# LEGISLATIVE SERVICE COMMISSION

# SCHOOL FUNDING COMPLETE RESOURCE

Updated November 2008

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# INTRODUCTION

This analysis of operating funding for public schools in Ohio is meant to assist legislators in understanding the method as well as the mechanics and consequences of the current school funding system. A thorough understanding of the current system is an important first step toward understanding the current issues surrounding school funding in Ohio and toward making informed policy decisions. This analysis is also meant to serve as a resource for legislators to refer to when they are faced with particular questions regarding school funding. As such, emphasis is placed on the role the state plays in school funding and, in particular, the formulas used by the state to determine the amount and distribution of state operating funds for public schools.

When considering funding for school district operations spending, it is helpful to break spending down into the following three areas:

(1) State-defined basic education spending;
(2) Spending above the state-defined basic education level, or enhancement spending;
(3) Federal program spending.

The first and second areas are funded with both state and local revenues, whereas the third area is funded exclusively with federal revenues. State-defined basic education spending is by far the largest spending area statewide. This is the amount of state and local revenues necessary to fund the state model of basic education costs. The determination of this state model amount is discussed in the following section on state operating revenues. In FY 2007, state-defined basic education spending was approximately 72.7% of total statewide spending on public school operations. The second largest spending area, enhancement spending, includes all state and local revenues above the state-defined basic education level. In FY 2007, enhancement spending was approximately 19.3% of total statewide spending. Finally, federal program spending includes all spending of federal revenues at the school district level. In FY 2007, federal program spending was approximately 8.0% of total statewide spending. Chart 1 shows this breakdown of school operating spending.

> State-defined basic education costs are determined for each district by the state foundation funding formula.

The state is mainly concerned with supporting spending for the state-defined basic education. In fact, the state guarantees that every district is able to spend at this state-defined level with a combination of state and local revenues. Enhancement spending is mainly a district prerogative and, as such, is mainly supported with local revenues. The state, however, provides revenue for enhancement spending through parity aid and state competitive grants. Chart 2 shows, for

> Enhancement revenues come primarily from local sources – property taxes and school district income taxes.

**Chart 1:  School Operating Spending, FY 2007**

Federal
8.0%

Enhancements
19.3%

State-Defined
Basic
Education
72.7%
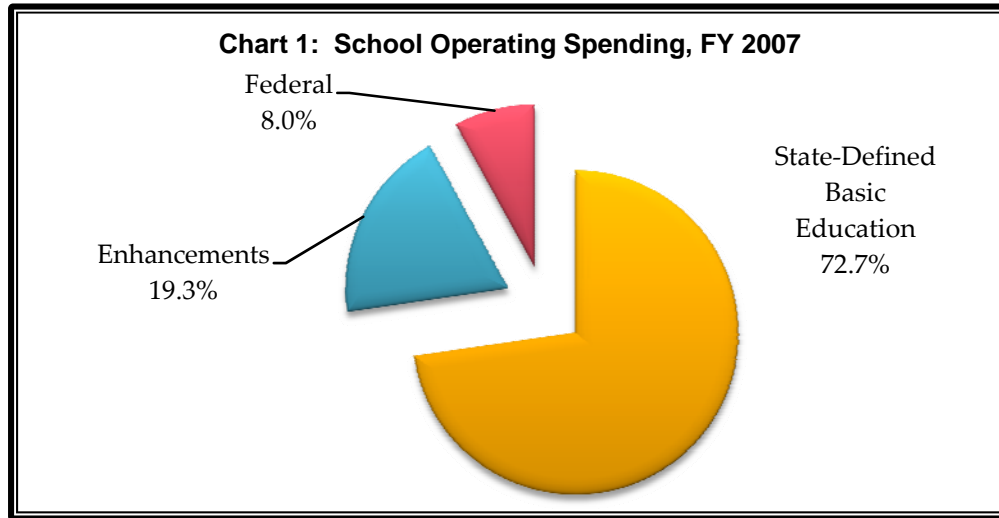
FY 2007, the revenue sources statewide for state-defined basic education spending and for total education spending.  State revenues make up 55.0% of state-defined basic education spending, but only 42.9% of total education spending.

State revenues for education come mainly from the state income tax and the state sales tax; a relatively small portion comes from the profits of the state lottery.  Local revenues for education come mainly from school district property taxes, although a small portion comes from school district income taxes.  State law defines what types of property and income may be taxed by a school district and subjects a large portion of these taxes to voter approval.

Local revenues come mainly from school district property taxes.  As a result, different districts have different local revenue-generating capacities.  In general, a district's local revenue-generating capacity is indicated by the district's taxable property valuation per pupil.  Due to the uneven distribution of taxable property, valuation per pupil varies widely across school districts.  Chart 3 shows the distribution of valuations per pupil in tax year (TY) 2006.  It can be
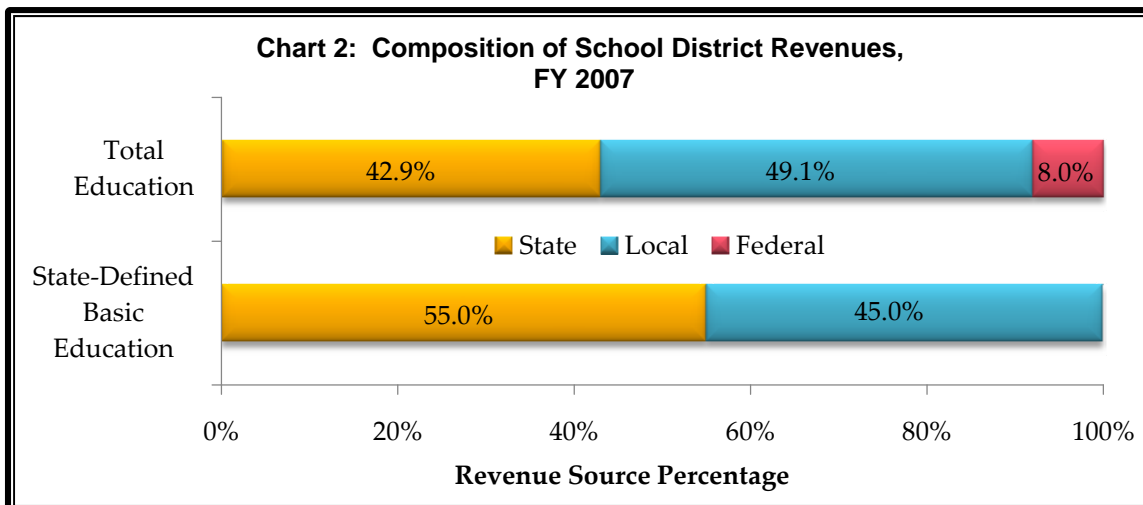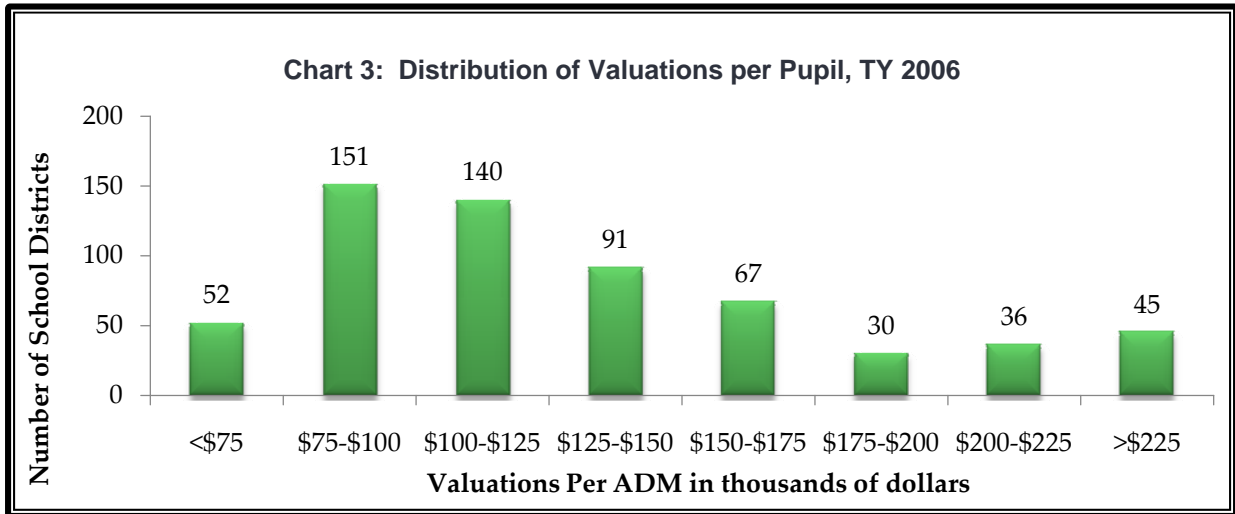
**Chart 2:  Composition of School District Revenues, FY 2007**

Total Education: State 42.9%, Local 49.1%, Federal 8.0%

State-Defined Basic Education: State 55.0%, Local 45.0%

Legend: State, Local, Federal

Revenue Source Percentage (0% to 100%)

**Chart 3: Distribution of Valuations per Pupil, TY 2006**

A bar chart titled "Chart 3: Distribution of Valuations per Pupil, TY 2006" with the y-axis labeled "Number of School Districts" (ranging from 0 to 200) and the x-axis labeled "Valuations Per ADM in thousands of dollars." Bar values: <$75 = 52; $75-$100 = 151; $100-$125 = 140; $125-$150 = 91; $150-$175 = 67; $175-$200 = 30; $200-$225 = 36; >$225 = 45.

seen that valuations per pupil range from less than $75,000 in 52 districts to more than $225,000 in 45 districts. The statewide weighted average is $143,957 per pupil while the statewide median district's valuation per pupil is $116,496. The weighted average represents a per-pupil based ranking, which takes into account the size of school districts. The median represents a district based ranking, which is represented by the middle district (the 306th district out of 612). Valuations per pupil for the majority (382 or 62.4%) of school districts range from $75,000 to $150,000.

The variation in per pupil valuation obviously impacts each individual district's ability to raise local revenue. The same one-mill property tax levy generates $75 per pupil for a district with a valuation per pupil of $75,000 and $225 per pupil for a district with a valuation per pupil of $225,000.

The distribution to school districts of state funds for education largely depends on each district's capacity for raising local revenue – its taxable property value per pupil. As mentioned previously, the state guarantees that every district is able to spend at the state-defined basic education level with a combination of state and local revenues. In this way, the state ensures that every student in Ohio has at least this level of funding regardless of where the student happens to live. What this means in practice is that a district with a relatively low revenue-generating capacity will receive a greater portion of its state-defined basic education cost from the state than a district with a relatively high revenue-generating capacity.

Chart 4 groups the 612 school districts into quartiles based on property wealth with quartile 1 having the lowest average per pupil taxable property valuation and quartile 4 having the highest average per pupil taxable property valuation. Each quartile includes approximately 25% of total students statewide. It can be seen from the chart that districts in the lower wealth quartiles have greater state

> A district's capacity to raise local revenue is largely determined by its wealth – its property value per pupil.

shares (the white portion of the bar) than districts in the higher wealth quartiles. On average,

**Chart 4: State & Local Shares of the Per Pupil State-Defined Basic Education Model Cost by Wealth Quartile, FY 2007**

| | Quartile 1 | Quartile 2 | Quartile 3 | Quartile 4 |
|---|---|---|---|---|
| Local Share | $1,705 | $2,606 | $3,418 | $4,432 |
| State Share | $5,363 | $4,057 | $3,252 | $2,219 |

Per Pupil Cost — $0, $3,500, $7,000

**District Wealth Quartiles from Low to High**

■ State Share  ■ Local Share
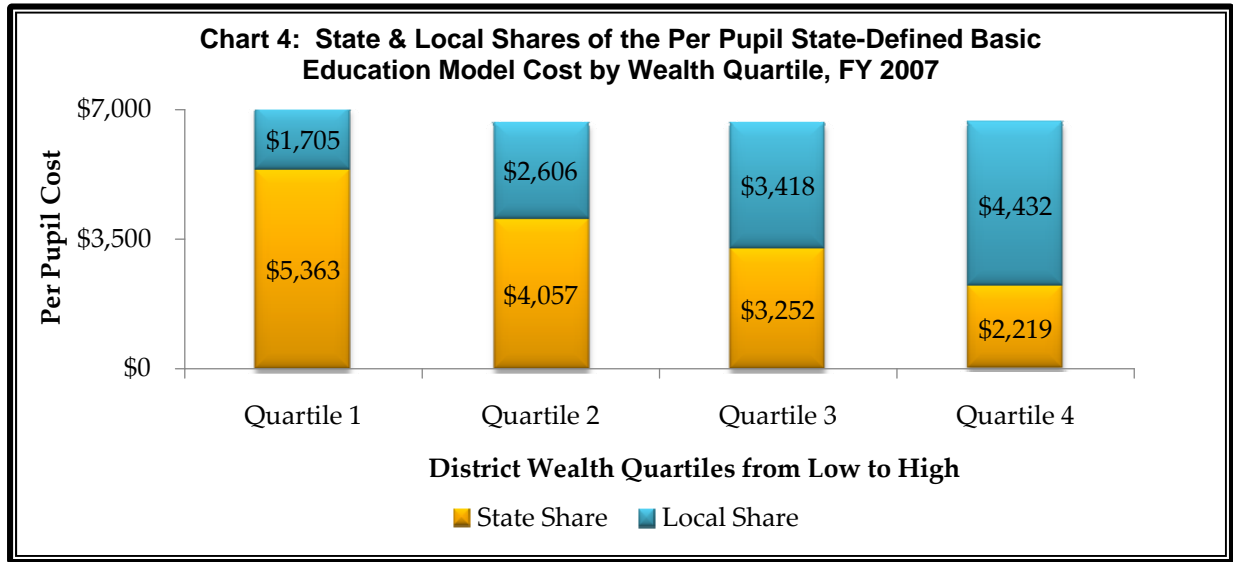
approximately 75.9% of quartile 1 districts' per pupil basic education model spending is supported by the state.  This percentage decreases to 60.9% for quartile 2 districts, 48.8% for quartile 3 districts, and 33.4% for quartile 4 districts.

Chart 4 also demonstrates that the total basic education model spending per pupil has no relationship with a district's property wealth.  While quartile 1 has the lowest property

> The state foundation formula ensures each student receives at least the state-defined basic education funding regardless of the wealth of the student's school district.

wealth in the state, its per pupil basic education model spending is actually higher than the other three.  This is due to the fact that the districts in quartile 1 happen to have more high need students (more disadvantaged, special education, and career-technical education students for example) than the districts in the other quartiles.  Overall in FY 2007, all four quartiles have similar amounts of per pupil basic education spending under the model ($7,068, $6,663, $6,670, and $6,651, respectively).  The statewide average cost in FY 2007 is $6,762 per pupil.

The following analysis of the current school funding system in Ohio includes four parts.  The first part looks at state revenue.  It addresses how the state determines the state-defined basic education spending level and how the state splits this spending level between state and locally raised revenues.  It also addresses the state's determination of its contribution to enhancement spending.  The second part looks at local revenues and the state law governing how local tax levies are administered.  The third part considers the interactions between the distribution of state revenues and local tax levies.  Finally, the fourth part looks briefly at the distribution and use of federal revenues.

# STATE OPERATING REVENUE

As stated in the introduction, the state is mainly concerned with supporting spending for the state-defined basic education. The state's first challenge in providing funding for schools, therefore, is to determine the state-defined basic education cost for each district. The state's second challenge is to determine how to distribute state funding to school districts in order to ensure that they are all able to meet the costs of this state-defined basic education with a combination of state and local revenue.

The state-defined basic education cost can be broken down into two main areas:

(1) Base Cost: The uniform cost of providing a basic education to "typical" students. On a per pupil basis, this cost is the same for all districts in the state.

(2) Categorical Costs: The variable costs, above the uniform base cost, of providing a basic education to "nontypical" students, such as those in need of special, gifted, or career-technical education, those who are economically disadvantaged, or those who are limited English proficient. The variable costs also include the cost of transportation, which varies greatly among districts, partly due to the size and road conditions of each district.

Ohio currently determines the state-defined basic education cost with a "building-blocks," or "inputs-based" model, which was recommended by the Governor's Blue Ribbon Task Force on Financing Student Success. The Task Force, which issued its final report in February of 2005, was charged with recommending a school funding system that promotes higher levels of student achievement and gives every child the opportunity to succeed. The Task Force had 35 members from the business and educational communities as well as from the executive and legislative branches of state government. The building blocks or inputs-based approach focuses on the inputs needed for the academic success of students, as well as giving policymakers and stakeholders the ability to discuss what inputs can be bought with current funding levels. The previous funding model was largely based on outputs.

Table 1 summarizes the building blocks model of the state-defined basic education cost. The first column breaks the cost into the two main areas discussed above: the uniform base cost and the variable categorical costs. The second column shows the main building blocks for each area. For the uniform base cost these include the base cost formula amount and the base funding supplements. For the variable categorical costs these include the cost-of-doing-business factor (CDBF) adjustment (eliminated after FY 2007), additional special education costs, additional

> Ohio uses a building blocks model to determine the state-defined basic education cost.

career-technical education costs, additional gifted education costs, poverty-based assistance, pupil transportation, the teacher experience and education adjustment, and other district-based adjustments and guarantees. The third column further breaks these main building blocks down into their individual components. These are all described in detail in this section. The fourth

column breaks the cost into the student-based and district-based elements of the model. In general, the formula funds each student based on that individual student's characteristics. There are, however, a few adjustments and guarantees that are made based on the district's characteristics; these are listed last in the table.

| Table 1: Ohio Building Blocks Model for Determining the State-defined Basic Education Cost | | |
|---|---|---|
| **Uniform base costs** | **Base cost formula amount** | Base classroom teacher compensation<br>Other personnel support<br>Non-personnel support | Student-based funding elements |
| | **Base funding supplements** | Professional development – data-based decision making<br>Data-based decision making<br>Professional development<br>Academic intervention services | |
| **Variable categorical costs** | CDBF adjustment to base cost | CBDF adjustment to the base cost (eliminated after FY 2007) | |
| | Additional special education funding | Special education additional weight categories 1-6<br>Special education speech service supplement | |
| | Additional career-technical education funding | Career-technical education additional weight categories 1 & 2<br>Associated service weight<br>GRADS teacher grant | |
| | Additional gifted education funding | Gifted education unit funding | |
| | Poverty-based assistance | All-day kindergarten funding<br>Funding for increased classroom learning opportunities<br>Closing the achievement gap (new in FY 2008)<br>Intervention<br>　Tier 1: large group for all students – up to 25 hours<br>　Tier 2: medium group for all students – 25 to 50 hours<br>　Tier 3: Small group for three times the number of<br>　　poverty students – 25 to 160 hours<br>Limited English proficient (LEP) student intervention<br>Teacher professional development<br>Dropout prevention for big-eight districts<br>Community outreach for Urban 21 districts | |
| | Pupil transportation | Pupil transportation | |
| | Teacher experience & training adjustment | Teacher experience & training adjustment | |
| | Other adjustments and guarantees (for distribution formulas only) | Base cost funding guarantee (eliminated after FY 2007)<br>Excess cost supplement<br>Poverty-based assistance guarantee (eliminated after FY 2007)<br>Reappraisal guarantee (eliminated after FY 2007)<br>Charge-off supplement (Gap aid)<br>Transitional aid | District-based funding elements |

As stated in the introduction, the state-defined basic education cost averaged $6,762[1] per pupil statewide in FY 2007. Of this amount, $5,451 (80.6%) is for the uniform cost per pupil, including the uniform base cost formula amount of $5,403 per pupil (79.9%) and the uniform base funding supplements of $48 per pupil (0.7%). The variable categorical costs depend on the characteristics of each student. For example, an autistic student generates an additional $23,000 in FY 2007 over the uniform base cost. On average, however, student-based categorical costs totaled $1,311 per student statewide and comprised the other 19.4% of the average state-defined basic education cost per pupil of $6,762. The total average cost per pupil for FY 2007 is broken down into its components in Chart 5. Although this does

> In FY 2007, the state-defined basic education cost averaged $6,762 per pupil.



Chart 5: Student-Based Elements of the State-Defined Basic Education Cost in FY 2007
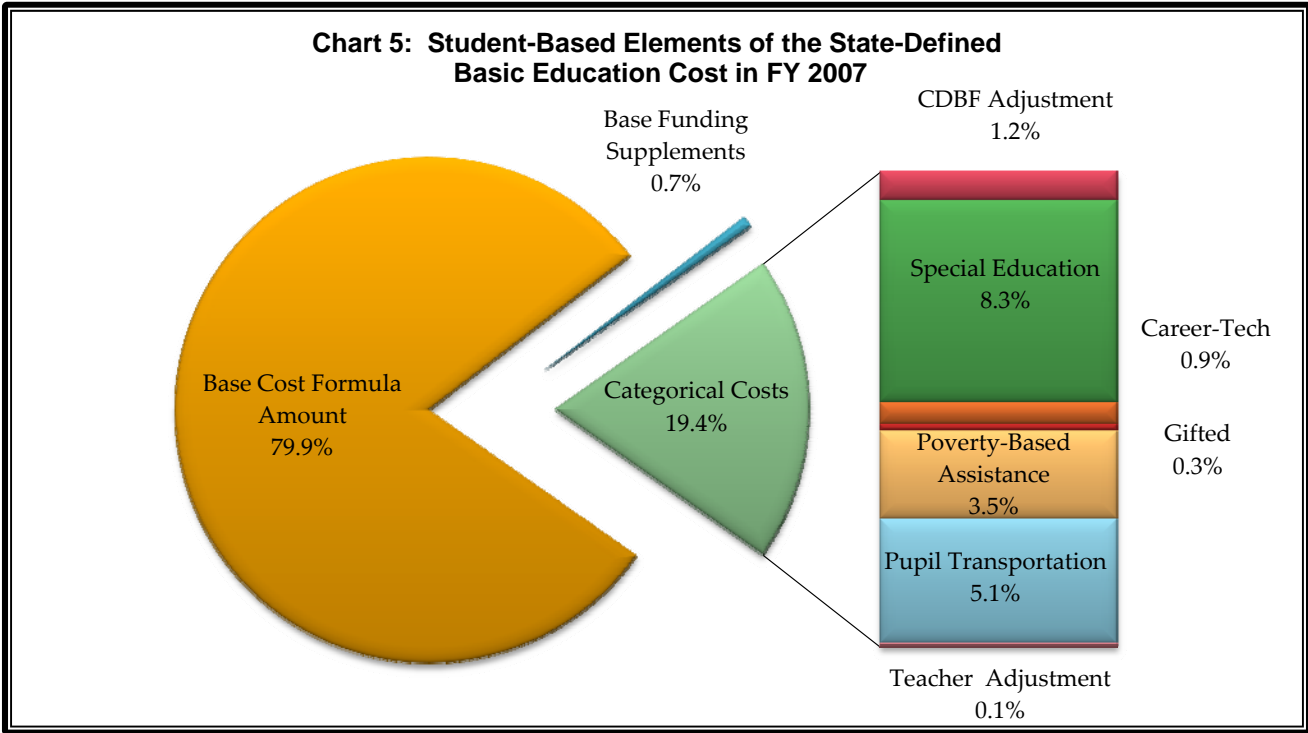
not represent the average per pupil funding for any specific district, it shows the composition of state-defined basic education funding across the state in FY 2007. This funding is a result of the formulas described in detail in this section.

