY 2018 funding. Remaining districts were limited to 3% growth of their FY 2018 funding. A modified gain cap is applied if a district's local property tax base fell due to a significant reduction in the public utility tangible personal property (TPP) value of power plants located in the district. The table below summarizes the calculation of the gain cap for FY 2019.

Gain Cap

FY 2019 limitation base =

FY 2018 foundation aid after any reductions to comply with the gain cap - FY 2018 CTE funding -
FY 2018 graduation bonus - FY 2018 third grade reading bonus + S.B. 8 supplemental TPP payment

Limitation base multiplier:

If total ADM percentage change $\geq 6.0\%$ between FY 2014 and FY 2016:
limitation base multiplier = 1.06 in FY 2019

If total ADM percentage change $> 3\%$ and $< 6.0\%$ between FY 2014 and FY 2016:
limitation base multiplier = total ADM percentage change + 1

If total ADM percentage change between FY 2014 and FY 2016 $\leq 3.0\%$:
limitation base multiplier = 1.03

Gain cap (general) = limitation base x limitation base multiplier

Gain cap (districts with power plant devaluation) = the greater of:

1. The lesser of:
 - a. FY 2019 foundation aid subject to gain cap (i.e., funding for components except CTE and performance bonuses before the cap is applied) or
 - b. Limitation base + (taxes charged and payable for tax year (TY) 2016 - the taxes charged and payable for TY 2017)
2. The general gain cap

If a district is subject to the gain cap, the formula requires the district's opportunity grant, targeted assistance, capacity aid, economically disadvantaged funds, gifted funds, K-3 literacy funds, and English learner funds be reduced proportionately to comply with the cap. While special education funds and transportation funds are included in the limitation base calculation, those funds are not subject to the cap unless the reductions for the other components are insufficient to comply with the cap limitation. In FY 2019, it was not necessary to apply the gain cap to those components.

In FY 2019, 163 (26.7%) districts were subject to the gain cap funding adjustment, resulting in \$479.2 million being captured by the cap. Table 3 shows the typologies, how many districts and what percentage in each were subject to the gain cap, and the total funding effect by typology. Districts in all typologies were subject to the cap, although urban districts accounted for \$231.3 million in FY 2019, or nearly half (48.3%) of the funding captured by the cap. Roughly two-thirds of these districts were subject to the cap. Similarly, 45.5% of suburban districts were subject to the cap, which reduced their funding by a total of \$200.7 million or 41.9% of the total captured. Small town and, in particular, rural districts, which tend to be on the guarantee, were less likely to be subject to the cap while accounting for nearly all of the remaining \$47.2 million (9.8%) or so of funding captured.

District Typology	Districts Subject to Cap FY 2019	Percentage of Capped Districts in Typology Group FY 2019	Total Effect of Cap (millions) FY 2019
Rural – High Student Poverty	11	8.9%	-\$4.8
Rural – Average Student Poverty	8	7.5%	-\$1.0
Small Town – Low Student Poverty	19	17.1%	-\$17.8
Small Town – High Student Poverty	29	32.6%	-\$23.4
Suburban – Low Student Poverty	40	51.9%	-\$94.2
Suburban – Very Low Student Poverty	16	34.8%	-\$106.5
Urban – High Student Poverty	33	70.2%	-\$126.6
Urban – Very High Student Poverty	4	50.0%	-\$104.7
Outliers	3	100.0%	-\$0.2
Total	163	26.7%	-\$479.2

Final foundation aid

A district's final foundation aid in FY 2019 is the lesser of its foundation aid subject to the gain cap or its gain cap plus the amounts computed for the district for the components exempt from the gain cap. The calculation of final foundation aid for each school district is summarized below. In FY 2019, a total of about \$8.1 billion was allocated to the 610 school districts in Ohio.

Final Foundation Aid

Final foundation aid for FY 2019 =
 (The lesser of foundation aid subject to the gain cap or the gain cap) + CTE funds + graduation bonus +
 third grade reading bonus

Overall, the statewide average final foundation aid per pupil in FY 2019 was \$4,867. The chart below displays final foundation aid per pupil by formula component and the same wealth quintiles described in the [State Share Index and Opportunity Grant Members Brief](#). As the chart shows, low-wealth districts receive more state foundation aid per pupil than high-wealth districts. In FY 2019, the average per-pupil state foundation aid for wealth quintiles 1 through 5 was \$8,411, \$5,647, \$4,679, \$3,385, and \$2,255, respectively.