As stated above, the state must first determine the state-defined basic education cost and then must determine how to distribute state funding for this cost to districts (how this cost is to

[1] This figure excludes the district-based funding elements, such as transitional aid. These district-based funding elements are not actually part of the state-defined basic education cost, instead they tend to lower the local share and increase the state share of this cost.

be shared between local and state revenues).  In the introduction it was shown how state funding for the state-defined basic education model cost is designed to ensure that all students at least are funded at the amount needed to cover the state-defined basic education cost for their specific needs (regardless of where they live).  This section on state funding describes each element of the state-defined model cost, how the cost is determined, and how state funds are distributed.  It also addresses parity aid, which is the state's main contribution to school district enhancement spending.  Finally, funding for community schools, educational service centers, open enrollment students, post-secondary enrollment option (PSEO) students, and joint vocational school districts is discussed.

## Base Cost – State Model Amount

### Base Cost Formula Amount

As stated previously, the base cost is the uniform cost of providing a state-defined basic education to "typical" students.  On a per pupil basis, this cost is the same for all districts in the state.  The state's estimate of this uniform per pupil base cost is called the base cost formula amount.  The base cost formula amount consists of funding for the following three inputs:

(1)    Base classroom teacher compensation;
(2)    Other personnel support;
(3)    Nonpersonnel support.

Base classroom teacher compensation is the core of the model.  In order to determine the per pupil value of this component, the General Assembly must decide the ratio of students to base classroom teachers and the base classroom teacher compensation that are necessary for the state-defined basic education.    The Revised Code contains the General Assembly's determination of these variables for FY 2006 through FY 2009.  These values are presented in Table 2.

| Table 2:  Base Classroom Teacher Component, FY 2006 through FY 2009 | | | |
|---|---|---|---|
| Fiscal Year | Number of Pupils per Base Classroom Teacher | Base Classroom Teacher Average Compensation | Per Pupil Base Classroom Teacher Compensation |
| FY 2006 | 20 | $53,680 | $2,684 |
| FY 2007 | 20 | $54,941 | $2,747 |
| FY 2008 | 20 | $56,754 | $2,838 |
| FY 2009 | 20 | $58,621 | $2,931 |

The Revised Code also expresses the General Assembly's policy decision that the value of other personnel support per pupil in FY 2006 is $1,807, which is increased by 2.35% to $1,850 in FY 2007 and by 3.0% in FY 2008 and FY 2009 to $1,905 and $1,962, respectively.  The General Assembly establishes the value of nonpersonnel support per pupil in FY 2006 as $792 and increases this amount each year by the projected gross domestic product deflator (1.8% in

FY 2007 and 2.0% in FY 2008 and FY 2009). Combining the values of these three components results in formula amounts of $5,283 in FY 2006, $5,403 in FY 2007, $5,656 in FY 2008, and $5,732 in FY 2009. The value of each component is summarized in Table 3.

| Table 3: Base Cost Formula Amount, FY 2006 through FY 2009 | | | | |
|---|---|---|---|---|
| Component | FY 2006 | FY 2007 | FY 2008 | FY 2009 |
| Base Classroom Teacher Compensation per pupil | $2,684 | $2,747 | $2,838 | $2,931 |
| Other Personnel Support per pupil | $1,807 | $1,850 | $1,905 | $1,962 |
| Nonpersonnel Support per pupil | $792 | $806 | $822 | $839 |
| Formula Amount | $5,283 | $5,403 | $5,565 | $5,732 |

## Cost-of-Doing-Business Factor

The cost of doing business is actually a variable, not a uniform cost; however, since it was incorporated into the base cost, it is covered here. This adjustment was eliminated beginning in FY 2008 by Am. Sub. H.B. 119 of the 127th General Assembly. Districts may face different costs because of where they are located in the state. The cost-of-doing-business factor (CDBF) attempted to account for some of this difference. It was calculated for each county and was based on the average wages in that county as well as in contiguous counties. Based on this calculation an adjustment was made to the base cost formula amount for each district based on the county in which the district was mostly located. For districts in the highest wage county (Hamilton County) the base cost

> The cost-of-doing-business factor adjustment is eliminated beginning in FY 2008.

formula amount was increased by 2.5% in FY 2007. The adjustment was then applied to the rest of the districts in the state on a sliding scale. For districts in the lowest wage county (Gallia County) the base cost formula amount was not increased. Am. Sub. H.B. 66 of the 126th General Assembly phased down the CDBF from a 7.5% range in FY 2005 to a 5.0% range in FY 2006 and a 2.5% range in FY 2007. As already mentioned, the CDBF is completely phased out beginning in FY 2008. The following formula shows how this adjustment was computed.

**Per Pupil Base Cost = Base Cost Formula Amount x CDBF**

As can be seen below in Table 4, in FY 2007, with a base cost formula amount of $5,403, districts in Hamilton County had a base cost per pupil of $5,538, whereas districts in Wood County had a base cost per pupil of $5,468, and districts in Gallia County had a base cost per pupil of $5,403. So, with the exception of the two districts in Gallia County, the base cost per pupil for all other districts was higher than $5,403 in FY 2007 as a result of the CDBF adjustment.

| Table 4:  Effect of CDBF Adjustment on the Per Pupil Base Cost of Districts in Selected Counties, FY 2007 | | |
|---|---|---|
| County | CDBF | Per Pupil Base Cost (Adjusted) |
| Gallia | 1.000 (increase of 0.0%) | $5,403 |
| Wood | 1.012 (increase of 1.2%) | $5,468 |
| Hamilton | 1.025 (increase of 2.5%) | $5,538 |

### Average Daily Membership

Once the base cost per pupil is determined, the next important step is to determine the number of students a district has in order to determine the district's total base cost.  Average daily membership (ADM) is the measure the state uses to determine the number of pupils in the district for purposes of calculating the base cost.  Prior to FY 2007, districts counted their students once in October.  Starting in FY 2007, districts perform two counts of their pupils, the first in October and the second in February.  The annual ADM is based 75% on the October count and 25% on the February count.  Each of these counts is done over a week and then averaged.  Students are counted if they reside in the district even if they attend a nonpublic school under the Educational Choice Scholarship Program or the Autism Scholarship Program, or a public school that is not part of the district, such as a school in a different district under open enrollment, a community school, or a joint vocational school (JVS).  An amount is deducted from the district's state aid for each Educational Choice or Autism scholarship student counted in its ADM.  Funding for open enrollment and community school students is transferred to the educating district or school.  State funding for joint vocational school districts is provided by a separate but parallel calculation.  The resident school districts, however, may still include 20% of their JVS student count in their ADM in order to cover expenses the resident district may incur.  To reflect this, the ADM formula subtracts 80% of the JVS student count from a district's total ADM.  Likewise, only 50% of the kindergarten student count is included in ADM to reflect the traditional half-day kindergarten program offered in Ohio.  Funding for all-day kindergarten programs is provided through poverty-based assistance to districts with above average concentrations of poor students.  This funding is discussed in the categorical cost section.  Following is the expression for computing the ADM used in the base cost formula.

> State funding is allocated to a district based on the number of students residing in the district. If the student is not educated in the district where the student resides, funds follow the student to the educating district or school.

| **ADM = Total Resident Student Count – 50% Kindergarten Count – 80% JVS Count** |
|---|
| **Annual ADM = 75% x October ADM + 25% x February ADM** |

Statewide school district ADM funded in Ohio totaled 1,695,790 students in FY 2007 and 1,688,566 students in FY 2008.

### Base Funding Supplements

In addition to the basic inputs captured by the base cost formula amount, a number of supplements[2] are provided for certain inputs that the Blue Ribbon Task Force recommended for funding. These supplements include academic intervention services, professional development, data-based decision making, and professional development regarding data-based decision making. The supplement for professional development is phased in at 25% in FY 2006 and 75% in FY 2007, FY 2008, and FY 2009, while funding for the other supplements is fully implemented beginning in FY 2006. Table 5 shows the per pupil value of each supplement in FY 2006 through FY 2009.

| Table 5: Base Funding Supplements Per Pupil, FY 2006 through FY 2009 | | | | |
|---|---|---|---|---|
| Supplement Category | FY 2006 | FY 2007 | FY 2008 | FY 2009 |
| Academic Intervention Services | $25.00 | $25.50 | $26.26 | $27.05 |
| Professional Development | $3.50 | $10.73 | $11.05 | $11.38 |
| Data-Based Decision Making | $5.28 | $5.40 | $5.56 | $5.73 |
| Professional Development – Data-Based Decision Making | $6.22 | $6.36 | $6.55 | $6.75 |
| Total | $40.00 | $47.99 | $49.42 | $50.91 |

The supplement for academic intervention services provides funding to all districts to provide large group intervention services beyond those funded through the current formula amount. Additional funding for intervention is provided to districts with high concentrations of poor students through poverty-based assistance, which is described in the categorical cost section. The supplement for academic intervention services provides 25 hours of intervention to each group of 20 students. It is calculated for each district according to the following formula. The base funding supplement for academic intervention services totaled $43.2 million statewide in FY 2007 and $44.3 million statewide in FY 2008.

| Academic Intervention Services = |
|---|
| 25 x ADM/20 x hourly rate |

(Hourly rate equals $20.00 in FY 2006, $20.40 in FY 2007, $21.01 in FY 2008, and $21.64 in FY 2009)

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[2] The funding formula for the 49 joint vocational school districts has the same base cost formula amount as the funding formula for the 612 school districts. However, the former does not have the base cost funding supplement component.

The supplement for professional development provides an additional 4.5% of the formula amount for every teacher, assuming an overall student teacher ratio of 17:1. This supplement is calculated for each district according to the following formula. The base funding supplement for professional development totaled $18.2 million statewide in FY 2007 and $18.7 million statewide in FY 2008.

| Professional Development = |
|---|
| 0.045 x Formula Amount x ADM/17 x Phase-in % |

 (Phase-in % equals 25% in FY 2006 and 75% in FY 2007, FY 2008, and FY 2009)

The supplement for data-based decision making provides an additional 0.1% of the formula amount for each student. This supplement is calculated for each district according to the following formula. The base funding supplement for data-based decision making totaled $9.2 million statewide in FY 2007 and $9.4 million statewide in FY 2008.

| Data-Based Decision Making = |
|---|
| 0.001 x Formula Amount x ADM |

The supplement for professional development regarding data-based decision making provides an additional 8.0% of the formula amount for 20% of teachers assuming a student teacher ratio of 17:1, and for each principal assuming a student principal ratio of 340:1. This supplement is calculated for each district according to the following formula. The base funding supplement for professional development regarding data-based decision making totaled $10.8 million statewide in FY 2007 and $11.1 million statewide in FY 2008.

| Professional Development for Data-Based Decision Making = |
|---|
| 0.2 x ADM/17 x 0.08 x Formula Amount |
| + ADM/340 x 0.08 x Formula Amount |

### Total Base Cost

The total base cost for each district is calculated by multiplying the district's per pupil base cost by the district's ADM and then adding the district's base funding supplements for academic intervention services, professional development, data-based decision making, and professional development for data-based decision making. This is summarized in the following formula. The school district total base cost was about $9,298.5 million ($9.3 billion) statewide in FY 2007 and $9,480.3 million ($9.5 billion) statewide in FY 2008.

| Total Base Cost = |
|---|
| (Per Pupil Base Cost x ADM) |
| + Base Funding Supplements |

## Base Cost – Distribution of State Funds

After determining the state-defined base cost as described above, the state's second challenge is to determine how to distribute state funding to school districts in order to ensure that they are all able to meet this state-defined base cost with a combination of state and local revenue. As seen previously, the amount of local revenue the district raises is dependent, largely, on the property wealth of the district. The amount of revenue generated by a one-mill property tax levy varies from about $50 per student in some low wealth districts to more than $200 per student in some high wealth districts. The base cost formula neutralizes the effect of these different levels of property wealth on school districts' abilities to fund the base cost. This is accomplished by basing the local share of the base cost on a uniform 23 mills (2.3%) of local property tax levies, as measured by multiplying each district's total taxable property value (recognized valuation) by 0.023. After the local share is met, the state makes up the difference. Therefore, the base cost funding formula creates an inverse relationship between the state share of base cost funding for a district and that district's per pupil taxable property value. Generally, districts with relatively low wealth receive a relatively high share of base cost funding from the state. The effect of this type of formula is often called equalization. That is, the formula equalizes the amount of per pupil revenues (both state and local) generated by the first 23 mills of property taxes levied in each school district in Ohio. Specifically, the state ensures that the first 23 mills of property tax levies in each school district raises, through a combination of local revenue and state base cost funding, the base cost formula amount ($5,565 in FY 2008) plus the base

> State base cost funding is distributed so that the educating district or school receives the same base cost formula amount plus the per pupil base funding supplements for each student through a combination of state and local revenues. The local share of this amount is a uniform 23 mills (2.3%) of local property tax value.

funding supplements for every student in the state. The expression for the base cost funding formula is given in Table 6. State base cost funding for school districts totaled approximately $4,198.2 million in FY 2007 and $3,917.4 million in FY 2008.

| Table 6:  Base Cost Funding Formula |
|---|
| Total Base Cost = Local Share + State Share |
| Local Share = Total Recognized Valuation x 0.023 |
| State Share = Total Base Cost – Local Share |

The following is an example of the base cost calculation for a hypothetical district, District A. District A's student counts are given below.

| District A's Student Counts for FY 2008 | | |
|---|---|---|
| Student Counts | October Count | February Count |
| Total Student Count | 1,000 | 980 |
| Kindergarten Count | 80 | 80 |
| JVS Count | 30 | 30 |

From this information District A's ADM can be calculated as follows:

| |
|---|
| ADM October = 1,000 – (0.5 x 80) – (0.8 x 30) = 936 |
| ADM February = 980 – (0.5 x 80) – (0.8 x 30) = 916 |
| Annual ADM for FY 2008 = (0.75 x 936) + (0.25 x 917) = 931 |

With this annual ADM amount, District A's base funding supplements for FY 2008 can be calculated as follows:

| |
|---|
| District A's Academic Intervention Services for FY 2008 = |
| 25 x ADM/20 x hourly rate = |
| 25 x (931/20) x $21.01 = $24,450 |

| |
|---|
| District A's Professional Development for FY 2008 = |
| 0.045 x Formula Amount x ADM/17 x Phase-in % = |
| 0.045 x $5,565 x (931/17) x 0.75 = $10,286 |

| |
|---|
| District A's Data-Based Decision Making for FY 2008 = |
| 0.001 x Formula Amount x ADM = |
| 0.001 x $5,565 x 931 = $5,181 |

| |
|---|
| District A's Professional Development for Data-Based Decision Making for FY 2008 = |
| (0.2 x ADM/17 x 0.08 x Formula Amount) + (ADM/340 x 0.08 x Formula Amount) = |
| (0.2 x (931/17) x 0.08 x $5,565) + ((931/340) x 0.08 x $5,565) = $6,095 |

District A's total base cost can be calculated as follows:

| District A's Total Base Cost for FY 2008 = |
|---|
| (Base Cost Formula Amount x ADM) + Base Funding Supplements = |
| ($5,565 x 931) + $24,450 + $10,286 + $5,181 + $6,095 = $5,227,027 |

**Recognized Valuation**

As can be seen in Table 6, the local share of the base cost is based on the "recognized valuation." Taxable property value in Ohio is divided into four major categories: (1) Class I real property (residential and agricultural real property), (2) Class II real property (commercial, industrial, and mineral real property), (3) public utility tangible personal property; and (4) general business tangible personal property (which is being phased out and will be completely eliminated by TY 2011). Real property values are updated every three years and reappraised every six years in Ohio mainly to account for inflationary increases. As a result, in the reappraisal and update years, school districts generally will experience significant increases in real property value, which will significantly increase the districts' local shares of the base cost and, therefore, decrease their state shares. To prevent a school district's state base cost funding from fluctuating significantly from one year to another because of reappraisals and updates, valuation used in calculating a district's local share of the base cost "recognizes" the district's inflationary increase in carryover real property (property that was taxed in the year before) in the reappraisal or update year evenly over three-years instead of all at once. So, if a district experiences a 15% inflationary increase in real property in a reappraisal year, recognized valuation only recognizes a 5% increase in that year, 10% increase in the following year, and the full 15% increase in the third year. Recognized valuation is calculated as follows:

| |
|---|
| **Recognized Valuation in Update or Reappraisal Year =** **Actual Valuation – 2/3 x Inflationary Increase** |
| **Recognized Valuation in Second Year = Actual Valuation – 1/3 x Inflationary Increase** |
| **Recognized Valuation in Third Year = Actual Valuation** |

Tax years are generally from January 1 to December 31, whereas state and school fiscal years are from July 1 to June 30. In addition, most property taxes for a given tax year are paid in the following tax year. As a result of these two factors, recognized valuation for a given tax year is used in the base cost formula for the fiscal year two years after that tax year. For example, the recognized value for TY 2006 is used in the base cost formula for FY 2008 funding purposes. In TY 2005 (FY 2007), actual school district taxable value statewide was $250.3 billion, whereas recognized value was $242.0 billion, a difference of $8.3 billion. In FY 2007, therefore, recognized valuation reduced the local share and, accordingly, increased the state share of base cost funding statewide by about $192.2 million ($8.3 billion x 0.023). The fiscal effect of recognized valuation varies from one year to another since the proportion of real property going through reappraisal or update varies from one year to another. On average, over a full six-year reappraisal and update cycle, recognized value lowers the local share and, accordingly, increases the state share of base cost funding by approximately $125 million per year. In FY 2007, recognized valuation per pupil statewide was about $143,000. It ranged from less than $55,000 for the 13 lowest wealth districts to more than $300,000 for the 14 highest wealth districts. The initial state share percentage of the base cost for that year was 45.2% statewide and ranged from 0% to more than 90%.

Table 7 computes the local share and state share for the hypothetical District A, as well as two other hypothetical districts that are identical to District A except for their property wealth. District A's recognized valuation per pupil in FY 2008 is $124,597, District B's is $61,026, and District C's is $183,079. The local share for each of the three districts is calculated in line 5 of the table by multiplying the district's recognized valuation by 23 mills (0.023). District A's local share is $2.7 million, District B's is $1.3 million, and District C's is $3.9 million. Since these districts have the same ADM their total base cost is the same. The state share for each of the three districts is calculated in line 6 of the table by subtracting each district's local share from its total base cost. Line 7 and line 8 show the initial local share percentage (the percentage of the base cost funded by the district) and the initial state share percentage (the percentage of the base cost funded by the state), respectively.

| Table 7: The Base Cost Funding Formula | | District A | District B | District C |
|---|---|---|---|---|
| Line 1 | ADM | 931 | 931 | 931 |
| Line 2 | Total Base Cost | $5,227,027 | $5,227,027 | $5,227,027 |
| Line 3 | Recognized Valuation | $116,000,000 | $56,815,511 | $170,446,533 |
| Line 4 = L3/L1 | Recognized Valuation Per Pupil | $124,597 | $61,026 | $183,079 |
| Line 5 = L3*0.023 | Local Share | $2,668,000 | $1,306,757 | $3,920,270 |
| Line 6 = L2-L5 | State Share | $2,559,027 | $3,920,270 | $1,306,757 |
| Line 7 = L5/L2 | Initial Local Share Percentage | 51% | 25% | 75% |
| Line 8 = L6/L2 | Initial State Share Percentage | 49% | 75% | 25% |

The equalization effect of the base cost funding formula is evident from this example as the highest wealth district, District C, has the highest initial local share percentage (75%) and the lowest initial state share percentage (25%), whereas the lowest wealth district, District B, has the lowest initial local share percentage (25%) and the highest initial state share percentage (75%). District A is in the middle of the two.

## Charge-off Rate

The local share of the base cost is also called the charge-off and the millage rate (23 mills or 2.3%) that is applied to recognized valuation to obtain the local share is called the charge-off rate. In TY 2006, statewide school district operating revenue was approximately 32.9 mills of statewide total taxable property value. At the 23-mill charge-off, the base cost formula equalizes about 69.9% (23/32.9) of local operating revenue. A higher charge-off rate equalizes a higher percentage of local operating revenue and a lower charge-off rate equalizes a lower percentage of local operating revenue.

**Chart 6: Charge-off Per Pupil by Valuation Per Pupil**

The chart plots Charge-off Amount Per Pupil (y-axis, ranging from $- to $6,000) against Valuation Per Pupil (x-axis, ranging from $30,000 to $280,000), showing an upward linear relationship.
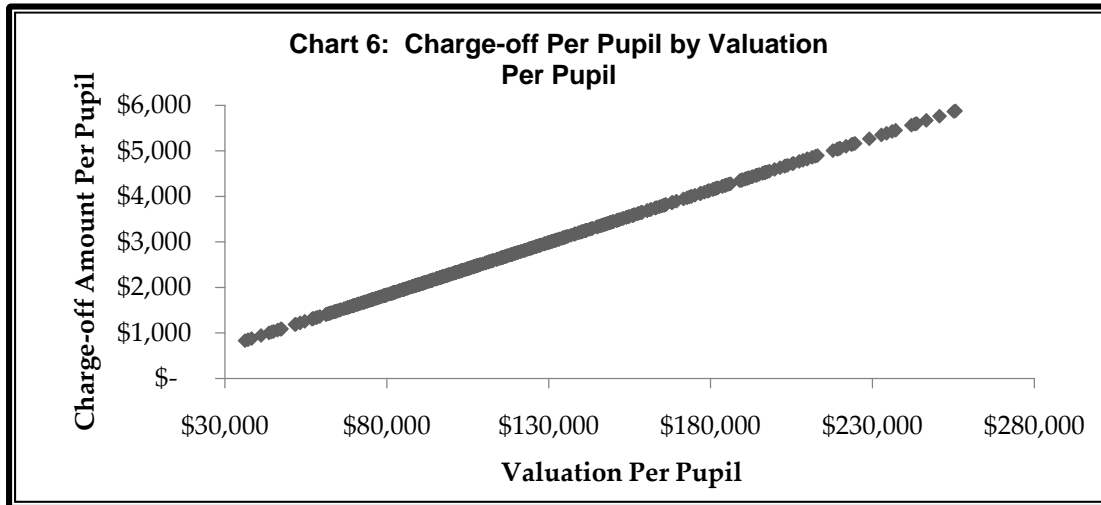
### Local Share of the Base Cost

The local share or charge-off is a fixed amount of revenue regardless of a district's enrollment. The current charge-off method generates charge-off amounts that exhibit an upward linear relationship with each district's recognized valuation per pupil. That is, a school district with a higher per pupil valuation will also have a higher per pupil charge-off amount (see Chart 6).

### State Share Percentage

The state share mentioned above is termed the "initial" state share percentage because Am. Sub. H.B. 119 of the 127th General Assembly begins to include each district's poverty-based assistance and parity aid in both the district's total base cost and state share to calculate the state share percentage. This state share percentage is used to calculate the state share of the special education and career-technical education costs as described below. Poverty-based assistance and parity aid are also discussed later in this analysis. Starting in FY 2008, the state share percentage is calculated as follows:

| State Share Percentage = |
| :---: |
| (State Base Cost Funding + Poverty-Based Assistance + Parity Aid) divided by |
| (Total Base Cost + Poverty-Based Assistance + Parity Aid) |

### Equalization Level

In FY 2008, with a base cost formula amount of $5,565 and $49.42 per pupil in base funding supplements, the base cost funding formula equalizes per pupil valuation up to $244,105 (($5,565 + $49.42)/0.023). This per pupil valuation is called the equalization level and represents the 96th percentile ranking in valuation per pupil in the state. School districts with

The hypothetical District A's poverty-based assistance and parity aid are calculated later in this analysis.  Using these results, District A's state share percentage can be calculated as follows:

| District A's State Share Percentage in FY 2008 = |
| --- |
| (State Base Cost Funding + Poverty-Based Assistance + Parity Aid) divided by |
| (Total Base Cost + Poverty-Based Assistance + Parity Aid) |
| ($2,559,027 + $729,331 + $379,848)/($5,227,027 + $729,331 + $379,848) = 57.9% |

valuations per pupil below the equalization level (approximately 585 or 95.6% of all districts) have various state shares of base cost funding.  School districts with valuations per pupil above the equalization level (approximately 27 districts or 4.4% of all districts) have a state share equal to zero.  Chart 7 shows state base cost funding per pupil and local revenue per pupil with 23 mills of local property taxes based on each district's wealth per pupil ranking.  This chart demonstrates the equalization effect of the base cost funding formula for all districts below the 96th percentile in wealth per pupil.  With 23 mills of local property taxes, each district below the 96th percentile receives about $5,614 per pupil in base cost funding from a combination of state and local revenue.

## The Marginal Student Effect

As is clear from the formula, the local share is dependent only on the charge-off rate and the district's total recognized valuation.  The state share, on the other hand, is dependent on the



Chart 7: State and Local Per Pupil Revenue with 23 Mills of Local Property Taxes, FY 2008
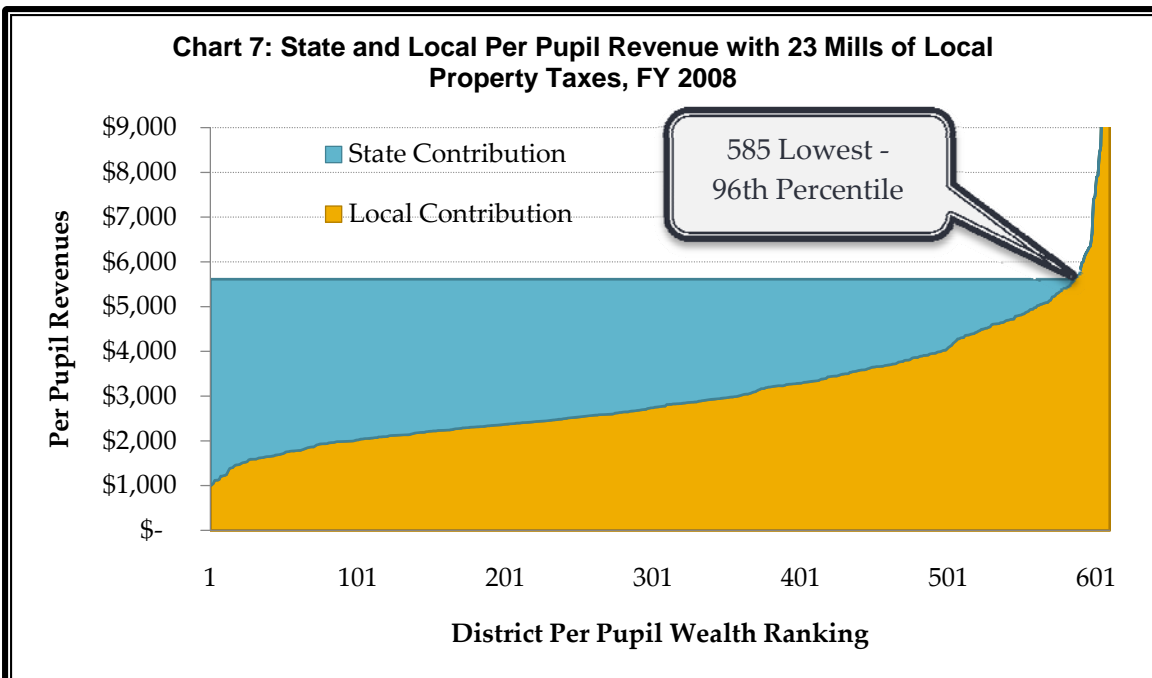
Table 8 illustrates the marginal student effect for the hypothetical district, District A. As can be seen from the table, although District A's state share per pupil (average) is initially $2,749, District A's state base cost funding increases by $5,614 for each student that is added to its 931 ADM. Conversely, District A's state base cost funding would decrease by $5,614 for each student that is subtracted from its 931 ADM. This marginal student funding amount for FY 2008 is equal to the total base cost per pupil for District A (base cost formula amount + base funding supplements per pupil = $5,565 + $49.42 = $5,614). A district's state share per pupil (average) changes when the district's ADM changes. As seen in Table 8, District A's state share per pupil increases from $2,749 to $2,752 when its ADM increases from 931 to 932 students.

| Table 8:  The Marginal Student Effect – District A Example |
| :---: |
| Local Share @ 23 Mills = $2,668,000 |
| Total Base Cost (ADM = 931) = $5,227,027 |
| State Share (ADM = 931) = $2,559,027 |
| State Share Per Pupil (ADM = 931) = $2,559,027/931 = $2,749 |
| Total Base Cost (ADM = 932) = $5,232,641 |
| State Share (ADM = 932) = $2,564,641 |
| Difference in Local Share when ADM Increases by One Student = $0 |
| Difference in State Share when ADM Increases by One Student = $5,614 |
| State Share Per Pupil (ADM = 932) = $2,564,641/932 = $2,752 |

district's total base cost as well as the district's local share contribution. The district's total base cost in turn is dependent on the district's ADM and the base cost formula amount as determined by the General Assembly. Therefore, a district's local share does not change when a district's ADM changes; only its state share changes. This is important because, while a district's average state base cost funding is a useful indicator of the district's wealth, when considering how state base cost funding changes when a district's ADM changes, one cannot look at the district's average state base cost funding per pupil, but must look at the district's marginal state base cost funding per pupil.

## Special and Career-Technical Education and Transportation:  State Model Amount

The base cost is the cornerstone of the state-defined basic education cost. However, funding for a flat per pupil base cost will not ensure a similar education for every student in every district since students have different needs and districts face different challenges. The current school funding model includes a series of adjustments to the base cost to account for

> State funding accounts for a district's unique characteristics that result in differences in costs that are beyond the district's control.

individual districts' unique characteristics. Three of these adjustments are discussed in this and the following sections; they are for special education, career-technical education, and pupil transportation. Following this discussion, the adjustments made for gifted and disadvantaged students will be covered. As with the base cost, the state must first model the amounts of these categorical costs and then determine how to distribute state funding to school districts.

### Special education weighted cost

Am. Sub. H.B. 94 of the 124th General Assembly established a six-weight system for special education largely based on the recommendation of the Ohio Coalition for the Education of Children with Disabilities. Special education students are grouped into six categories based on their disabilities and assigned additional weights to reflect the higher costs required by special education services (Table 9). This six-weight system is phased in at 90% from FY 2005 to FY 2009.

| Table 9: Special Education Additional Weight Categories | |
|---|---|
| Category One: | **0.2892** – Speech only |
| Category Two: | **0.3691** – Specific learning disabled, developmentally handicapped, other health – minor |
| Category Three: | **1.7695** – Hearing impaired, vision impaired, severe behavior handicapped |
| Category Four: | **2.3646** – Orthopedically handicapped, other health – major |
| Category Five: | **3.1129** – Multi-handicapped |
| Category Six: | **4.7342** – Autism, traumatic brain injury, both visually and hearing disabled |

Each special education student is counted in the district's ADM as one student for the purposes of calculating the total base cost for the district. These students are also counted in each district's special education ADM, which is broken down by each special education category. The ADM for each category is multiplied by the corresponding weight to get the weighted ADM for each category. These weighted ADMs are added together for a total special education weighted ADM. The total weighted ADM is then multiplied by the base cost formula amount to arrive at the district's special education additional weighted cost. This calculation is summarized below.

| Special Education Weighted ADM = |
|---|
| Category 1 ADM x 0.2892 + Category 2 ADM x 0.3691 + Category 3 ADM x 1.7695 + |
| Category 4 ADM x 2.3646 + Category 5 ADM x 3.1129 + Category 6 ADM x 4.7342 |

| Special Education Weighted Cost = |
|---|
| **Special Education Weighted ADM x Base Cost Formula Amount x Phase-in %** |

(Phase-in % = 90% in FY 2006, FY 2007, FY 2008, and FY 2009)

### Speech service personnel supplemental cost

In addition to the special education weighted cost, the state model includes a supplemental cost for speech service personnel. This cost is calculated as a $30,000 personnel allowance for every 2,000 students in a district's ADM. This calculation is given below.

| Speech Service Personnel Supplemental Cost = |
|---|
| **(ADM/2,000) x $30,000** |

### Career-technical education weighted cost

As are special education students, career-technical education students are assigned additional weights above the base cost to cover the higher costs of career-technical education services. Largely based on ODE's recommendations, the additional weight is 0.57 for a career-technical student enrolled in a workforce development program and 0.28 for a career-technical student enrolled in any other career-technical education programs. Every career-technical student also receives a weight of 0.05 for associated services (Table 10).

| Table 10:  Career-Technical Education Additional Weight Categories |
|---|
| Workforce Development Program Weight:  0.57 |
| Nonworkforce Development Program Weight:  0.28 |
| All Career-Technical Education Program Associated Services Weight:  0.05 |

While special education weights apply to special education ADM, the weight for a career-technical education student is based on the time the student spends in career-technical education courses (career-technical education FTE). Typically, students enrolled in workforce development programs spend about 40% to 60% of their time in career-technical education courses. These students are counted as 0.4 or 0.6 FTEs for purposes of the weight calculation. It takes approximately two workforce development students to form one career-technical education FTE with an assigned weight of 0.57. Students enrolled in nonworkforce development programs generally spend less than 50% of their time in career-technical education courses. It may take two, three, or four nonworkforce development program students to form one career-technical education FTE for purposes of the weight calculation.

The FTE for each category is multiplied by the corresponding weight to get the weighted FTE for each category. These weighted FTEs are added together for a total weighted FTE. The total weighted FTE is then multiplied by the base cost formula amount to arrive at the district's career-technical education additional weighted cost. This calculation is summarized below.

The following calculations continue the example of the hypothetical District A from the base cost sections. The table below shows District A's assumed ADMs for each of the six special education categories and the calculation of District A's total special education weighted ADM.

| District A's Special Education ADM for FY 2008 | | |
|---|---|---|
| **Categories** | **ADM** | **Weighted ADM** |
| One | 17 | 17 x 0.2892 =     4.9 |
| Two | 82 | 82 x 0.3691 =    30.3 |
| Three | 11 | 11 x 1.7695 =    19.5 |
| Four | 0 | 0 x 2.3646 =    0.0 |
| Five | 0 | 0 x 3.1129 =    0.0 |
| Six | 5 | 5 x 4.7342 =    23.7 |
| Total | -- | --    78.4 |

District A's total special education weighted ADM is multiplied by the base cost formula amount and the phase-in percentage to obtain the following special education weighted cost in FY 2008.

| District A's Special Education Weighted Cost for FY 2008 = |
|---|
| Special Education Weighted ADM x Base Cost Formula Amount x Phase-in % = |
| 78.4 x $5,565 x 90% = $392,666 |

For the hypothetical District A the speech service personnel supplemental cost is calculated as follows.

| District A's Speech Service Personnel Supplemental Cost for FY 2008 = |
|---|
| (ADM/2,000) x $30,000 = |
| 931/2000 x $30,000 = $13,965 |

| Career-Technical Education Weighted FTE = |
|---|
| **Workforce Development FTE x 0.57 + Nonworkforce Development FTE x 0.28 +** |
| **Total Career-Technical FTE x 0.05** |

| Career-Technical Education Weighted Cost = |
|---|
| **Career-Technical Education Weighted FTE x Base Cost Formula Amount** |

It should be noted that the funding for associated services would eventually be transferred to the lead career-technical education planning districts that actually provide these

The following calculations continue the example of the hypothetical District A.  The table below shows District A's assumed FTEs for each of the two career-technical education categories and the calculation of District A's total weighted FTE.

| District A's Career-Technical Education FTE for FY 2008 | | | |
|---|---|---|---|
| Categories | FTE | Weighted FTE | |
| Workforce development | 10 | 10 x 0.57 = | 5.7 |
| Nonworkforce development | 8 | 8 x 0.28 = | 2.2 |
| Associated service | 10 + 8 = 18 | 18 x 0.05 = | 0.9 |
| Total | -- | -- | 8.8 |

District A's total career-technical education weighted FTE is multiplied by the base cost formula amount to obtain the following career-technical education weighted cost in FY 2008.

| District A's Career-Technical Education Weighted Cost for FY 2008 = |
|---|
| Career-Technical Education Weighted FTE x Base Cost Formula Amount  = |
| 8.8 x $5,565 = $48,972 |

services.  The same weights also apply to students enrolled in joint vocational school districts (JVSDs).  JVSDs are funded through a separate but comparable formula that is discussed at the end of this section.

### GRADS teacher supplemental cost

In addition to career-technical education weighted costs, the state model includes the cost of up to 225 FTE GRADS (Graduation, Reality, and Dual-role Skills) teachers approved by ODE.  The state model multiplies each GRADS FTE teacher by a personnel allowance equal to $47,555.  Most GRADS teachers are currently employed by JVSDs.  This calculation is shown below.

| GRADS Teacher Supplemental Cost for FY 2008 = |
|---|
| $47,555 x Approved GRADS Teacher FTE(s) |

### Pupil Transportation

Am. Sub. H.B. 66 of the 126th General Assembly suspended the application of the state model and distribution formula for pupil transportation in FY 2006 and FY 2007.  It provided school districts receiving state pupil transportation funding in FY 2005 an annual increase of 2% in FY 2006 and FY 2007.  Similarly, Am. Sub. H.B. 119 of the 127th General Assembly continues

Assuming the hypothetical District A has 0.5 FTE approved GRADS teachers, its GRADS teacher supplemental cost for FY 2008 is as calculated below.

| District A's GRADS Teacher Supplemental Cost for FY 2007 = |
| --- |
| $47,555 x Approved GRADS Teacher FTE(s) = |
| $47,555 x 0.5 = $23,778 |

to suspend the model and provides annual increases of 1% in FY 2008 and FY 2009. This section describes the transportation formula as it currently exists in state law.

Transportation costs are partly under the control of school districts and partly outside of their control. The number of students who are required to be transported, geographical size of the district, and quality of the roads in the district are factors that are outside of the district's control but contribute to the district's cost of transportation. Within these constraints, the district sets its transportation policy, including scheduling which gives it some control over costs.

> The state model for transportation costs takes into account the fact that districts have some control over their costs through the choices they make in setting transportation policy.

In recognition of the dual nature of transportation costs, the state has used a statistical regression model to determine the amount of funding for regular pupil transportation in an attempt to promote efficiency. In particular, the model is based on a statewide analysis of each district's daily bus mileage per ADM, percentage of pupils transported, and transportation costs. The data analysis yields a simple equation that can be used to model the transportation cost per ADM for each district. Since the analysis is based on the previous year's data this model cost is inflated by 2.8%. An example of this calculation is given below using data from FY 2004. Based on FY 2004 data, the model predicted a total statewide cost of approximately $560.3 million for FY 2005, representing about 92.6% of the actual pupil transportation costs statewide reported by school districts for that year.

| Pupil Transportation Cost Model |
| --- |
| Step 1:  Model Cost per ADM = $81.37 + $213.77 x Daily Miles per ADM<br>+ $152.98 x Transported Pupil % |
| Step 2:  Total Model Cost = Model Cost per ADM x ADM |
| Step 3:  Inflated Model Cost = Total Model Cost x 1.028 |

The regression model includes funding only for two main types of pupil transportation methods:  board-owned and operated school buses (type one) and contractor-owned and operated school buses (type two). A small percentage of "regular students" are transported by

For purposes of showing how the model normally works, the hypothetical District A's model cost for FY 2005 is calculated below. Assume that in FY 2004 District A transported 50% of its students at an average of 1.0 mile per ADM.

| District A's Pupil Transportation Model Cost for FY 2005 |
| --- |
| Step 1: Model Cost per ADM = $81.37 + ($213.77 x Daily Miles per ADM) + ($152.98 x Transported Pupil %) |
| District A's Model Cost per ADM = $81.37 + ($213.77 x 1.0) + ($152.98 x 50%) = $371.63 |
| Step 2: Total Model Cost = Model Cost per ADM x ADM |
| District A's Total Model Cost (FY 2004) = $371.63 x 931 = $345,988 |
| Step 3: Inflated Model Cost = Total Model Cost x 1.028 |
| District A's Inflated Model Cost (FY 2005) = $345,988 x 1.028 = $355,675 |

four other methods. Payments for these students as well as for special needs transportation are made pursuant to rules adopted by the State Board of Education.

### Rough Road Supplement

In addition to the regression model, a rough road supplement provides additional subsidies to mainly large, rural, low-density districts in counties with high percentages of rough roads as defined by the Department of Transportation. The rough road percentage data are available only on a countywide basis. However, a district located within a municipal boundary in a rural county often has the majority of good roads in that county and therefore has a much lower rough road percentage than its county average. A district's density (total ADM per square mile) can be used to minimize this data limitation. Generally, the pupil density for a rural district is much lower than that for an urban district. By using both the rough road percentage and pupil density variables, the rough road supplement formula provides targeted funding to large rural districts that have the highest needs.

Specifically, the maximum rough road subsidy for a district with the highest rough road percentage in the state is $0.75 per mile. The maximum subsidy amount is scaled down to zero for a district with the statewide average rough road percentage. A density multiplier is then applied. The district with the lowest density in the state has a multiplier factor of 100%. The maximum factor is scaled down to zero for a district with the statewide average density. A district's adjusted rough road subsidy amount is determined by multiplying the district's rough road subsidy amount by its density multiplier factor. This density factor adjustment ensures that when two districts have the same rough road percentage, the district with a lower density will receive a higher subsidy. The rough road subsidy formulas can be summarized as follows:

| Table 11:  Rough Road Supplement Formula | | |
|---|---|---|
| Per rough road mile subsidy | = $0.75 – $0.75 x | $\dfrac{\text{(Maximum county rough road \% – District's rough road \%)}}{\text{(Maximum county rough road \% – State average rough road \%)}}$ |
| Total rough road subsidy = Per pupil rough road mile subsidy x Total rough road miles<br>Total rough road miles = Total annual miles traveled x Rough road % | | |
| Pupil density multiplier % | = 100% – 100% x | $\dfrac{\text{(Maximum pupil density – District's pupil density)}}{\text{(Maximum pupil density – State average pupil density)}}$ |
| Adjusted total rough road subsidy = Total rough road subsidy x Pupil density multiplier % | | |

For FY 2005, the rough road subsidy totaled about $3.3 million, and was distributed to 108 school districts.  The rough road subsidy ranges from less than $1 to about $160 per transported pupil.

## Special and Career-Technical Education and Transportation:  Distribution of Funds

State funding for special and career-technical education as well as for transportation is distributed based on each district's state share percentage.  As demonstrated in the previous sections on base cost funding, the state share percentage is calculated by dividing the state share of base cost funding plus poverty-based assistance plus parity aid for each district by the total base cost plus poverty-based assistance plus parity aid for that district.  This percentage ranges from zero for some very wealthy districts to approximately 90% for some very low wealth districts.  For special and career-technical education, state funding is determined by multiplying the special education weighted costs, the speech supplement, the career-technical education weighted costs, and the GRADS costs by the district's state share percentage.  A similar calculation had been made for transportation funding, except that for transportation the state provided a minimum of 60% of the modeled cost.  These calculations are shown below.

| Additional State Funding for Special Education =<br>(Special Education Weighted Cost + Speech Supplement) x State Share Percentage |
|---|

| Additional State Funding for Career-Technical Education =<br>(Career-Technical Education Weighted Cost + GRADS Supplement Cost) x State Share Percentage |
|---|

| Additional State Funding for Transportation =<br>Transportation Model Cost x (Maximum of 60% or State Share Percentage) + Rough Road Supplement |
|---|

For the 612 school districts, additional state funding for special education totaled about $432.7 million in FY 2007 and $461.4 million in FY 2008, for career-technical education totaled

The hypothetical District A's additional state funding for special and career-technical education is calculated as follows:

| District A's State Funding for Special Education for FY 2008 = |
| :---: |
| (Special Education Weighted Cost + Speech Supplement) x State Share Percentage |
| ($392,666 + $13,965) x 57.9% = $235,410 |

| District A's State Funding for Career-Technical Education for FY 2008 = |
| :---: |
| (Career-Technical Education Weighted Cost + GRADS Supplement Cost) x State Share Percentage |
| ($48,972 + $23,778) x 57.9% = $42,117 |

The hypothetical District A's additional state funding for transportation in FY 2005 as well as the two percent increases mandated for FY 2006 and FY 2007 by H.B. 66 and the one percent increases mandated for FY 2008 and FY 2009 are calculated as follows.

| District A's State Funding for Transportation for FY 2005 = |
| :---: |
| Transportation Model Cost x (Maximum of 60% or State Share Percentage) + Rough Road Supplement |
| $355,675 x 60% + $0 = $213,405 |
| District A's State Funding for Transportation for FY 2006 = $213,405 x 1.02 = $217,673 |
| District A's State Funding for Transportation for FY 2007 = $217,673 x 1.02 = $222,026 |
| District A's State Funding for Transportation for FY 2008 = $217,673 x 1.01 = $224,246 |
| District A's State Funding for Transportation for FY 2009 = $217,673 x 1.01 = $226,488 |

about $48.2 million in FY 2007 and $51.5 million in FY 2008, and for transportation totaled about $359.7 million in FY 2007 and $363.3 million in FY 2008.

## Poverty-Based Assistance:  State Model Amount and Distribution of State Funds

Another categorical cost is that incurred by districts with disadvantaged students. These students may come to school under-prepared and need extra time in kindergarten, extra attention in the lower grades, and an increased level and intensity of intervention throughout their school careers.  School districts with high concentrations of disadvantaged students may need to offer more teacher professional development and major urban districts may need to provide more community outreach and more dropout prevention programs.  In addition, the combination of high concentrations of disadvantaged students and limited English proficient (LEP) students may further result in higher costs for districts.  The state uses students from low income families as a proxy for disadvantaged students.  Studies have shown that students from

low income families perform less well in school than their peers from middle and high income families. Poverty-based assistance is designed to help districts with high concentrations of students living in poverty meet the additional needs of these students. The state model amount and the distribution of state funds are discussed together because poverty-based assistance is generally funded by the state.

Poverty-based assistance consists of eight subsidies: all-day kindergarten, increased learning opportunities, LEP intervention, professional development, community outreach, dropout prevention, and closing the achievement gap. Beginning in FY 2008, all of these subsidies except for LEP intervention are fully funded, funding for LEP intervention is funded at the 70% level in FY 2007, FY 2008, and FY 2009. Funding eligibility for each of the eight subsidies is based on a district's poverty index, which is equal to the percentage of students in the district who are living in poverty divided by the percentage of students in the state who are living in poverty, where poverty is defined as being from families who participate in Ohio

> The per pupil funding needed for disadvantaged students is generally higher in districts with higher concentrations of those students.

Works First (OWF). However, with the exception of a portion of intervention funding, funding amounts for all programs are based on a district's ADM, not on the district's number of OWF students.

A poverty index of 1.0 means that the district has a concentration of OWF students equal to the state average. Higher indices indicate a greater concentration and lower indices indicate a lower concentration. The poverty index calculation is shown below.

| Poverty index = |
|:---:|
| % of students in district who are living in poverty / |
| % of students in the state who are living in poverty |

(Students living in poverty are those whose families participate in Ohio Works First)

### All-Day Kindergarten Funding

School districts with a poverty index of at least one are eligible for all-day kindergarten funding. The appropriation generally assumes eligible districts would provide this service to

The state percentage of OWF students in FY 2008 is approximately 5.0%. Assuming the hypothetical District A has an OWF percentage of 7.5%, District A's poverty index is 1.5 as shown below.

| District A's Poverty index for FY 2008 = |
|:---:|
| % of students in district who are living in poverty / % of students in the state who are living in poverty = |
| 7.5% / 5.0% = 1.5 |

all of their kindergarten students in order to appropriate the maximum amount of funding for the program. However, the actual funding amount is calculated based on each district's percentage of kindergarten students that actually receive this service, as shown below:

| All-day Kindergarten Funding = |
|---|
| Kindergarten ADM x 50% x Formula amount x Actual all-day kindergarten percentage |

(The other 50% of kindergarten ADM is included in formula ADM to qualify for base cost funding)

The change in a district's poverty index from slightly above one to slightly below one or vice versa could have a significant impact on the district's all-day kindergarten funding. To stabilize this funding, districts that received all-day kindergarten funding in the previous year (i.e., districts that were eligible and actually provided all-day kindergarten services) continue to be eligible for this funding in the next year regardless of their index numbers. All-day kindergarten funding totaled about $118.1 million statewide for 122 districts in FY 2007 and $120.6 million for 125 districts in FY 2008.

Since the hypothetical District A has a poverty index greater than 1.0, it would be eligible for all-day kindergarten funding. Assuming District A provides all-day kindergarten to all of its kindergarten students, its funding would be calculated as follows:

| District A's All-day Kindergarten Funding for FY 2008 = |
|---|
| Kindergarten ADM x 50% x Formula amount x Actual all-day kindergarten percentage |
| 80 x 50% x $5,565 x 100% = $222,600 |

### Increased Learning Opportunities

This program provides funding to assist districts with high concentrations of poverty to provide increased learning opportunities. Funding is calculated based on the amount needed to reduce the student teacher ratio in kindergarten through third grade down toward 15:1. It is assumed that the current student teacher ratio in these grades is 20:1. As with all-day kindergarten funding, a district is eligible for this funding if its poverty index is greater than 1.0. Districts with indices at or above 1.5 receive funding to reduce teacher student ratios from 20:1 all the way to 15:1. Districts with poverty indices from 1.0 to 1.5 are provided funding on a sliding scale. The salary allowance funded for each additional teacher is equal to the base teacher compensation: $56,754 in FY 2008 and $58,621 in FY 2009. The following table summarizes the calculations for the increased learning opportunities subsidy. This funding totaled about $119.7 million statewide in FY 2007 and $125.5 million in FY 2008.

| Increased Learning Opportunities Funding |
|---|
| Step 1:  Total needed teachers for districts to have pupil/teacher ratios ranging from 15:1 to 20:1<br>If the district's poverty index is greater than or equal to 1.5:<br>Total needed teachers = (K-3 regular ADM)/15<br>If the district's poverty index is at least 1.0 but less than 1.5:<br>Total needed teachers = (K-3 regular ADM) x (1/20 + ((Poverty index – 1.0)/0.5) x (1/15-1/20)) |
| Step 2:  Total assumed current available teachers = (K-3 regular ADM)/20 |
| Step 3:  Total needed new teachers = Total needed teachers (Step 1) – Total assumed current available teachers (Step 2) |
| Step 4:  Total funding = Total needed new teachers (Step 3) x Teacher Salary Allowance |

(Teacher Salary Allowance = $56,754 in FY 2008 and $58,621 in FY 2009)

Assuming the hypothetical District A's kindergarten through third grade regular student ADM is 300, District A's increased learning opportunities funding calculation is given below.

| District A's K-3 Increased Learning Opportunities Funding for FY 2008 |
|---|
| Step 1:  Total needed teachers for districts to have pupil/teacher ratios ranging from 15:1 to 20:1<br>If the district's poverty index is greater than or equal to 1.5:<br>Total needed teachers = (K-3 regular ADM)/15 |
| District A's total needed teachers = 300/15 = 20 |
| Step 2:  Total assumed current available teachers = (K-3 regular ADM)/20 |
| District A's total assumed current available teachers = 300/20 = 15 |
| Step 3:  Total needed new teachers = Total needed teachers (Step 1) –<br>Total assumed current available teachers (Step 2) |
| District A's total needed new teachers = 20 – 15 = 5 |
| Step 4:  Total funding = Total needed new teachers (Step 3) x Teacher Salary Allowance |
| District A's total increased learning opportunities funding = 5 x $56,754 = $283,770 |

### Intervention

Districts with indices greater than 0.25 are eligible for additional state funding for intervention beyond what is provided through base cost funding.  There is a three-tier calculation for intervention as follows:

(1)　Tier 1:  Large group intervention for all students
  (a)　20:1 student to teacher ratio
  (b)　Districts with indices greater than 0.75 receive 25 hours in each fiscal year
  (c)　Districts with indices between 0.25 and 0.75 receive up to 25 hours on a sliding scale
(2)　Tier 2:  Medium group intervention for all students

(a)  15:1 student to teacher ratio
(b)  Districts with indices greater than 1.5 receive 50 hours in each fiscal year
(c)  Districts with indices between 0.75 and 1.5 receive 25 to 50 hours on a sliding scale

(3)  Tier 3: Small group intervention for three times the number of OWF students
   (a)  10:1 student to teacher ratio
   (b)  Districts with indices greater than 2.5 receive 160 hours in each fiscal year
   (c)  Districts with indices between 1.5 and 2.5 receive 25 to 160 hours on a sliding scale

The total number of intervention hours funded for each district is equal to the sum of the hours calculated under each tier. Each hour of intervention is funded at $21.01 in FY 2008 and $21.64 in FY 2009. These calculations are summarized below. Poverty-based intervention funding totaled about $113.1 million statewide in FY 2007 and $113.6 million in FY 2008.

| Intervention Funding |
|---|
| **Tier 1** |
| If the district's poverty index is greater than or equal to 0.75: |
| Tier 1 hours = (formula ADM/20) x 25 |
| If the district's poverty index is at least 0.25 but less than 0.75: |
| Tier 1 hours = (formula ADM/20) x (poverty index – 0.25)/0.5 x 25 |
| **Tier 2** |
| If the district's poverty index is greater than or equal to 1.5: |
| Tier 2 hours = (formula ADM/15) x 50 |
| If the district's poverty index is at least 0.75 but less than 1.5: |
| Tier 2 hours =  (formula ADM/15) x (25 + (poverty index – 0.75)/0.75 x 25) |
| **Tier 3** |
| If the district's poverty index is greater than or equal to 2.5: |
| Tier 3 hours = ((poverty students x 3)/10) x 160 |
| If the district's poverty index is at least 1.5 but less than 2.5: |
| Tier 3 hours =  ((poverty students x 3)/10) x (25 + (poverty index – 1.5) x 135) |
| **Total** |
| Total Hours = (Tier 1 + Tier 2 + Tier 3) |
| Total Funding = Total Hours x Hourly Rate |

Hourly Rate = $21.01 in FY 2008 and $21.64 in FY 2009

In general, districts with poverty indices above 0.25 receive up to $26.26 per student in FY 2008 and up to $27.05 per student in FY 2009 for the first tier. Districts with poverty indices above 0.75 receive from $35.02 to $70.03 per student in FY 2008 and from $36.07 to $72.13 per student in FY 2009 for the second tier. Finally, districts with poverty indices above 1.5 receive from $157.58 to $1,008.48 per OWF student in FY 2008 and from $162.30 to $1,038.72 per poverty student in FY 2009 for the third tier. Districts with indices above 2.5 receive the maximum amount of intervention funding, which equals $122.55 per pupil plus $1,008.48 per OWF pupil in FY 2008 and $126.23 per pupil plus $1,038.72 per OWF pupil in FY 2009. In addition to this

Assuming the hypothetical District A has 70 OWF students and a poverty index of 1.5, this calculation is as follows:

| District A's Intervention Funding for FY 2008 |
|---|
| Tier 1 |
| If the district's poverty index is greater than or equal to 0.75: |
| Tier 1 hours = (formula ADM/20) x 25 |
| District A's Tier 1 hours = 931/20 x 25 = 1,164 hours |
| Tier 2 |
| If the district's poverty index is greater than or equal to 1.5: |
| Tier 2 hours = (formula ADM/15) x 50 |
| District A's Tier 2 hours = 931/15 x 50 = 3,103 hours |
| Tier 3 |
| If the district's poverty index is at least 1.5 but less than 2.5: |
| Tier 3 hours =  ((OWF students x 3)/10) x (25 + (poverty index – 1.5) x 135) |
| District A's Tier 3 hours = (70 x 3)/10 x (25 + (1.5 – 1.5) x 135) = 210/10 x (25 + 0) = 21 x 25 = 525 |
| Total |
| Total Hours = (Tier 1 + Tier 2 + Tier 3) |
| District A's total hours = 1,164 + 3,103 + 525 = 4,792 |
| Total Funding = Total Hours x Hourly Rate |
| District A's total funding = 4,792 x $21.01 = $100,680 |

funding provided to districts with poverty indices greater than 0.25, all districts receive 25 hours of large group intervention through the base funding supplement described above ($26.26 per student in FY 2008 and $27.05 per student in FY 2009).  The total funding for intervention is summarized in Tables 12 and 13.

| Table 12:  Intervention Funding in FY 2008, Based on Poverty Indices | | | | | |
|---|---|---|---|---|---|
| Poverty Index Ranges | Base Funding Supplement | Tier 1 Per Pupil | Tier 2 Per Pupil | Total Per Pupil | Tier 3 Per OWF Pupil |
| 0 to 0.25 | $26.26 | --- | --- | $26.26 | --- |
| 0.25 to 0.75 | $26.26 | $0.00 to $26.26 | --- | $26.26 to $52.52 | --- |
| 0.75 to 1.5 | $26.26 | $26.26 | $35.02 to $70.03 | $87.54 to $122.55 | --- |
| 1.5 to 2.5 | $26.26 | $26.26 | $70.03 | $122.55 | $157.58 to $1,008.48 |
| Above 2.5 | $26.26 | $26.26 | $70.03 | $122.55 | $1,008.48 |

| Table 13: Intervention Funding in FY 2009, Based on Poverty Indices | | | | | |
|---|---|---|---|---|---|
| Poverty Index Ranges | Base Funding Supplement | Tier 1 Per Pupil | Tier 2 Per Pupil | Total Per Pupil | Tier 3 Per Poverty Pupil |
| 0 to 0.25 | $27.05 | --- | --- | $27.05 | --- |
| 0.25 to 0.75 | $27.05 | $0.00 to $27.05 | --- | $27.05 to $54.10 | --- |
| 0.75 to 1.5 | $27.05 | $27.05 | $36.07 to $72.13 | $90.17 to $126.23 | --- |
| 1.5 to 2.5 | $27.05 | $27.05 | $72.13 | $126.23 | $162.30 to $1,038.72 |
| Above 2.5 | $27.05 | $27.05 | $72.13 | $126.23 | $1,038.72 |

### Limited English Proficient Student Intervention

This subsidy provides funding to districts with poverty indices greater than or equal to 1.0 and with at least 2% of students who are limited English proficient (LEP). This funding is phased in at 70% in FY 2008 and FY 2009. For districts with indices greater than or equal to 1.75, funding equal to 25.0% of the formula amount is provided for each LEP student. Funding is provided on a sliding scale from 12.5% to 25.0% for districts with indices between 1.0 and 1.75. In FY 2006 and FY 2007 the percentage of LEP students that was reported on each district's local report card for the 2002-2003 school year was used as a basis for this funding. Am. Sub. H.B. 119 of the 127th General Assembly continues to use these LEP student numbers and percentages for FY 2008 and FY 2009. The calculations for this funding are summarized in the following table. LEP student intervention funding totaled about $8.3 million statewide for ten school districts in FY 2007 and $8.6 million for 11 school districts in FY 2008.

| Limited English Proficient Funding |
|---|
| If the qualifying district's poverty index is greater than or equal to 1.75: |
| Per LEP student funding = formula amount x 0.25 |
| If the qualifying district's poverty index is at least 1.0 but less than 1.75: |
| Per LEP student funding = formula amount x (0.125 + (poverty index – 1.0)/0.75 x 0.125) |
| Total Funding = Per LEP student funding x LEP student count x phase-in percentage |

(Qualifying districts have reported on their report cards for the 2002-2003 school year an LEP student % of at least 2% and have poverty indices at least equal to 1.0)

(LEP student count is the number of LEP students used to determine the LEP student % on district report cards for the 2002-2003 school year)

(Phase-in percentage = 70% in FY 2008 and FY 2009)

In general, districts qualifying for this funding receive from $487 to $974 per LEP student in FY 2008 and from $502 to $1,003 per LEP student in FY 2009.

### Teacher Professional Development

This program provides funding for additional teacher professional development to districts with poverty indices greater than or equal to 1.0. The calculation assumes that each

Assuming the hypothetical District A has 25 LEP students and an LEP student percentage greater than 2.0%, the calculation for District A's LEP funding is given below.

| District A's Limited English Proficient Funding for FY 2008 |
|---|
| If the qualifying district's poverty index is at least 1.0 but less than 1.75: Per LEP student funding = formula amount x (0.125 + (poverty index – 1.0)/0.75 x 0.125) |
| District A's per LEP student funding = $5,565 x (0.125 + (1.5 – 1)/0.75 x 0.125) = $5,565 x 0.208 = $1,158 |
| Total Funding = Per LEP student funding x LEP student count x phase-in percentage |
| District A's total LEP funding = $1,158 x 25 x 70% = $20,265 |

district's student teacher ratio is 17:1. For districts with poverty indices greater than or equal to 1.75, funding of 4.5% of the formula amount is provided per assumed teacher. Funding per teacher is provided to districts with indices between 1.0 and 1.75 on a sliding scale. The calculation is given below. Poverty-based teacher professional development funding totaled about $4.1 million statewide in FY 2007 and $6.1 million in FY 2008.

| Teacher Professional Development Funding |
|---|
| If the qualifying district's poverty index is greater than or equal to 1.75: Per teacher funding = 0.045 x formula amount If the qualifying district's poverty index is at least 1.0 but less than 1.75: Per teacher funding = (poverty index – 1.0)/0.75 x (0.045 x formula amount) |
| Total Funding = Per teacher funding x Number of teachers |
| (Number of teachers = formula ADM/17) |

In general, districts qualifying for this funding receive up to $14.73 per student in FY 2008 and up to $15.17 per student in FY 2009. In addition to this funding provided to districts with poverty indices greater than 1.0, all districts receive an additional 4.5% of the formula amount per teacher through the professional development base funding supplement ($11.05 per student in FY 2008 and $11.38 per student in FY 2009), as well as 8.0% of the formula amount for 20% of teachers assuming a student teacher ratio of 17:1 and for each principal assuming a student principal ratio of 340:1 through the professional development for data-based decision-making base funding supplement ($6.55 per student in FY 2008 and $6.74 per student in FY 2009). The total funding for professional development is summarized in Tables 14 and 15.

| Table 14: Professional Development Funding Per Pupil in FY 2008, Based on Poverty Indices | | | | |
|---|---|---|---|---|
| Poverty Index Ranges | Base Funding Supplement – Professional Development | Base Funding Supplement – Professional Development for Data-Based Decision Making | Poverty-Based Assistance | Total |
| 0 to 1.0 | $11.05 | $6.55 | --- | $17.60 |
| 1.0 to 1.75 | $11.05 | $6.55 | $ 0.00 to $14.73 | $17.60 to $32.33 |
| Above 1.75 | $11.05 | $6.55 | $14.73 | $32.33 |

| Table 15: Professional Development Funding Per Pupil in FY 2009, Based on Poverty Indices | | | | |
|---|---|---|---|---|
| Poverty Index Ranges | Base Funding Supplement – Professional Development | Base Funding Supplement – Professional Development for Data-Based Decision Making | Poverty-Based Assistance | Total |
| 0 to 1.0 | $11.38 | $6.74 | --- | $18.12 |
| 1.0 to 1.75 | $11.38 | $6.74 | $ 0.00 to $15.17 | $18.12 to $33.29 |
| Above 1.75 | $11.38 | $6.74 | $15.17 | $33.29 |

For the hypothetical District A, this funding for FY 2008 is calculated below.

| District A's Teacher Professional Development Funding for FY 2008 |
|---|
| If the qualifying district's poverty index is at least 1.0 but less than 1.75: Per teacher funding = (poverty index – 1.0)/0.75 x (0.045 x formula amount) |
| District A's per teacher funding = (1.5 – 1.0)/0.75 x (0.045 x $5,565) = $167 |
| Total Funding = Per teacher funding x Number of teachers |
| District A's total funding = $162 x (931/17) = $9,146 |

### Dropout Prevention

This subsidy provides dropout prevention funding for the big eight school districts, which are Akron, Canton, Cincinnati, Columbus, Cleveland, Dayton, Toledo, and Youngstown. This subsidy provides these districts with 0.5% of the formula amount times the district's poverty index per student. The calculation is given below. Dropout prevention funding totaled about $16.1 million in FY 2007 and $22.6 million in FY 2008 for these big eight districts.

| Dropout Prevention Funding = |
|---|
| 0.005 x formula amount x poverty index x formula ADM |

Assuming that the hypothetical District A is a big eight school district, District A's dropout prevention funding is calculated below.

| District A's Dropout Prevention Funding for FY 2008= |
| :---: |
| 0.005 x formula amount x poverty index x formula ADM = |
| 0.005 x $5,565 x 1.5 x 931 = $38,858 |

Through this subsidy, the big eight districts receive a per pupil amount equal to about $27.82 multiplied by their poverty indices in FY 2008 and about $28.66 multiplied by their poverty indices per student in FY 2009.  Poverty indices for these districts range from about 2.5 to 4.4.  Therefore, per pupil funding levels range from about $70 to $122 in FY 2008 and from about $72 to $126 in FY 2009.

### Community Outreach

This subsidy provides community outreach funding for 21 major urban districts (Urban 21).  The Urban 21 districts are:  Akron, Canton, Cincinnati, Cleveland Heights-University Heights, Cleveland, Columbus, Dayton, East Cleveland, Elyria, Euclid, Hamilton, Lima, Lorain, Mansfield, Middletown, Parma, South-Western, Springfield, Toledo, Warren, and Youngstown.  This subsidy provides these districts with 0.5% of the formula amount times the district's poverty index per student.  The calculation is given below.  Community outreach funding totaled about $19.1 million in FY 2007 and $27.0 million in FY 2008 for these 21 major urban districts.

| Community Outreach Funding = |
| :---: |
| 0.005 x formula amount x poverty index x formula ADM |

The Urban 21 districts receive about $27.82 times their poverty indices per student in FY 2008 and about $28.66 times their poverty indices per student in FY 2009.  Poverty indices for these districts range from about 0.4 to 4.4.  Therefore, per pupil funding levels range from about $11 to $122 in FY 2008 and from about $11 to $126 in FY 2009.

### Closing the Achievement Gap

Am. Sub. H.B. 119 of the 127th General Assembly establishes this new subsidy beginning in FY 2008 to provide additional funding to help districts close achievement gaps.  The funding is based on each district's "academic distress index."  This index is calculated by dividing the percentage of buildings in the district that are in academic watch (AW) or academic emergency (AE), termed the district's "academic distress percentage," by the percentage of buildings in the

Since the hypothetical District A is assumed to be one of the big eight districts, it is therefore an urban 21 district, District A's community outreach funding is calculated below.

| District A's Community Outreach Funding for FY 2008 = |
| --- |
| 0.005 x formula amount x poverty index x formula ADM = |
| .005 x $5,565 x 1.5 x 931 = $38,858 |

state that are in academic watch or academic emergency. Districts qualify for funding in FY 2008 if their academic distress indices and their poverty indices are greater than or equal to one. These districts receive, on a per student basis, 0.15% of the formula amount multiplied by their poverty indices and academic distress indices. In FY 2009, each district that received the subsidy in FY 2008 receives the same amount in FY 2009 unless there is an improvement in the district's academic distress percentage. If this percentage decreases, the district receives an extra 3.5% of the funding it received in FY 2008. Districts that did not receive the subsidy in FY 2008, but that have academic distress indices and poverty indices greater than or equal to one in FY 2009 receive, on a per student basis, 0.15% of the formula amount multiplied by their poverty indices and academic distress indices in FY 2009. This calculation is summarized below.

| **Closing the Achievement Gap Funding** |
| --- |
| In FY 2008:<br>Total Funding for qualifying districts = 0.0015 x formula amount x poverty index x academic distress index x formula ADM |
| In FY 2009:<br>Scenario 1:<br>Total Funding for qualifying districts that did not qualify in FY 2008<br>= 0.0015 x formula amount x poverty index x academic distress index x formula ADM<br>Scenario 2:<br>Total Funding for districts that qualified in FY 2008 and have an academic distress percentage lower than FY 2008<br>= FY 2008 subsidy amount x 1.035<br>Scenario 3:<br>Total Funding for districts that qualified in FY 2008 and have an academic distress percentage equal to or greater than FY 2008<br>= FY 2008 subsidy amount |

Qualifying districts have academic distress indices and poverty indices at least equal to 1.0
Academic distress index = (% of district's buildings in AE or AW)/ (% of state's buildings in AE or AW)

In FY 2008, closing the achievement gap funding totaled $30.0 million for 29 qualifying districts.

Assuming that the hypothetical District A has an academic distress percentage equal to 15.3% and the academic distress percentage for the state as a whole remains at 11.7%, District A's academic distress index equals 1.3 (15.3%/11.7%) in FY 2008 and District A's funding for closing the achievement gap is calculated as follows:

| District A's Closing the Achievement Gap Funding for FY 2008 = |
|---|
| In FY 2008:<br>Total Funding for qualifying districts =<br>0.0015 x formula amount x poverty index x academic distress index x formula ADM |
| = 0.0015 x $5,565 x 1.5 x 1.3 x 931 = $15,154 |

## Poverty-Based Assistance Summary

The state provided approximately $408.7 million in poverty-based assistance to 407 school districts in FY 2007 and $454.4 million to 404 school districts in FY 2008. Table 16 presents the poverty-based assistance per pupil and the poverty index for the ten districts with the highest concentrations of poverty in the state for FY 2008. These ten districts receive about $254.6 million in poverty-based assistance in FY 2008, about 56.0% of the statewide total. As can be seen from this table the large urban districts generally have the highest poverty indices although some small rural districts such as New Boston Local in Scioto County can also have high concentrations of poverty.

| Table 16: Poverty-Based Assistance Per Pupil for Ten Districts with Highest Poverty Concentrations, FY 2008 | | | | |
|---|---|---|---|---|
| **District** | **County** | **FY 2008 ADM** | **FY 2008 Poverty Index** | **FY 2008 Poverty-Based Assistance Per Pupil** |
| Youngstown City | Mahoning | 10,534 | 4.35 | $1,208 |
| New Boston Local | Scioto | 305 | 3.59 | $792 |
| Toledo City | Lucas | 33,065 | 3.48 | $1,121 |
| Steubenville City | Jefferson | 1,885 | 3.38 | $773 |
| Dayton City | Montgomery | 21,536 | 3.37 | $1,117 |
| East Cleveland City | Cuyahoga | 3,518 | 3.24 | $1,055 |
| Cincinnati City | Hamilton | 39,697 | 3.21 | $1,088 |
| Campbell City | Mahoning | 1,388 | 3.14 | $682 |
| Cleveland Municipal | Cuyahoga | 60,273 | 3.02 | $1,100 |
| Columbus City | Franklin | 60,780 | 2.87 | $1,068 |

**Chart 8: Poverty-Based Assistance Per Pupil by Poverty Index**
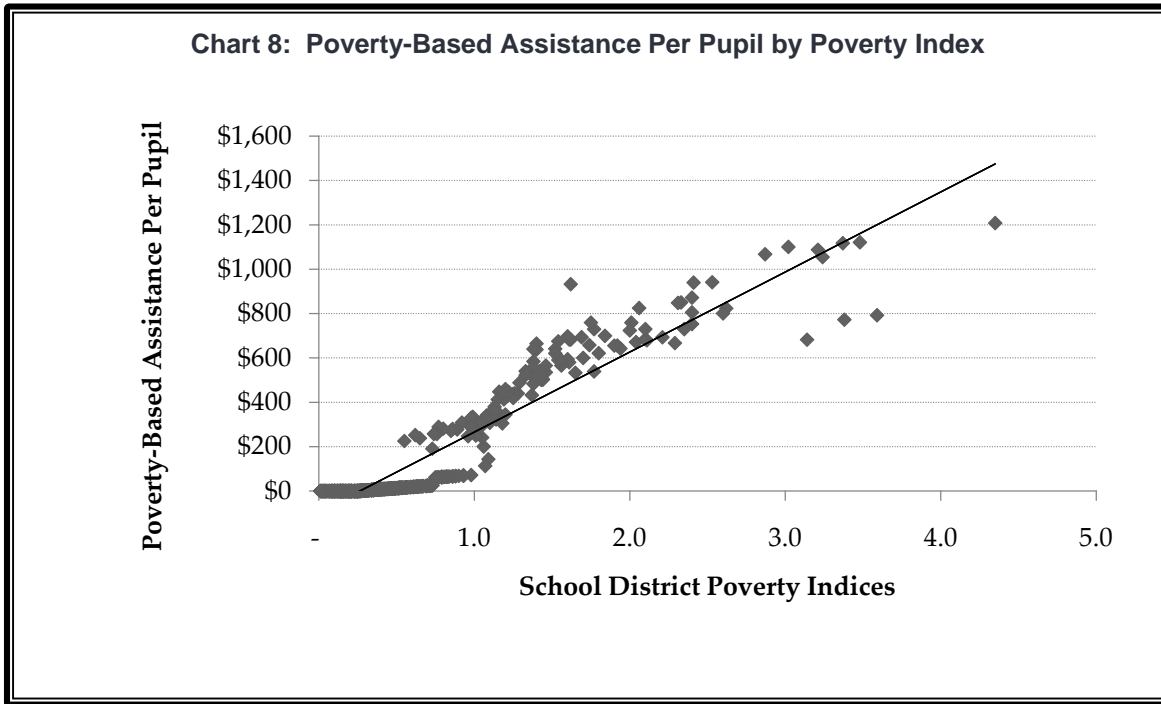


Chart 8 shows poverty-based assistance per pupil in FY 2008 by each district's poverty index. The straight upward trend line shows that poverty-based assistance per pupil generally increases as districts' poverty indices increase.

## Gifted Education Cost: State Model Amount and Distribution of State Funds

The state provides funding for the additional costs associated with gifted education through unit funding, which is essentially a personnel based funding. Gifted unit funding is fully funded by the state. The state currently provides funding for up to 1,110 gifted units approved by ODE. The state model multiplies each approved gifted unit by a classroom allowance equal to $2,678, a supplemental unit allowance equal to $5,241, a salary allowance that is based on the state minimum teacher salary schedule prescribed by law as it existed prior to FY 2002, and a fringe benefit allowance that is 15% of the salary allowance. This calculation is shown below.

| Gifted Education Unit Cost = |
| :---: |
| Approved Number of Units x [Salary Allowance + 15% Fringe Benefits + Classroom Allowance ($2,678) + |
| Supplemental Unit Allowance ($5,241)] |

Only about half of the supplemental unit allowance of gifted unit funding is equalized based on the district's state share percentage. This equalization is shown below. For the state as

Applying the gifted calculations to the hypothetical District A results in the following state funding for the supplemental unit allowance.

| District A's State funding for the supplemental unit allowance for FY 2008 = |
| --- |
| $5,251 x 50% + $5,550 x (District's state share percentage) = |
| $5,251 x 50% + $5,550 x 57.9% = $5,839 |

Assume the hypothetical District A has 1.0 approved gifted unit and the district's gifted education teacher has a master's degree and five years of experience.  The salary allowance for this teacher would be about $22,700.  District A's state funding for its one gifted education unit would be calculated as follows.

| District A's Gifted Education Unit Cost State Funding for FY 2008 = |
| --- |
| Approved Number of Units x [Salary Allowance + 15% Fringe Benefits + Classroom Allowance + State Funding for the Supplemental Unit Allowance] |
| 1 unit x ($22,700 + ($22,700 x 15%) + $2,678 + $5,839) = $34,622 |

a whole this comes out to about $5,241 per unit.  Gifted education unit funding totaled about $33.6 million statewide in FY 2007 and $33.1 million in FY 2008.

| State funding for the supplemental unit allowance = |
| --- |
| $5,251 x 50% + $5,550 x (District's state share percentage) |

## Further Adjustments and Guarantees

Ohio's school districts are very diverse.  This diversity is recognized by the state school funding formula through the various categorical costs discussed above.  The formula includes several other adjustments and guarantees that are designed to further increase the sensitivity of the formula to district diversity and to avoid any sudden decreases in state aid to individual school districts due to changes in state policy as well as changes in a district's property wealth or enrollment.  Am. Sub. H.B. 119 of the 127th General Assembly simplified these guarantees by eliminating the base cost funding guarantee, the poverty-based

> The formula's guarantee structure was simplified beginning in FY 2008.

assistance guarantee, and the reappraisal guarantee beginning in FY 2008.  These and the remaining adjustments and guarantees are discussed in this section.  The remaining guarantees and adjustments are the exempt property adjustment, the excess cost supplement, the teacher experience and training adjustment, the charge-off supplement, and transitional aid.

It should be noted that these adjustments and guarantees are generally not part of the model that determines the cost of the state-defined basic education. Instead, they are added

> Districts receiving guarantee or transitional aid payments receive more aid than the amounts determined by the formula alone.

into the distribution process that determines the state and local shares of the state-defined basic education model cost. The effect of adding these adjustments and guarantees is to lower the local share and, therefore, increase the state share of the model cost. School districts receiving guarantee or transitional aid payments two years in a row may not see increases in their state aid; however, in both years they receive more than the amounts determined by the formula alone.

## Exempt Property Adjustment

An adjustment is made to the recognized valuation of about 13 districts that have large amounts of state-owned property that is exempt from taxation. In FY 2008, this adjustment decreased these districts' valuations used to compute the local share of base cost funding by about $836.4 million, resulting in a decrease in their local shares and a corresponding increase in the total state share of base cost funding of approximately $19.2 million ($836.4 million x 0.023).

## Base Cost Guarantee

Am. Sub. H.B. 66 of the 126th General Assembly changed the way the base cost was calculated including phasing down the CDBF adjustment. So that this policy change would not cause large unexpected decreases in individual school districts' base cost funding, the base cost guarantee was instituted. It guaranteed that each district's state base cost funding (including funding for base funding supplements) was not lower than its state aggregate or per pupil base cost funding in FY 2005, whichever was lower. In FY 2007, the base cost guarantee added about $257.3 million to the total state base cost funding of $4,198.2 million statewide. This guarantee is eliminated starting in FY 2008.

## Excess Cost Supplement

As explained above, the local share of special and career-technical education and transportation is equalized based on each district's state share percentage of the base cost. If the need for these services is uniform, the required local millage rate for these services will also be uniform. The need for these services, however, varies greatly from one district to another. Therefore, the local share of these items could require different levels of local property tax levies. For example, in FY 2007 the local share of special and career-technical education and transportation ranged from less than one mill to about six mills with an average of 3.2 mills.

The excess cost supplement limits the local share of these three items to 3.3 mills of local property tax levies. If a school district's local share of model costs for these three items exceeds 3.3 mills, the state will pay the excess cost. If the district's local share is less than 3.3 mills, it will not be affected by this provision. By establishing the excess cost supplement, the formula effectively puts a cap of 26.3 mills on the required local contribution to the basic education model cost, 23 mills for base cost funding and a maximum of 3.3 mills for categorical cost funding. In FY 2008, the excess cost supplement totaled about $55.6 million statewide for 339 districts.

### Teacher Experience and Training Adjustment

The teacher experience and training adjustment provides school districts additional funding if their teachers are above the state average teacher education and experience level. This adjustment is based on the typical teacher salary schedule that pays teachers based on their education and experience levels. In FY 2008, funding for the teacher experience and training adjustment totaled about $14.8 million for 386 districts.

### Poverty-Based Assistance Guarantee

As with the base cost, Am. Sub. H.B. 66 of the 126th General Assembly made changes to poverty-based assistance beginning in FY 2006. So that this policy change would not cause large unexpected decreases in individual school district's poverty-based assistance, the poverty-based assistance guarantee was instituted. It guarantees that districts receive at least as much poverty-based assistance funding as the disadvantaged pupil impact aid (DPIA) they received in FY 2005 less any DPIA transferred to e-schools in that year. Starting in FY 2006, e-schools are not eligible to receive poverty-based assistance. In FY 2007, the poverty-based assistance guarantee added about $20.8 million to the total poverty-based assistance of $407.4 million statewide. This guarantee is eliminated starting in FY 2008.

### Reappraisal Guarantee

As explained in the base cost section above under recognized valuation, school districts generally will experience significant increases in real property value in the years their real property value is reappraised or updated. Recognized valuation spreads this property value increase evenly over three years to prevent significant decreases in state funding in reappraisal and update years. The reappraisal guarantee further helps to mitigate the effects of the increase in property valuation experienced by districts during a reappraisal or update year. For a district undergoing a reappraisal or update, it guarantees the district receives at least the same amount of funding (but not including the charge-off supplement or transitional aid, which are discussed below) it received in the previous year. In FY 2007, funding for the reappraisal

guarantee totaled about $60.1 million statewide. This guarantee is eliminated starting in FY 2008.

### Charge-off Supplement (Gap Aid)

As stated previously, the school funding formula caps the maximum required local contribution to the basic education model cost at 26.3 mills. State law generally requires that school districts levy at least 20 mills to receive state funding. If a district levies the minimum amount, however, it will not be receiving sufficient funding to cover all of the state-defined basic education costs. The charge-off supplement, which is more commonly known as gap aid, makes up with state revenues any difference in the local contribution assumed by the formula and the district's actual local operating revenue. It is calculated according to the formula shown below. The charge-off supplement totaled about $73.5 million statewide for 145 districts in FY 2007 and $85.2 million for 158 districts in FY 2008.

| Gap Aid = |
| :---: |
| Local share of the base cost (23 mill charge-off) + |
| Local share of the special education weighted cost + |
| Local share of the career-technical education weighted cost + |
| Local share of the transportation model cost – |
| Excess cost supplement – |
| Total local operating revenues (including property taxes and school district income taxes) |

### Transitional Aid

Am. Sub. H.B. 66 of the 126th General Assembly made a number of changes to the funding formula beginning in FY 2006, some of which had the effect of lowering funding for certain school districts. So that this policy change would not cause large unexpected decreases in individual school district's total school formula funding, transitional aid was instituted for FY 2006 and FY 2007. Transitional aid prevents a district's total school formula funding from falling below its total formula funding in the previous year. In FY 2007, transitional aid totaled about $112.8 million statewide. Am. Sub. H.B. 119 of the 127th General Assembly continues to pay transitional aid in FY 2008 and FY 2009. In FY 2008, transitional aid totaled about $454.3 million for 390 districts.

## State Funding for Enhancement Spending – Parity Aid

In the introduction it was shown that, although the state is mainly concerned with supporting the state-defined basic education model cost as described above, the state also provides funding, called parity aid, for enhancement spending. This funding totaled approximately 18.3% of school district enhancement spending in FY 2007.

The previous discussion on state funding for the state-defined basic education model cost showed how the state equalizes 23 mills of local property tax revenues through base cost funding and up to 3.3 additional mills through categorical funding. Parity aid equalizes additional mills above the

> Districts do not have to raise additional millage to qualify for parity aid.

equalization level (up to 26.3 mills) of the state-defined basic education model cost up to the wealth level of the district at the 80th percentile on a measure of district property and income wealth. What this means is that the formula looks at, on a per pupil basis, what each district that qualifies for parity aid can raise with a certain number of mills and what the district at the 80th percentile ranking can raise, then the state makes up the difference. If a qualifying district actually raises part or all of these additional mills, parity aid will ensure that, on a per pupil basis, the amount of revenue generated by each mill is the same for this district as that for the district at the 80th percentile. If a qualifying district does not actually raise any of these additional mills, the district will still be eligible for parity aid, which is based on the wealth level of the district and does not depend on any additional mills levied by the district. In FY 2007, all districts below the 80th percentile qualified for parity aid and received payments that equalized an additional 7.5 mills. In FY 2008, the 410 lowest wealth districts qualify and receive payments that equalize an additional 8.0 mills. Finally, in FY 2009, the 367 lowest wealth districts qualify and receive payments that equalize an additional 8.5 mills.

The wealth measure used is a weighted average of property wealth (2/3) and income wealth (1/3). Property wealth is measured by per pupil property valuation and income wealth is measured by the federal adjusted gross income per pupil. These weights reflect the fact that the main local revenue source for districts is property taxes, but that districts with low income wealth may find it more difficult to obtain voter approval for levies above the basic level. The combination of property wealth and income wealth also provides a better local tax base measure than property wealth or income wealth alone.

Am. Sub. H.B. 94 of the 124th General Assembly, which instituted parity aid, also eliminated an income factor adjustment that used to be part of the base cost funding formula. A

> Districts may receive alternative parity aid even if they do not qualify for standard parity aid.

district's income factor is calculated by dividing the district's median income by the statewide median income. The purpose of this income factor adjustment was to provide state funding for education enhancement services; this funding is now provided through parity aid. A few districts benefited more from the income factor adjustment than from parity aid. H.B. 94, therefore, established an alternative parity aid calculation to continue the income factor adjustment benefit at the FY 2001 level for certain school districts. Specifically, school districts with a cost-of-doing-business factor greater than 1.0375 in FY 2005, an income factor below 1.0, and a poverty index greater than 1.0 are eligible for alternative parity aid. Note that it is possible for a district to qualify for alternative parity aid even if they do not qualify for standard parity aid. As the number of districts that qualify for regular parity aid decreases in FY 2008

and FY 2009 under the policy instituted in H.B. 119, the number of districts qualifying for alternative parity aid may increase.

An individual school district's parity aid is calculated as follows:

| Parity Aid |
| --- |
| Standard Parity Aid Per Pupil for Qualifying Districts= (Threshold wealth per pupil – District's wealth per pupil) x Parity Millage |
| Alternative Parity Aid Per Pupil for Qualifying Districts = $60,000 x (1 – District's income factor) x 4/15 x 0.023 |
| District's Parity Aid Per Pupil = Greater of Standard or Alternative Parity Aid Per Pupil |
| Total Parity Aid = District's Parity Aid Per Pupil x ADM |

Districts qualify for standard parity aid in FY 2008 if they are one of the 410 lowest wealth districts
Districts qualify for standard parity aid in FY 2009 if they are one of the 367 lowest wealth districts
Parity Millage = 8.0 mills in FY 2008 and 8.5 mills in FY 2009
Threshold wealth per pupil = The wealth per pupil of the district at the 80th percentile
Districts qualify for alternative parity aid if their CDBF adjustment was greater than 1.0375 in FY 2005,
their income factor is below one, and their poverty index is greater than one.

Approximately $470.2 million in parity aid was distributed to 492 districts for FY 2007 and $478.5 million was distributed to 419 districts for FY 2008. Per pupil parity aid amounts ranged from more than $900 in eight districts to less than $100 in nine districts. The average in FY 2008 was $458 per pupil for those districts receiving parity aid.

In order to calculate parity aid in FY 2008 for the hypothetical District A, we need to know District A's income factor and income wealth per pupil, as well as the wealth per pupil in FY 2008 of the district at the 80th percentile. In FY 2008, the district at the 80th percentile has a wealth per pupil of about $170,400. District A's property wealth per pupil in FY 2008 was calculated above as $124,597. Assuming District A's income wealth per pupil is $109,000, its income factor is 0.8, and it also meets the requirements to qualify for alternative parity aid, District A's parity aid for FY 2008 can be calculated as follows:

| District A's Parity Aid for FY 2008 |
| --- |
| District's Wealth Per Pupil = 2/3 x Per Pupil Property Wealth + 1/3 x Per Pupil Income Wealth |
| District A's Wealth Per Pupil = 2/3 x $124,597 + 1/3 x $109,000 = $119,398 (ranked 264) |
| Standard Parity Aid Per Pupil = (Threshold wealth per pupil – District's wealth per pupil) x 0.008 |
| District A's Standard = ($170,400 – $119,398) x .008 = $408 |
| Alternative Parity Aid Per Pupil = $60,000 x (1 – District's income factor) x 4/15 x 0.023 |
| District A's Alternative = $60,000 x (1 – 0.8) x 4/15 x 0.023 = $221 |
| District's Parity Aid Per Pupil = Greater of Standard or Alternative Parity Aid Per Pupil |
| District A's Parity Aid Per Pupil = $408 |
| Total Parity Aid = District's Parity Aid Per Pupil x ADM |
| District A's Total Parity Aid = $408 x 931 = $379,863 |

**Chart 9: Enhancement Revenues by Wealth Quartile, FY 2007**
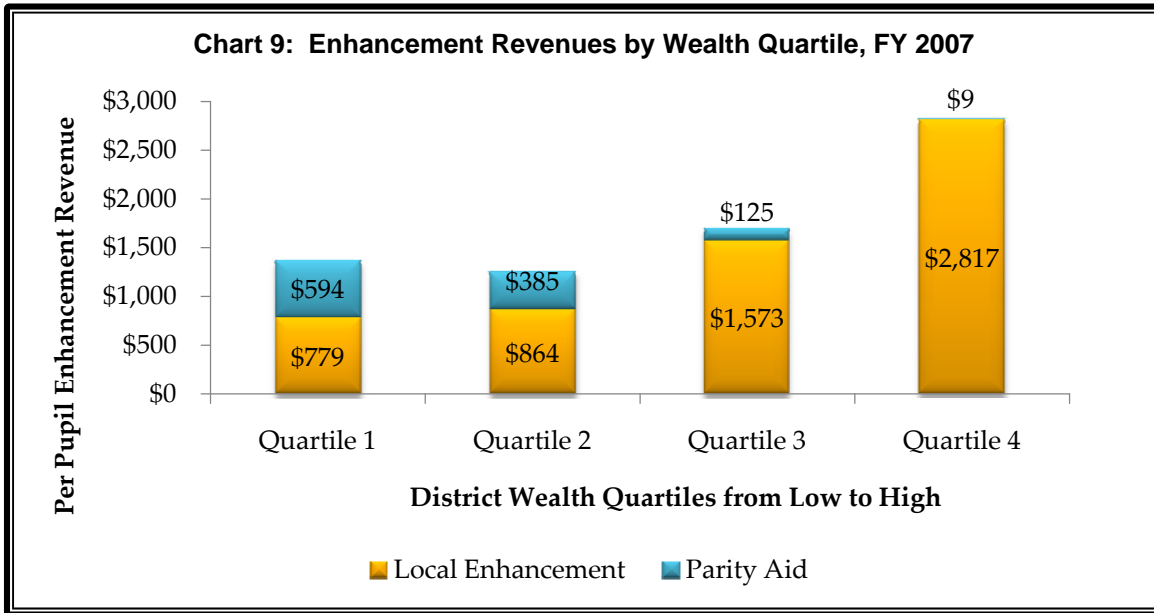


Chart 9 shows the effect of parity aid in equalizing local enhancement spending in FY 2007 by wealth-based quartile. These quartiles are the same as those used in Chart 4 showing state and local shares of the per pupil state-defined basic education cost in the introduction section. Each quartile includes approximately 25% of total students statewide. Quartile 1 districts have the lowest average valuation per pupil and quartile 4 districts have the highest average valuation per pupil. Chart 9 includes only those local property taxes and school district income taxes for operating expenses that are beyond the basic education spending level. It does not include federal funds as well as some other state and local funding for education enhancements (such as state grant programs and local permanent improvement levies).

As shown previously in Chart 4, there is little difference in total per pupil revenue for the state-defined basic education cost. The formula neutralizes the effect of local property wealth disparity on a district's ability to provide the state-defined basic education to all of its students by paying a higher share of the cost for lower wealth districts. Local enhancement revenues (the dark part of each bar in Chart 9), on the other hand, vary significantly by wealth quartile due to the uneven distribution of property and income wealth and the fact that there is no limit on the amount of taxes local residents can approve for their districts. The disparity or inequity in per pupil revenue across districts occurs only in enhancement revenue, which is above the state-defined basic education level. In FY 2007, per pupil local enhancement revenue averaged $779 for quartile 1, $864 for quartile 2, $1,573 for quartile 3, and $2,817 for quartile 4. In other words, quartile 4 districts raise on average almost four times more local enhancement revenue per pupil than quartile 1 districts. In FY 2007 parity aid per pupil averaged $594 for quartile 1, $385

> Differences in district revenues that are based on district wealth only take place at the enhancement level.

for quartile 2, $125 for quartile 3, and $9 for quartile 4. Adding parity aid to local enhancement revenue results in per pupil total enhancement revenue averages of $1,373 for quartile 1, $1,249 for quartile 2, $1,698 for quartile 3, and $2,826 for quartile 4. While the top 20% of districts (quartile 4) still had significantly more enhancement revenues, parity aid had substantially leveled the playing field for the bottom 80% of school districts (quartiles 1 to 3) and reduced the disparity between quartile 4 and quartile 1 districts by about 50%.

## State School Funding Summary for FY 2007 and FY 2008

| Table 17:  State School Funding Amounts, FY 2007 and FY 2008 | | | | |
| --- | --- | --- | --- | --- |
| | FY 2007 | | FY 2008 | |
| Funding Component | Amount | Percentage | Amount | Percentage |
| Base Cost Funding | $4,198.2 million | 67.0% | $3,917.4 million | 61.5% |
| Additional Special Education Funding | $432.7 million | 6.9% | $461.4 million | 7.2% |
| Additional Career-Technical Education Funding | $48.2 million | 0.8% | $48.2 million | 0.8% |
| Transportation Funding | $359.7 million | 5.7% | $363.3 million | 5.7% |
| Poverty-Based Assistance | $408.7 million | 6.5% | $454.4 million | 7.1% |
| Additional Gifted Education Funding | $33.6 million | 0.5% | $33.1 million | 0.5% |
| Teacher Training and Experience Adjustment | $13.9 million | 0.2% | $14.8 million | 0.2% |
| Excess Cost Supplement | $58.6 million | 0.9% | $55.6 million | 0.9% |
| Reappraisal Guarantee | $60.1 million | 1.0% | -- | -- |
| Gap Aid | $73.5 million | 1.2% | $85.2 million | 1.3% |
| Transitional Aid | $112.8 million | 1.8% | $454.3 million | 7.1% |
| Parity Aid | $470.2 million | 7.5% | $478.5 million | 7.5% |
| Total State Funding | $6,268.7 million | 100.0% | $6,366.2 million | 100.0% |

## State Funding Transfers

As mentioned previously, the ADM for each district is based on a count of students who reside in the district. The district is legally required to provide an education for these students.

> Students are counted where they live and funding follows the students to where they are educated.

After each school district's state aid is calculated as explained above, ODE performs a number of deductions and transfers to and from districts for various services provided to the students counted in the districts' ADMs. For example, school districts whose students receive services from a regional educational service center (ESC) have an amount deducted and transferred to the ESC to pay for these services. Some students choose to obtain all or a portion of their education elsewhere. For example, some students attend community schools and some students attend other districts through open enrollment. In general, for these students, the funding they generate in the

formula for the district in which they reside is deducted from the state aid credited to that district and added to the payment for the district or community school where the students are actually educated. In addition, state programs such as the Pilot Project Scholarship Program (Cleveland Voucher Program), the Special Education Scholarship Pilot Program, and the Educational Choice Scholarship Pilot Program provide for deductions of state aid from school districts to support the provision of vouchers to district residents to be used in alternative educational programs. Finally, the post-secondary options program allows students to attend post-secondary institutions for both high school and college credit. The tuition for these students is paid from a deduction from their resident school district. This section describes how funding for these programs typically works.

### Educational Service Centers (ESC)

All local school districts are required to be associated with an ESC. ESCs are required to provide oversight functions to all local (member) districts within their region. They may also provide similar services to city and exempted village (client) districts that have entered into an agreement with them. In addition, ESCs may provide other services to member and client districts on a contractual basis. Services typically provided by ESCs include supervisory services, special education, gifted education, professional development, technology, and some administrative services. School districts associated with an ESC have a per pupil amount of at least $6.50 deducted from their state aid and transferred to the ESC. In addition, amounts for services and contracts negotiated between the school district and ESC are also deducted from the district's state aid and transferred to the ESC. In FY 2007 approximately $170.6 million and in FY 2008 approximately $182.8 million, was deducted statewide from school district state aid and transferred to ESCs. Through a separate payment the state earmarked $52.0 million in each fiscal year to be distributed to ESCs based on the number of students served by each ESC. In FY 2008, this earmark was reduced to $47.0 million through an executive-ordered reduction.

### Community Schools

Community schools are public schools that are exempt from certain state requirements. These schools are not part of any school district and do not have taxing authority. Community schools were first established in Ohio in FY 1999. They have grown from 15 schools educating 2,245 students (0.1% of public school enrollment) in FY 1999 to over 300 schools educating over 82,000 students (4.6% of public school enrollment) in FY 2008. Generally, community schools receive the following for each student enrolled in their schools. E-schools, however, do not receive parity aid or poverty-based assistance.

- The base cost formula amount plus the per pupil amount of each of the base funding supplements;
- If the student is a special or career-technical education student, the weight applicable to that student multiplied by the base cost formula amount;

---

Assume that four kindergarten students, three fourth grade students, five middle school students, and twenty high school students, including one who is visually impaired, one with autism, and six with learning disabilities leave the hypothetical District A to attend a community school. District A's community school ADM would be 31, remembering that kindergarten students are counted as 0.5 in ADM. District A's community school additional special education weights would be 8.7 (6 x 0.3691 + 1 x 1.7695 + 1 x 4.7342). Also assume that none of these students is a student living in poverty, but that the kindergarten students receive all-day kindergarten services at the community school. District A's community school transfer can be calculated as follows:

| District A's Community School Transfer for FY 2008 |
| :--- |
| Base Cost = Community School ADM x (Formula Amount + Base Funding Supplements Per Pupil) |
| District A's Base Cost Transfer = 31 x ($5,565 + $49.42) = $174,047 |
| Additional Special Education Weighted Funding = Community School Weighted ADM x Formula Amount |
| District A's Special Education Funding Transfer = 8.7 x $5,565 = $48,416 |
| Poverty-Based Assistance All-Day Kindergarten Funding = Community School Kindergarten students x Formula Amount x 0.5 |
| District A's All-Day Kindergarten Funding Transfer = 4 x $5,565 x 0.5 = $11,130 |
| Poverty-Based Assistance Increased Learning Opportunities = Community School K-3rd ADM x District's Increased Learning Opportunities Funding/District's K-3rd ADM |
| District A's Class-Size Reduction Funding Transfer = 4 x $283,770/300 = $3,784 |
| Parity Aid = Community School ADM x District's Parity Aid Per Pupil |
| District A's Parity Aid Transfer = 31 x $408 = $12,648 |
| District A's Community School Transfer = $174,047 + $48,416 + $11,130 + $3,784 + $12,648 = $250,025 |

- Any poverty-based assistance generated by the student; and
- The parity aid per pupil received by the student's resident district.

In addition, beginning in FY 2008, community schools may receive funding for transportation, if they choose to provide transportation to their students. Otherwise, a community school student's resident district is generally responsible for providing the student transportation to and from the community school.

The effect on school districts of the current method of funding community school students is not straightforward. Due to the marginal student effect, discussed in the base cost section, counting the community school student in the resident district's ADM increases state funding for the base cost by the formula amount plus the per pupil amount of each of the base funding supplements; this amount is then transferred to the community school. This funding method, therefore, has no real effect on the resident district's base cost funding.

Looking again at the hypothetical District A example, if these community school students had not been counted in the district's ADM, District A's ADM would have decreased by 31 to 900 (931 – 31).  As a result, since the district's local share of base cost funding does not change when its ADM changes, District A's total base cost and state base cost funding would have been $174,047 lower.  Likewise since poverty-based assistance and parity aid do not have local shares, if the community school students were not included in the poverty-based assistance and parity aid calculations, District A's poverty-based assistance could have been $14,914 lower and its parity aid could also have been $12,648 lower.

The marginal student effect, however, does not apply to state funding for additional special education and career-technical education weighted costs.  Counting the student in the resident district's special education or career-technical education ADM increases state funding by only the state share of the weighted cost.  However, both the state and local shares of the weighted cost are deducted from the district and transferred to the community school.  In general, the resident school district loses state funding for special education and career-technical education weighted costs through this methodology; however, the analysis is complicated because another effect of counting community school students in the resident district's ADM is that the resident district's state share percentage is higher than it would otherwise be.  This, in turn, increases the state funding the district receives for special education and career-technical education weighted costs as well as transportation modeled costs.  The interaction between these two variables for each individual resident district determines whether the district receives more or less state funding from the current method of funding community schools versus funding community schools separately (without counting students in resident districts' ADMs).  In the hypothetical District A example, if the 31 community school students were not counted in the district's ADM, District A's state share percentage would have fallen from 57.9% to 56.4%.

The overall effect of the current method of funding community schools is further complicated by various supplements and guarantees that exist in the formula.  These supplements and guarantees affect different districts differently and may affect the same district differently from one year to another.  As a result, compared with the method of funding community schools directly, the effect of the current method of funding community schools varies from one district to another and may vary from one year to another for the same district.

In FY 2008, 11.8% of the state aid transferred to community schools was for special education and career-technical education weights.  Table 18 shows the breakdown of the state aid transfer to community schools for FY 2007 and FY 2008.

| Table 18: Formula Transfer for Community Schools, FY 2007 and FY 2008 | | | | |
|---|---|---|---|---|
| Funding Component | FY 2007 Amount | FY 2007 Percentage | FY 2008 Amount | FY 2008 Percentage |
| Base Cost Funding | $407.7 million | 76.9% | $445.0 million | 76.0% |
| Poverty-Based Assistance | $39.0 million | 7.4% | $44.4 million | 7.6% |
| Special Education Weights | $56.4 million | 10.6% | $65.0 million | 11.1% |
| Career-Technical Education Weights | $6.3 million | 1.2% | $6.5 million | 1.12% |
| Transportation | -- | -- | $1.0 million | 0.2% |
| Parity Aid | $20.6 million | 3.9% | $23.4 million | 4.0% |
| Total Transfer | $530.0 million | 100.0% | $585.3 million | 100.0% |

Although the bulk of funding for community schools comes from state funding generated by students attending community schools, this is not to say that there is no fiscal effect on traditional public schools from the loss of students to community schools. State funding for school districts decreases when some of their students choose to attend community schools. School districts do not have to educate these students any longer, but their expenditures may not decrease as fast as their revenues decrease. State funds totaling about $5,729 (base cost plus parity aid) in FY 2007 follow this student to the community school. However, the loss of just this one student will likely not decrease a district's expenses by $5,729. It is not until a larger number of students have left that the district will be able to experience significant cost savings by, perhaps, having fewer classes.

## Open Enrollment

Each school district in Ohio can choose to accept students from other districts under an open enrollment policy. If a student chooses to attend a district other than the one in which the student resides under open enrollment, the base cost per pupil for the resident district and any career-technical education weighted costs applicable to the student are deducted from the resident district's state aid. If the student receives special education, the costs of this education above the base cost amount are billed from the educating district to the resident district.

Approximately 56.2% of school districts (including joint vocational school districts) allow statewide open enrollment, 17.7% of school districts allow adjacent district open enrollment only, and the remaining 27.1% of school districts do not accept open enrollment students. In FY 2008, approximately 2.7% of students attended schools other than their resident school under the open enrollment option.

## Pilot Project Scholarship Program

The Pilot Project Scholarship Program allows students who are residents of the Cleveland Municipal School District to obtain scholarships to attend participating nonpublic schools. Scholarship students are not counted in Cleveland's ADM for funding purposes. A portion of Cleveland's poverty-based assistance has been earmarked in the state operating

budget to be used to help fund this program. These funds are deducted from Cleveland's state aid. The rest of the funding for the program comes from the state GRF without any deduction from Cleveland. In FY 2007, $10.5 million was deducted from Cleveland's state aid to fund this program for a total program spending of $19.1 million.

### Autism Scholarship Program

The Autism Scholarship Program provides scholarships to autistic students whose parents choose to enroll the student in an approved special education program other than the one offered by the student's school district. The scholarships are the lesser of the total fees charged by the alternative provider or $20,000.

Scholarship students are counted in their resident district's ADMs for purposes of the state funding formula. The amount of the scholarship is then deducted from the resident district's state aid and paid to the alternate provider. In addition to the base cost per pupil, an autistic student generates additional special education weighted funding. The additional weight is 4.7342, which was phased in at 90% in FY 2008. In FY 2008, therefore, an autistic student generated in the funding formula $5,614 in base cost funding and an additional $23,711 in special education weighted funding.

Since the state funds a portion of special education weighted costs based on each district's state share percentage of base cost funding, for some districts with relatively high wealth, the state aid generated by the student will be less than the scholarship amount and the district will need to reallocate local revenues to cover the difference between the scholarship and the amount of state aid generated by the student. For other districts with relatively low wealth, the amount of state aid generated by the student (including both base cost and weighted funding) will be equal to or greater than the amount of the scholarship. In FY 2008, the maximum scholarship amount of $20,000 required the reallocation of local funds for districts with state share percentages of approximately 61% or lower. Districts with state share percentages higher than 61% were able to cover the cost of the average scholarship with state aid. Of course, in either case, the district does not incur the cost of serving the scholarship student.

In FY 2008, $12.1 million was transferred for the scholarships for students in 243 different districts.

### Educational Choice Scholarship Pilot Program

The Educational Choice Scholarship Pilot Program was established by Am. Sub. H.B. 66 of the 126th General Assembly to award up to 14,000 scholarships each year beginning in FY 2007, which can be used to attend participating nonpublic schools. These scholarships are generally available to students who attend or who would otherwise be entitled to attend a school that has been in academic emergency or academic watch for two of the last three years. The amount awarded under the program is the lesser of the actual tuition charges of the school

or the maximum scholarship award.  H.B. 66 set the maximum scholarship award at $4,250 for grades K-8 and at $5,000 for grades 9-12 in FY 2007.  In subsequent years, these amounts are to increase by the same percentage as the increase in the base cost formula amount for school districts.  Scholarship students are counted in the resident district's ADM in order to calculate base cost funding, so that the districts generally are credited with $5,565 per student in grades 1-12 and $2,782 per student in kindergarten in FY 2008.  Scholarship students are not counted in the ADM used to calculate poverty-based assistance or parity aid.  An amount equal to $5,200 is deducted from the resident districts' state aid for each scholarship student in grades 1-12 and $2,700 for each student in kindergarten.  Therefore, a district generally will receive more state aid than is deducted for each scholarship student.  In FY 2008, a total of $31.4 million was deducted statewide for about 6,659 full-time equivalent scholarship students.

### Post-Secondary Enrollment Options Program

The post-secondary enrollment options program allows both public and nonpublic high school students to attend classes at post-secondary education institutions and earn both high school and college credits without cost to the students.  Public high school students are counted in their resident districts' ADM and the amounts of the tuitions for the classes the students attend are deducted from the resident districts' state aid to pay for the program.  In FY 2007, $18.7 million was deducted statewide from state aid for school districts (including joint vocational school districts) for 11,196 students taking college classes under the post-secondary enrollment options program.  In FY 2008, $ was deducted statewide from state aid for school districts (including joint vocational school districts) for 11,890 students taking college classes under the post-secondary enrollment options program.  For nonpublic high school students, the costs of taking college classes under the post-secondary enrollment options program are paid by an earmark of GRF appropriation item 200-511, Auxiliary Services.  In FY 2007, $1.5 million was set aside for 999 participating nonpublic high school students.  In FY 2008, $2.0 million was set aside for 1,110 participating nonpublic high school students.

## Joint Vocational School Districts

Currently, there are 49 joint vocational school districts (JVSDs) serving approximately 38,000 students.  They have a total of 495 associate school districts that may send students to their schools.  As with a regular school district, each JVSD has its own taxing authority.  Levies need to be approved by taxpayers in all associate districts and the same JVSD millage rate applies to all associate districts within a JVSD.  As with school districts, the ability of a JVSD to raise local revenues is dependent on its property valuation.  JVSDs receive state operating funding through a parallel formula as that used to fund regular school districts.  JVSD funding includes base cost funding, special education weighted cost funding, the special education speech supplement, career-technical education weighted cost funding, and GRADS teacher grants.

### Base Cost

The base cost amount for a JVSD is calculated in the same way as for a regular school district except that JVSDs do not receive the base funding supplements. The total base cost for a JVSD is calculated as follows:

| Total JVSD Base Cost = |
|---|
| **(Base Cost Formula Amount x JVSD ADM)** |

The JVSD's local share of base cost funding is based on its recognized valuation, which is equal to the sum of the recognized valuations of all of the JVSD's associate districts. Total recognized valuation for JVSDs tends to be much higher than for a regular school district since the JVSD has a larger area to tax. The charge-off rate for a JVSD is 0.5 mills. The JVSD base cost funding formula is expressed as follows:

| JVSD Base Cost Funding Formula |
|---|
| Total Base Cost = Local Share + State Share |
| Local Share = Total Recognized Valuation x 0.005 |
| State Share = Total Base Cost – Local Share |
| State Share Percentage = State Share/Total Base Cost |

In FY 2008, the state share percentage of the base cost for JVSDs ranges from 0% to 92.5% with a statewide average of approximately 63.4% and a median of 71.1%. State base cost funding for JVSDs was approximately $136.6 million in FY 2007 and $136.2 million in FY 2008.

### Categorical Costs

The current JVSD funding model includes categorical costs for special education and career-technical education. The state model amount for these two categorical cost areas is determined for JVSDs in the same way it is determined for regular school districts. The same weights are used for special education and career-technical education students attending JVSDs. Each JVSD's state share percentage of the base cost is used to equalize its state funding for special and career-technical education weighted costs, the special education speech service supplement, and GRADS teacher grants.

These calculations are summarized below.

| Additional State Funding for Special Education at JVSDs = |
| :---: |
| **(JVSD Special Education Weighted Cost + JVSD Speech Supplement) x JVSD State Share Percentage** |
| **Additional State Funding for Career-Technical Education at JVSDs =** |
| **(JVSD Career-Technical Education Weighted Cost + JVSD GRADS) x JVSD State Share Percentage** |

Additional state funding for special education at JVSDs totaled approximately $18.1 million in FY 2007 and $18.8 million in FY 2008. Additional state funding for career-technical education at JVSDs totaled approximately $65.8 million in FY 2007 and $65.5 million in FY 2008.

### Transitional Aid

JVSDs also receive transitional aid. As with regular school districts, this adjustment is added into the distribution process and lowers the local JVSD share and accordingly, increases the state share of the state-defined basic education model cost for JVSDs. In FY 2006 through FY 2009, JVSD transitional aid is the same as the transitional aid provided to regular school districts. It prevents a JVSD's total school formula funding from falling below its total formula funding in the previous year. JVSD transitional aid totaled about $15.3 million in FY 2007 and $21.9 million in FY 2008.

# LOCAL OPERATING REVENUE

The primary local funding source for schools is locally voted property taxes, which account for approximately 97.2% of local operating revenue. The other 2.8% comes from school district income taxes. In TY 2006, school districts levied a total of $8.5 billion in operating tax revenue. An additional $1.1 billion was levied for permanent improvements and debt service. In TY 2006, joint vocational school districts levied $320.3 million in operating tax revenue and $18.3 million in tax revenue for permanent improvements and debt service. Locally voted property taxes, school district income taxes, H.B. 920 tax reduction factors, and other relevant issues related to local funding for schools are discussed in more detail in this section.

## The Assessed or Taxable Property Value

Property taxes are calculated on the assessed or taxable property value, which is a percentage of fair market value. This percentage is called the assessment rate. Property value in Ohio is divided into four major categories:

    (1)    Class I real property (residential and agricultural);
    (2)    Class II real property (commercial, industrial, and mineral);
    (3)    Public utility tangible personal property; and
    (4)    General business tangible personal property.

These different categories of property have different assessment rates. Real property is generally assessed at 35% of true value, which is determined by the county auditor. This means that if the auditor appraises a home's true value as $100,000, for example, that home's taxable property value would be $35,000 ($100,000 x 0.35). Tangible personal property (TPP) is assessed at rates ranging from 23% to 100% of true value, which is self-reported by businesses based on certain approved methods. Am. Sub. H.B. 66 of the 126th General Assembly started to phase out the tax on general business TPP. This phase-out began in TY 2006 and will be completed by TY 2011. The effect of this phase-out is discussed in more detail later in this section.

Table 19 shows the statewide total taxable property value composition, or breakout among the four property categories, for TY 2006. It can be seen from the table that Class I real property makes up the bulk of total taxable property value, followed by Class II real property, general business tangible personal property, and then public utility tangible personal property. Since taxes are collected on a calendar year basis and state education aid is allocated on a fiscal year basis, the state funding formula generally uses the second prior year's assessed value data. TY 2006 assessed value data, therefore, is used in making FY 2008 state education aid payments.

> Almost 70% of state taxable property value is residential and agricultural real property.

| Table 19:  Taxable Property Value, TY 2006 | | |
|---|---|---|
| Property Category | Amount | Percentage |
| Class I real property | $179.6 billion | 69.8% |
| Class II real property | $50.9 billion | 19.8% |
| Public utility TPP | $9.7 billion | 3.8% |
| General business TPP | $17.1 billion | 6.6% |
| **Total Taxable Property Value** | **$257.3 billion** | **100.0%** |

### School District Taxable Property Value Composition

Table 19 gives the taxable property value composition in TY 2006 for the state. However, the composition for each individual district varies widely across the state.  Table 20 shows the maximum, minimum, and median ranges for each category.

| Table 20:  The Taxable Property Value Composition, TY 2006 | | | |
|---|---|---|---|
| Category | Minimum | Maximum | Median |
| Class I Real | 17.3% | 95.8% | 75.4% |
| Class II Real | 1.3% | 54.7% | 13.6% |
| Public Utility TPP | 0.8% | 58.5% | 3.8% |
| General Business TPP | 0.1% | 39.1% | 5.1% |

A change in tax policy on a particular category of property would generally have an uneven impact on districts due to the variation in property composition across districts.  For example, the phase-out of the general business TPP tax has a big impact on some school districts that had relatively high percentages of general business TPP value, but a small impact on districts that did not.

### School District Valuation per Pupil

Valuation per pupil is the most important indicator of each district's ability to raise local revenues.  Due to the uneven distribution of taxable property, valuation per pupil varies widely across school districts.  Chart 3 from the introduction is reproduced below.  It shows the distribution of valuations per total ADM in TY 2006.  It can be seen that valuations per pupil range from less than $75,000 in 52 districts to more than $225,000 in 45 districts.  The statewide weighted average is $143,957 per pupil while the statewide median district's valuation per pupil is $116,496.  The weighted average represents a per-pupil based ranking, which takes into account the size of school districts.  The median represents a district-based ranking, which is represented by the middle district (the 306th district out of 612).  Valuations per total ADM for the majority (382 or 62.4%) of school districts range from $75,000 to $150,000 in TY 2006.

The variation in per pupil valuation obviously impacts each individual district's ability to raise local revenue.  The same one-mill property tax levy generates $75 per pupil for a district

**Chart 3: Distribution of Valuations per Pupil, TY 2006**



Number of School Districts (y-axis), values: <$75: 52, $75-$100: 151, $100-$125: 140, $125-$150: 91, $150-$175: 67, $175-$200: 30, $200-$225: 36, >$225: 45

**Valuations Per ADM in thousands of dollars**
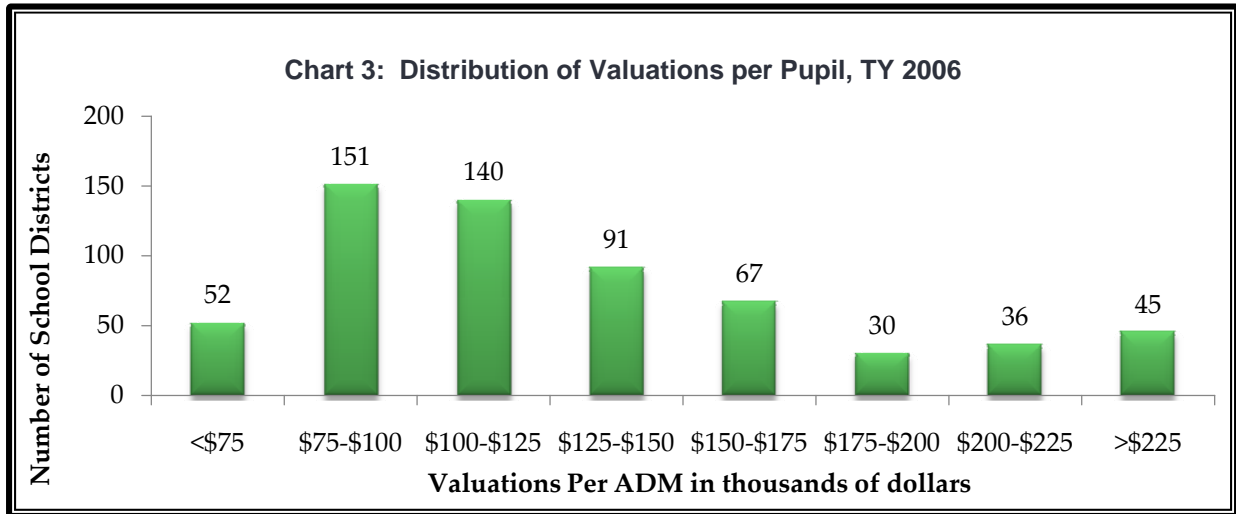
with a valuation per pupil of $75,000 and $225 per pupil for a district with a valuation per pupil of $225,000. As explained in the previous sections on state formula funding, however, state base cost funding equalizes the revenues received from the first 23 mills of property tax levies up to the 96th percentile of valuation per pupil ($244,105 in FY 2008). As a result of this equalized state aid, the variation in per pupil valuation has no impact on the amount of total state plus local revenues generated from the first 23 mills of property tax levies for school districts with wealth levels that are below the formula's equalization level (see Chart 7 in the base cost section). In FY 2008, approximately 27 districts have wealth levels that are above the formula's equalization level.

> For the same tax effort, a high wealth school district raises more local revenue.

### Growth in Taxable Property Values

The statewide average property value growth rate was 3.8% per year from TY 2001 to TY 2006; however, the growth rate for each year was not even (see Table 21). While the true value of TPP and newly constructed real property is determined annually, the true value of existing real property is reappraised every six years and updated every three years. The property value annual growth rate is affected by real property's reappraisal and update cycles.

> Growth in taxable value varies from year to year.

For the purposes of real property value reappraisals and updates, the 88 counties in Ohio are split into three groups. Real property values in these three groups are not even, however, so that growth rates in value depend somewhat on which group goes through a reappraisal or update in that year. The relatively low growth rates in TY 2001 and TY 2004 are in part due to a smaller proportion of statewide real property going through reappraisal and update in those years. The relatively low growth rate in TY 2003 is largely explained by a decrease of about $2.1 billion in general business tangible

personal property due to the economic slowdown. In fact, real property grew in value by 5.3% from TY 2002 to TY 2003 and tangible personal property fell in value by 6.3% over the same year. Finally, the low growth in TY 2006 is a result of the start of the phase-out of general business TPP taxes. General business TPP taxable value fell by 21.7% in TY 2006 while real property taxable value increased by 5.4%.

| Table 21: Annual Growth Rate of Total Taxable Property Value | | | | | | |
|---|---|---|---|---|---|---|
| Tax Year | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
| Annual growth rate | 1.4% | 5.9% | 3.5% | 2.5% | 6.7% | 2.8% |

## Local Property Tax Levy Rates and H.B. 920 Tax Reduction Factors

School districts have the option to use five different types of levies: inside millage, current expense levies, emergency levies, permanent improvement levies, and bond levies. Inside mills can be used for any purposes designated by local school boards of education. The vast majority of school districts use inside mills for current or operating expenses although, in recent years, a small number of school districts have started using inside mills for permanent improvements. Current expense and emergency levies are used for operating expenses. The revenue from permanent improvement levies and bond levies is used for permanent improvements and debt service. Current expense and permanent improvement levies are fixed-rate levies; voters vote for a certain millage rate that is applied to the taxable property value to calculate the tax each year (subject to tax reduction factors, which are discussed below). Emergency and bond levies are fixed-sum levies; voters vote for a certain amount of tax revenue to be collected each year regardless of taxable property value.

### Inside Mills and Voted (Outside) Mills

The Ohio Constitution prohibits governmental units from levying property taxes that in the aggregate exceed 1% of the true value of the property in their district unless the voters approve them. This is known as the ten-mill limitation and these unvoted ten mills are called inside mills. The ten inside mills are shared by three levels of government: counties, school districts, and cities or townships. Inside mills for school districts range from less than three mills in a few districts to more than six mills in a few other districts.

> Inside mills are not subject to voter approval or to H.B. 920 tax reduction factors.

On average school districts have approximately 4.6 inside mills. All levies other than inside mills need to be approved by the voters and are referred to as voted or outside mills. While voted current expense mills are subject to H.B. 920 tax reduction factors, inside mills are not (see below).

### H.B. 920 Tax Reduction Factors

H.B. 920 is a tax policy that was enacted in 1976. It limits revenue growth from property taxes on existing real property (real property that has previously been taxed). The effect of this policy, in general, is to require taxing jurisdictions, including school districts and JVSDs, to periodically ask the voters for approval of new levies if they want to collect revenue beyond the H.B. 920 limitations. In general, H.B. 920 tax reduction factors prevent taxing jurisdictions from realizing additional real property tax revenues on existing current expense levies and permanent improvement levies when existing real property values increase due to a reappraisal or update. Without the H.B. 920 limitations, a 10% increase in a district's real property would result in a 10% increase in real property tax revenue for the district even without new levies. With the H.B. 920 limitations, however, a 10% increase in real property generally leads to a much smaller increase (2%, for example, as explained below) in real property tax revenue for the district unless voters approve new levies.

> When the value of existing real property increases, H.B. 920 reduces the effective tax rate so tax revenue on that property remains the same.

H.B. 920 tax reduction factors were put into the Ohio Constitution in 1980 through a constitutional amendment that also created the two separate classes of real property. Separate tax reduction factors are applied to each class of real property. However, not all property value and not all tax levies are subject to H.B. 920 tax reduction factors. New construction (real property that did not exist in the prior year) and tangible property are not affected by the tax reduction factors; taxes on these two types of property will grow at the same rate as property values grow. Since emergency levies and bond levies are fixed-sum levies, (they are designed to raise the same amount of tax revenue every year) there is no reason to apply tax reduction factors to them. As indicated earlier, inside mills are not affected by the tax reduction factors either. So, H.B. 920 tax reduction factors apply only to current expense and permanent improvement levies on existing real property. After these tax reduction factors are applied, the millage rate actually charged on each class of real property falls below the voted millage rate. This lower millage rate is commonly called the effective millage rate. It can be calculated by dividing the actual taxes charged by the taxable property value for each class of real property.

> Even with H.B. 920 reduction factors revenues may increase from inside mills, new construction, and TPP value increases.

It should be noted that a property tax reduction mechanism, called the millage reduction system, existed in Ohio prior to H.B. 920. Under that system, the tax rate on all taxable property (including both real and tangible) was rolled back in proportion to the increase in real property values. For example, if real property values increased 10% after a reappraisal, the millage rate for *all* property was reduced by 10%. The millage reduction system led to a shift of the tax burden from tangible to real property. This shift in tax burden led to the enactment of H.B. 920. A similar tax

> Ohio's history of limiting growth in property taxes goes back before H.B. 920.

burden shift led to the creation of two classes of real property in 1980. While the tax reduction concept of H.B. 920 was not new, H.B. 920 has made it more apparent since there now exist three tax rates: one for Class I real property, one for Class II real property, and one for tangible property, with the rate for tangible property generally being higher than that for Class I or Class II real property.

### H.B. 920 20-Mill Floor

Although H.B. 920 limits the tax revenue growth on existing real property, it does not allow a school district's combined real property millage (from current expense levies and inside mills for operating expenses) to fall below 20 effective mills. This provision of H.B. 920 is referred to as the 20-mill floor. Under H.B. 920, if a school district's combined real property millage falls to 20 effective mills, tax reduction factors no longer apply. Real property taxes based on these 20 mills will grow at the same rate as real property values grow. School district income tax levies are not included in the 20-mill floor determination and neither are emergency levies, although these levies are generally used for operating expenses. The 20-mill floor determination includes only inside mills used for operating expenses and current expense levies.

> Once the 20 mill floor is reached, H.B. 920 reduction factors no longer apply.

A total of 324 districts (52.9%) were at the H.B. 920 20-mill floor in at least one class of real property in TY 2006. These 324 floor districts tend to be smaller than average and represent approximately 37.2% of statewide total ADM. The number of floor districts has increased over the last several years. In TY 1996 there were 218; this number has increased by 48.6% over the 10 years until TY 2006. Of the 324 floor districts in TY 2006, 134 districts were at the floor in both Class I and Class II real property, 176 districts were in Class I only, and the other 14 districts were in Class II only.

Table 22 shows the number and percentage of school districts at the H.B. 920 floor by district type. These types were developed by ODE based on districts' demographic characteristics. It can be seen from the table that the H.B. 920 floor district percentages for rural districts (types 1, 2, and 3) tend to be higher than the others, at 74.2%, 60.9%, and 71.6%, respectively. In fact, 228 (70.4%) of the floor districts in TY 2006 are rural districts.

| District Type | Description | Total Districts | Floor Districts | % Districts on Floor |
|---|---|---|---|---|
| **Table 22: The Number and Percentage of H.B. 920 Floor Districts by District Type, TY 2006** |
| Type 0 | Outliers - island districts | 3 | 3 | 100.0% |
| Type 1 | Rural/agricultural - high poverty, low median income | 97 | 72 | 74.2% |
| Type 2 | Rural/agricultural - small student population, low poverty, low to moderate median income | 161 | 98 | 60.9% |
| Type 3 | Rural/small town - moderate to high median income | 81 | 58 | 71.6% |
| Type 4 | Urban - low median income, high poverty | 102 | 48 | 47.1% |
| Type 5 | Major Urban - very high poverty | 15 | 1 | 6.7% |
| Type 6 | Urban/Suburban - high median income | 107 | 37 | 34.6% |
| Type 7 | Urban/Suburban - very high median income, very low poverty | 46 | 7 | 15.2% |
| | **Total** | **612** | **324** | **52.9%** |

Since tax reduction factors do not apply to a district at the 20-mill floor, once a district reaches the floor it begins to receive greater increases in revenue when real property values increase due to reappraisals and updates without having to ask voters to approve additional levies. Most districts, however, do not choose to limit local operating revenue to 20 mills; districts on the floor tend to supplement their current expense millage and inside millage with emergency levies and school district income tax levies, which are not included in the floor calculation. In fact, of the 324 floor districts in TY 2006, 236 districts (72.8%) had either emergency levies or school district income taxes. Table 23 shows that the majority of districts that levy these two types of taxes are floor districts: 66.5% of districts with emergency levies and 66.3% of districts with school district income taxes. Floor districts, however, still tend to have lower operating tax rates even when taking all taxes into account. The average effective Class I tax rate (including both Class I property taxes and school district income taxes) for the 324 floor districts was 27.28 mills in TY 2006, compared to an average of 30.94 mills for nonfloor districts and an average of 29.64 mills for all districts.

| | Total Districts | Floor Districts | % Districts on Floor |
|---|---|---|---|
| **Table 23: H.B. 920 Floor District Supplemental Levies, TY 2006** |
| Emergency Levies | 230 | 153 | 66.5% |
| School District Income Tax (FY 2007) | 172 | 114 | 66.3% |

### Summary of Local Tax Levies and H.B. 920

Table 24 summarizes the above discussion on which levies and which properties are subject to H.B. 920 reduction factors as well as which levies are included in the 20-mill floor determination. In the boxes on the following two pages a detailed example is presented using the hypothetical District A introduced in the state funding section.

| Table 24: Summary of Local Tax Levies and H.B. 920 Tax Reduction Factors | | | |
|---|---|---|---|
| **Type of Levy** | **Purpose of Levy** | **Subject to H.B. 920 Tax Reduction Factors?** | **Included in H.B. 920 20-Mill Floor Determination?** |
| **Inside Mills** | Designated by school boards – generally operating | No | Yes – if designated as operating |
| **Current Expenses** | Operating | Yes | Yes |
| **Emergency** | Operating | No | No |
| **Income Tax** | Operating | No | No |
| **Permanent Improvement** | Permanent improvements or items with at least 5 years of useful life | Yes | No |
| **Bond** | Debt service | No | No |
| **Type of Property** | | | |
| **Existing Real Property** | -- | Yes | -- |
| **New Construction – Real Property** | -- | No | -- |
| **Tangible Personal Property** | -- | No | -- |

Table 25 continues the example of the hypothetical District A started in the state operating revenue section. The first column of the table shows District A's property value and local operating revenue for TY 2005. In TY 2005, District A's total property value is $112.5 million, which is split among the four categories as shown in the table. In TY 2005, District A has 3 inside mills devoted to current expenses and 30 current expense voted mills. For purposes of simplicity, it is assumed that District A does not have any emergency levies and that no new levies were passed in TY 2006.

District A goes through a real property reappraisal in TY 2006 and experiences an inflationary increase in real property value due to the reappraisal of $6.0 million. The second column of Table 25 shows that $4.0 million of this increase is in Class I real property and $2.0 million is in Class II real property. In addition, there is new construction in TY 2006 of $700,000 in Class I and $200,000 in Class II real property. The taxable value of public utility TPP increases by $600,000.

Disregarding the H.B. 920 20-mill floor calculations for the moment and continuing in the second column, note the effect of the H.B. 920 reduction factors on the revenue the district collects from real property. In each class, the revenue in TY 2006 from existing real property (real property that was taxed in TY 2005) is equal to the revenue collected on the property in TY 2005 even though both classes of real property experience inflationary increases after the reappraisal. In the case of Class I real property, the effective current expense voted rate was reduced from 25 mills in TY 2005 to 24 mills in TY 2006 in order to generate the same amount of tax revenue ($1,982,500) from that existing property. District A does, however, receive an increase in revenue on real property from the three inside mills and from new construction. In addition, District A receives an increase in TPP tax revenue due to the increase in the taxable value of its public utility TPP. As indicated in Section III of the table, the tax increases from inside mills, new construction, and public utility TPP have resulted in an overall revenue increase of 2.0% for District A despite H.B. 920 tax reduction factors and no new levies being passed in TY 2006.

Without any constraint, the H.B. 920 reduction factors would result in continual decreases in the effective tax rates on real property as long as the value of existing real property increases and voters do not approve another levy. H.B. 920, however, instituted a floor of 20 mills below which the effective current expense tax rates plus current expense inside millage rates on each class of real property may not fall. Note that in the second column of Table 25 the floor calculation for Class II real property fell to 19 mills. The third column shows the effect of the H.B. 920 20-mill floor on the hypothetical District A in TY 2006. As shown in the third column, the revenue on existing Class II real property was increased until the floor calculation reached 20 mills. Instead of receiving revenue of $349,200 on existing Class II real property, District A received $363,800 because of the H.B. 920 20-mill floor. Because of the higher effective rate for Class II real property as a result of the 20-mill floor, District A also realized an additional tax increase of $136 from Class II new construction. Overall, with the H.B. 920 20-mill floor guarantee, District A's total revenue increases by 2.4% from TY 2005 to TY 2006, compared with the overall increase of 2.0% under the hypothetical scenario without the 20-mill floor.

| Table 25:  District A's Property Value and Local Operating Revenue, TY 2006 | | | |
|---|---|---|---|
| | **TY 2005** | **TY 2006 (Assuming No 20-Mill Floor)** | **TY 2006 (With 20-Mill Floor)** |
| **Section I – Total Taxable Value** | | | |
| Total Taxable Value | $112,500,000 | $120,000,000 | $120,000,000 |
| Increase in Total Value | | 6.7% | 6.7% |
| Class I Real Value | $79,300,000 | $84,000,000 | $84,000,000 |
| Carryover | | *$79,300,000* | *$79,300,000* |
| Inflationary | | *$4,000,000* | *$4,000,000* |
| New Construction | | *$700,000* | *$700,000* |
| Class II Real Value | $19,400,000 | $21,600,000 | $21,600,000 |
| Carryover | | *$19,400,000* | *$19,400,000* |
| Inflationary | | *$2,000,000* | *$2,000,000* |
| New Construction | | *$200,000* | *$200,000* |
| Public Utility TPP Value | $13,800,000 | $14,400,000 | $14,400,000 |
| **Section II – Tax Rates** | | | |
| Inside Millage Rate | 0.003 | 0.003 | 0.003 |
| Voted Current Expense (CE) Rate | 0.030 | 0.030 | 0.030 |
| Class I CE Effective Rate | 0.025 | 0.024 | 0.024 |
| Class II CE Effective Rate | 0.018 | *0.016* | *0.017* |
| TPP Rate | 0.033 | 0.033 | 0.033 |
| H.B. 920 Floor Rate  - Class I | 0.028 | 0.027 | 0.027 |
| H.B. 920 Floor Rate  - Class II | 0.021 | *0.019* | *0.020* |
| **Section III – Tax Revenues** | | | |
| Class I Revenue | $2,220,400 | $2,251,160 | $2,251,160 |
| Inside Mills - Existing Property | *$237,900* | *$249,900* | *$249,900* |
| Inside Mills – New Construction | | *$2,100* | *$2,100* |
| CE - Existing Property | *$1,982,500* | *$1,982,500* | *$1,982,500* |
| CE - New Construction | | *$16,660* | *$16,660* |
| Class II Revenue | $407,400 | $417,264 | $432,000 |
| Inside Mills – Existing Property | *$58,200* | *$64,200* | *$64,200* |
| Inside Mills – New Construction | | *$600* | *$600* |
| CE – Existing Property | *$349,200* | *$349,200* | *$363,800* |
| CE - New Construction | | *$3,264* | *$3,400* |
| Public Utility TPP Revenue | $455,400 | $475,200 | $475,200 |
| Total Revenue | $3,083,200 | $3,143,623 | $3,158,360 |
| Increase in Total Revenue | | $60,423 | $75,160 |
| % Increase in Total Revenue | | 2.0% | 2.4% |

### Effect of H.B. 920 on Individual Taxpayers

H.B. 920 tax reduction factors are applied on a taxing district basis. Therefore, they prevent the growth of the aggregate taxes charged against existing Class I property and, separately, Class II property in a t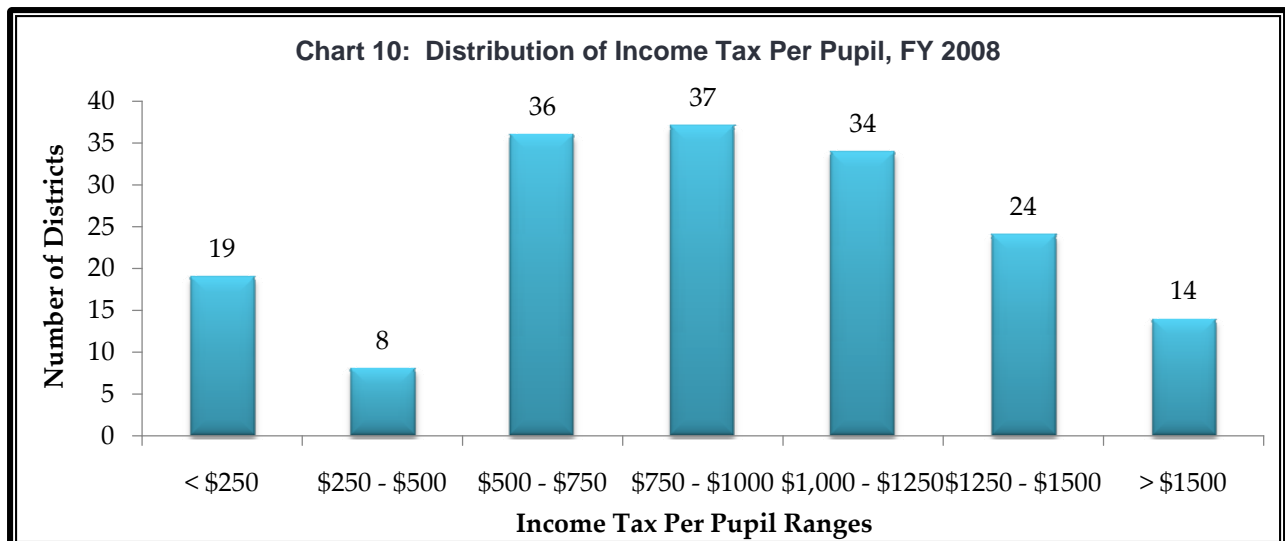axing district, but they do not necessarily prevent taxes charged against an individual taxpayer from increasing or decreasing. Generally speaking, when a taxing district goes through a reappraisal, an individual taxpayer with a property value growth rate higher than the average growth rate for the taxing district will experience an increase in his or her tax bill. In contrast, an individual taxpayer with a property value growth rate lower than the average growth rate of the taxing district will experience a decrease in his or her tax bill. An individual taxpayer with a property value growth rate the same as the average growth rate of the taxing district will see no change in his or her tax bill. (See the District A example in the box on the following page).

> H.B. 920 does not necessarily prevent an individual taxpayer's taxes from increasing or decreasing due to a reappraisal or update.

## School District Income Tax

The school district income tax is paid by residents of the school district regardless of where they work. Nonresidents working in the district and corporations are not taxed. A total of $240.0 million in school district income taxes was collected by 172 school districts (28.1%) in FY 2008. As shown in Table 23, 66.3% of these are H.B. 920 20-mill floor districts. These 172 districts tend to be smaller than average and represent approximately 16.0% of statewide total ADM. These districts have an average ADM of approximately 1,700 students and an average property valuation per pupil of approximately $118,000 compared to an average ADM of approximately 3,400 students and an average property valuation per pupil of approximately $149,000 for the other 440 districts.

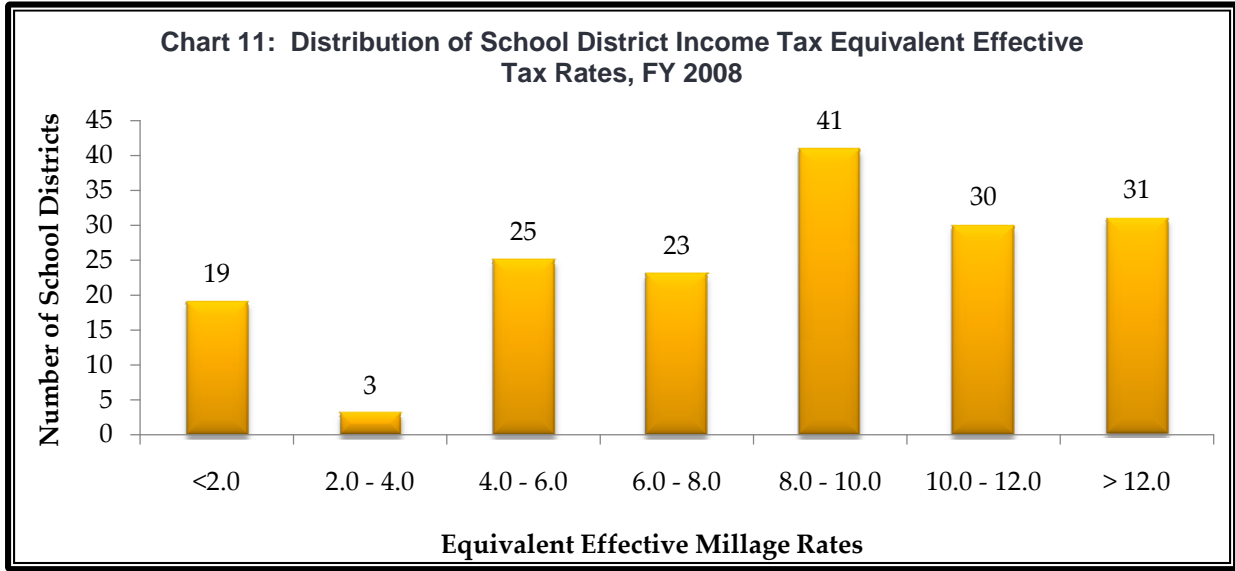**Chart 10: Distribution of Income Tax Per Pupil, FY 2008**

| Income Tax Per Pupil Ranges | Number of Districts |
|---|---|
| < $250 | 19 |
| $250 - $500 | 8 |
| $500 - $750 | 36 |
| $750 - $1000 | 37 |
| $1,000 - $1250 | 34 |
| $1250 - $1500 | 24 |
| > $1500 | 14 |

Table 26 shows an example of the effects of H.B. 920 tax reduction factors on three taxpayers living in the hypothetical District A. For purposes of simplicity, the example ignores inside mills and new construction. As seen from the table, District A, as a whole, experiences a 5% increase in Class I real property value after the reappraisal; its effective current expense rate is reduced from 25 mills to 24 mills. All taxpayers in this District A have an effective current expense rate of 24 mills in TY 2006. Taxpayers 1, 2, and 3 live in different parts of the district and experience different growth rates in their property values. Taxpayer 1's property value increases by 3%, lower than the 5% average for the taxing district. Taxpayer 1's tax bill actually decreases by $17 in the reappraisal year. Taxpayer 2's property value increases by 5%, the same as the 5% average for the taxing district. Taxpayer 2's tax bill does not change in the reappraisal year. Taxpayer 3's property increases by 7%, higher than the 5% average for the taxing district. Taxpayer 3's tax bill increases by $24 in the reappraisal year.

| Table 26:  Effects of H.B. 920 Tax Reduction Factors on Individual Taxpayers | | | |
|---|---|---|---|
| **District A** | **TY 2005** | **TY 2006 - Reappraisal Year** | **Change** |
| Total Class I Real Property | $79,300,000 | $83,300,000 | 5% |
| Class I Current Expense Rate | 0.0250 | 0.0238 | |
| Total Taxes | $1,982,500 | $1,982,500 | |
| | | | |
| **Taxpayer 1** | | | |
| True Property Value | $100,000 | $103,000 | |
| Taxable Property Value | $35,000 | $36,050 | 3% |
| Tax Bill | $875 | $858 | -$17 |
| **Taxpayer 2** | | | |
| Property Value | $125,000 | $131,250 | |
| Taxable Property Value | $43,750 | $45,938 | 5% |
| Tax Bill | $1,094 | $1,094 | $0 |
| **Taxpayer 3** | | | |
| Property Value | $150,000 | $160,500 | |
| Taxable Property Value | $52,500 | $56,175 | 7% |
| Tax Bill | $1,313 | $1,337 | $24 |

Chart 10 shows the distribution of income tax revenues per pupil for the 172 districts with such revenues in FY 2008. Per pupil school district income tax collections range from less than $100 to over $3,000 with an average of $837 per pupil for these 172 districts. Per pupil amounts of less than $100 often indicate the beginning or ending of a tax levy. By dividing income tax revenue into total property valuation, the equivalent effective millage rate is calculated. Chart 11 shows the distribution of income tax equivalent effective millage rates for the 172 districts with income tax revenues in FY 2008. Effective millage rates range from less

**Chart 11: Distribution of School District Income Tax Equivalent Effective Tax Rates, FY 2008**

Number of School Districts

| Equivalent Effective Millage Rates | Number of School Districts |
|---|---|
| <2.0 | 19 |
| 2.0 - 4.0 | 3 |
| 4.0 - 6.0 | 25 |
| 6.0 - 8.0 | 23 |
| 8.0 - 10.0 | 41 |
| 10.0 - 12.0 | 30 |
| > 12.0 | 31 |

than one mill to over 21 mills with an average of 7.1 mills for these 172 districts. In general, school districts with income tax levies tend to have relatively low business property wealth. Farming communities predominate on the list of school districts with income tax levies.

## Summary of School District Effective Operating Tax Rates

By combining revenues received from all operating tax levies, including the school district income tax, it is possible to calculate overall effective operating tax rates. In TY 2006, these range from about 20 mills in the bottom seven districts to more than 50 mills in the top seven districts. The Shaker Heights City SD (Cuyahoga County), the Cleveland Heights-University Heights City SD (Cuyahoga County), and the Bexley City SD (Franklin County) have

**Chart 12: Distribution of Overall Effective Operating Tax Rates, TY 2006**

Number of School Districts

| Effective Millage Rates | Number of School Districts |
|---|---|
| <22.5 | 99 |
| 22.5-25.0 | 40 |
| 25.0-27.5 | 59 |
| 27.5-30.0 | 89 |
| 30.0-32.5 | 97 |
| 32.5-35.0 | 86 |
| 35.0-37.5 | 58 |
| 37.5-40.0 | 40 |
| 40.0-42.5 | 20 |
| 42.5-45.0 | 13 |
| >45.0 | 11 |

**Chart 13: Average Overall Effective Operating Tax Rates by Valuation Per Pupil, TY 2006**
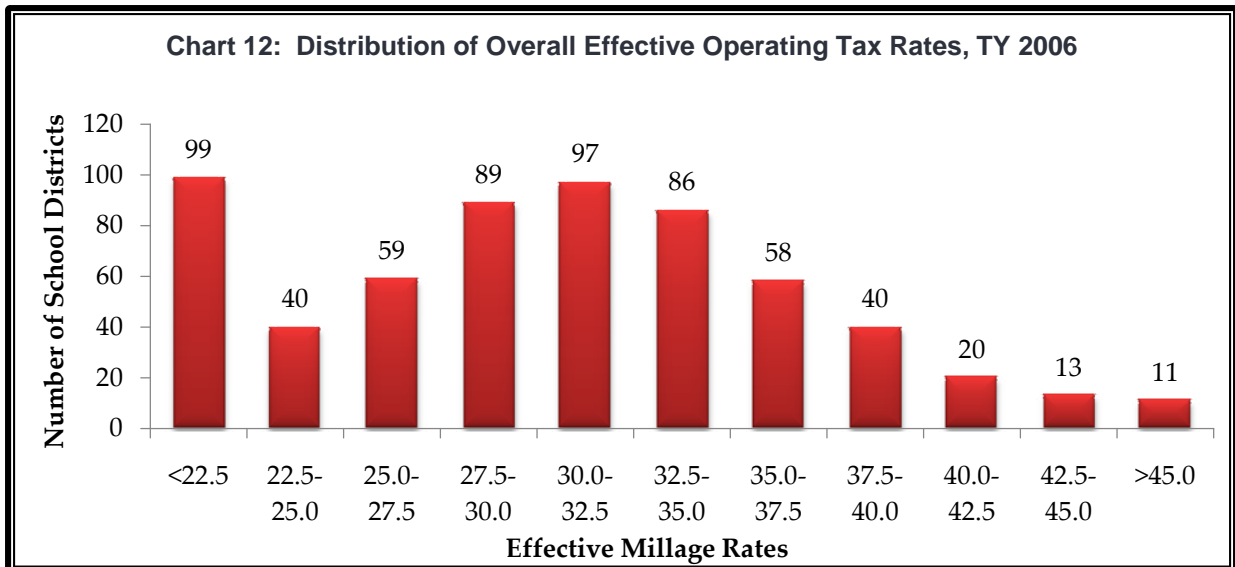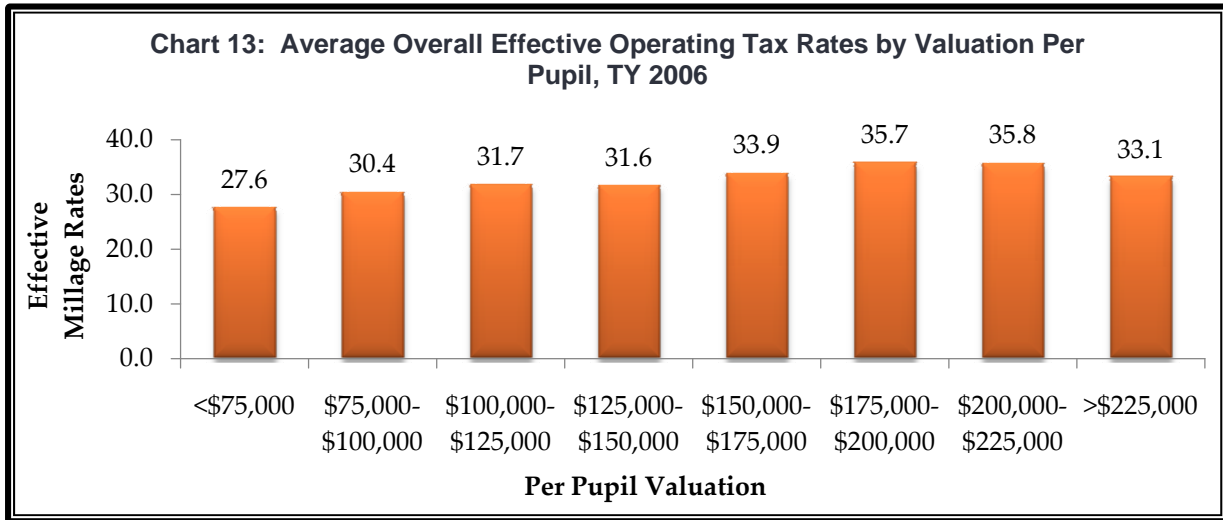


the highest overall effective operating tax rates of 71.1, 60.7, and 57.3 mills, respectively. The statewide average is 32.9 mills and the statewide median is 30.5 mills. Chart 12 shows the distribution of overall effective operating tax rates. It can been seen from the chart that the equivalent overall effective rates for 331 school districts (54.1%) range from 25 to 35 mills.

Chart 13 shows the average equivalent overall effective operating tax rates for groups of districts categorized by valuation per pupil in TY 2006. Average rates generally increase slightly as valuation per pupil increases, except for the wealthiest group. Having too many low wealth districts with high tax rates is generally a sign of a poorly designed school finance system. In such a situation, low wealth districts are forced to levy high millage rates to provide a basic education. This does not appear to be the pattern in Ohio.

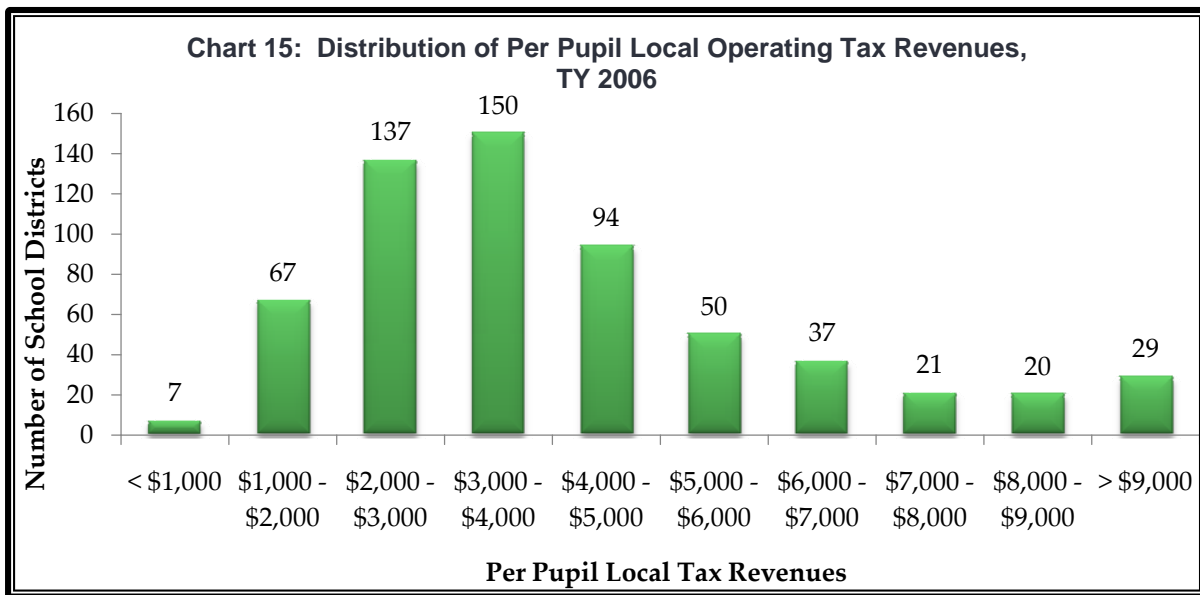## Summary of School District Operating Tax Revenue

As indicated earlier, school districts collected a total of $8.5 billion in operating taxes in

**Chart 14: School District Operating Revenues by Levy Type, TY 2006**
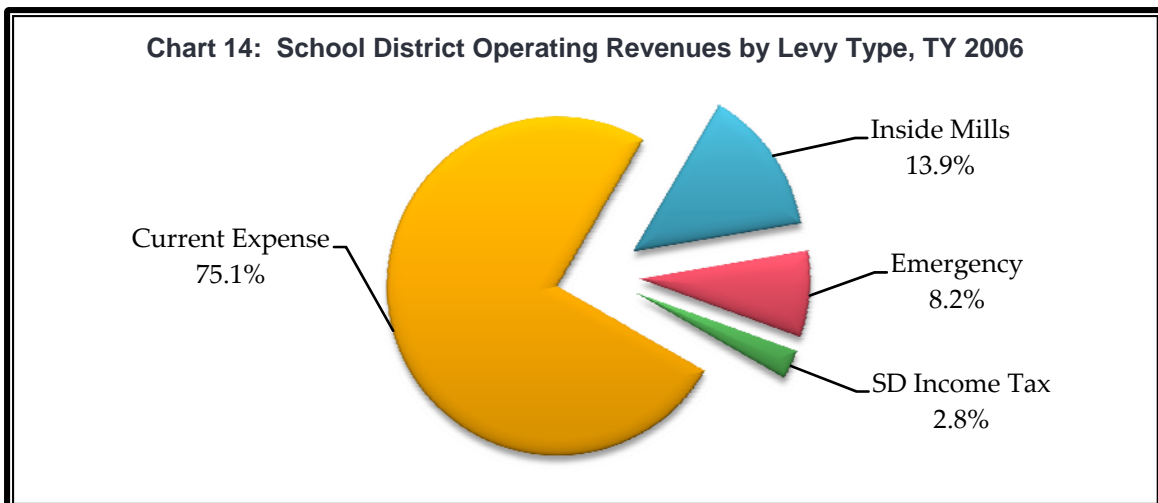
TY 2006. Chart 14 shows school district operating tax revenues by levy type. Current expense levies, representing approximately 75.1% of total operating tax revenues, were the largest component. Inside millage generated 13.9%, emergency levies 8.2%, and school district income tax levies 2.8%.

In TY 2006, local operating tax revenues per pupil range from less than $1,000 in the bottom seven school districts to more than $9,000 in the top 29 districts. The statewide weighted average is $4,737 and the statewide median is $3,575. Chart 15 shows the distribution of per pupil local operating tax revenues. It can be seen from the chart that for 381 school districts (62.3%), per pupil local operating tax revenues range from $2,000 to $5,000. It should be noted that state education aid is largely equalized based on each district's wealth as measured by property value per pupil and not directly based on each district's local tax revenue per pupil. School districts have no control over their wealth levels, but they do have some control over their revenues. Two districts with the same valuation per pupil will have different local revenues per pupil if they have different tax rates.

**Chart 15: Distribution of Per Pupil Local Operating Tax Revenues, TY 2006**

| Per Pupil Local Tax Revenues | Number of School Districts |
|---|---|
| < $1,000 | 7 |
| $1,000 - $2,000 | 67 |
| $2,000 - $3,000 | 137 |
| $3,000 - $4,000 | 150 |
| $4,000 - $5,000 | 94 |
| $5,000 - $6,000 | 50 |
| $6,000 - $7,000 | 37 |
| $7,000 - $8,000 | 21 |
| $8,000 - $9,000 | 20 |
| > $9,000 | 29 |

## Joint Vocational School Districts

As stated in the state operating revenue section, there are 49 joint vocational school districts (JVSD) with 495 associate school districts that may send students to their schools. Like a regular school district, each JVSD has its own taxing authority. In TY 2006, the 49 JVSDs collected a total of $320.3 million in local operating revenue. Levies need to be approved by taxpayers in all associate districts and the same JVSD millage rate applies to all associate districts within a JVSD. Since a JVSD may include several regular school districts, its tax base is generally much larger. In TY 2006, average valuation per pupil for all JVSDs is approximately $4.1 million.

JVSDs do not have inside mills and they do not levy emergency levies or income tax levies. For operating revenues, therefore, JVSDs are restricted to voted current expense levies. As with regular school districts, JVSDs current expense and permanent improvement levies are subject to H.B. 920 tax reduction factors. The floor on effective current expense millage for JVSDs is 2.0 mills, although several JVSDs are below this millage rate because they have not had levies approved by voters for more than this amount. In TY 2006, effective operating rates for JVSDs average 2.0 mills and local operating tax revenues for JVSDs average $8,352 per pupil statewide.

## Property Tax Rollbacks

As part of its tax policy, the state reduces the property taxes on residential and agricultural real property by 10.0% and the property taxes on owner-occupied homes by an additional 2.5%. These two reductions in real property taxes provided by the state are often called property tax rollbacks. The state reimburses school districts and JVSDs (and other local governments) for this reduction in real property taxes. In FY 2007, school districts received a total of $709.4 million and JVSDs received a total of $28.7 million statewide in property tax rollback reimbursements. These reimbursements are directly related to the amount of property tax revenue paid in each district, so unlike state education aid, property tax rollback reimbursements tend to be higher in higher wealth districts. Chart 16 shows the average rollback reimbursement per pupil in the four wealth quartiles for FY 2007.

**Chart 16: Average Rollback Reimbursement Per Pupil by Wealth Quartile, FY 2007**

| District Wealth Quartile | Average Rollback Reimbursement Per Pupil |
|---|---|
| Quartile 1 | $234 |
| Quartile 2 | $331 |
| Quartile 3 | $456 |
| Quartile 4 | $649 |

*District Wealth Quartiles from Low to High*
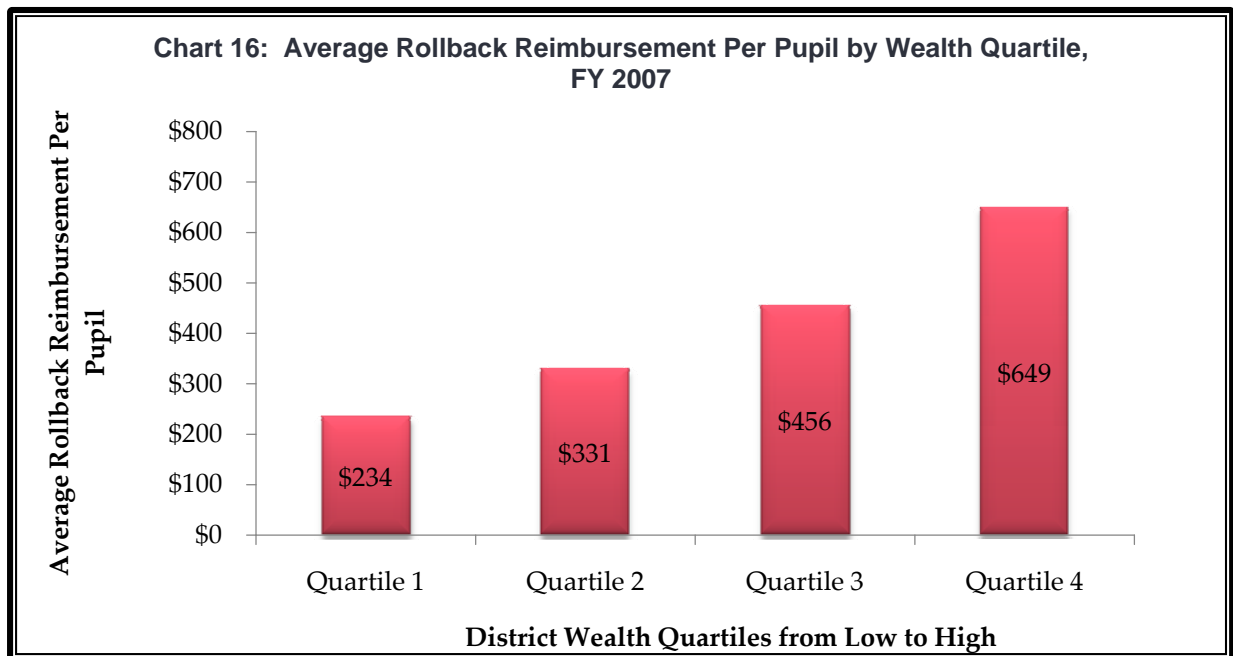
## Phase-Out of General Business Tangible Personal Property (TPP) Tax

Am. Sub. H.B. 66 of the 126th General Assembly phased out the general business tangible personal property (TPP) tax, the railroad TPP tax, and the telephone and telecommunications TPP tax. The phase-out of general business and railroad TPP taxes began in TY 2006 and will be completed by TY 2009. The phase-out of the telephone and telecommunications TPP tax began in TY 2007 and will be completed by TY 2011. New machinery, equipment, furniture, and fixtures are exempted from taxation beginning in TY 2004. The tax on inventories was already in the process of being phased out, but H.B. 66 accelerated this phase-out to coincide with the phase-out schedule of the other general business TPP taxes. The Department of Taxation has calculated the tax value and tax revenue loss for each school district due to this phase-out. The total tax value loss statewide for each year of the phase-out is given in Table 27. As can be seen from Table 27, the total tax value loss for all school districts statewide by the end of the phase-out period in TY 2011 is $21.7 billion.

| Table 27:  Statewide School District H.B. 66 TPP Tax Value Loss | |
|---|---|
| **Tax Year** | **School District Tax Value Loss** |
| TY 2006 | $6.1 billion |
| TY 2007 | $11.1 billion |
| TY2008 | $15.5 billion |
| TY 2009 | $20.9 billion |
| TY 2010 | $21.3 billion |
| TY 2011 | $21.7 billion |

Chart 17 shows the distribution of per pupil TPP taxable valuation loss by TY 2011 over
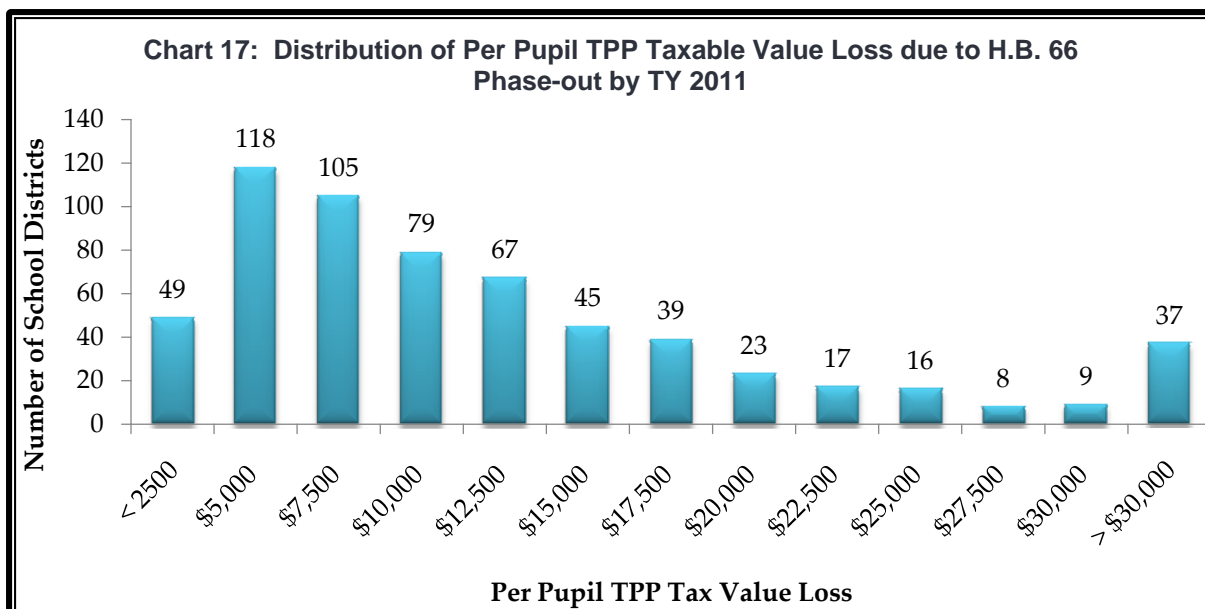
the 612 school districts.  Per pupil valuation losses range from approximately $200 for Ohio Valley Local in Adams County to almost $170,000 for Cuyahoga Heights Local in Cuyahoga County with an average of about $12,000 and a median of about $8,500.  As can be seen in the chart, while most districts have per pupil TPP taxable valuation losses toward the low end of the distribution, a few have relatively high concentrations of TPP losses.

### State Education Aid Offset

In the section on state operating revenue, it was shown how the distribution of state base cost funding to each district is dependent on each district's property valuation.  In particular, each district is expected to contribute 23 mills of its recognized valuation to its base cost funding.  The state then provides the difference between the district's total base cost as calculated by the state formula and the district's local share.  Therefore, one effect of the phase-out of the TPP tax is that districts' recognized valuations will decrease causing their local shares of base cost funding to decrease and in turn causing the state share of base cost funding to increase.  State funding for categorical costs will also increase as this funding is dependent on the state share percentage of base cost funding, which will be higher as the TPP tax phases out.

One effect of the TPP tax phase-out is to increase state aid to school districts.

This increase in state aid is called the state education aid offset.  It is calculated by ODE for each district by calculating state aid for each district with and without the TPP tax value loss determined by the Department of Taxation for each year of the phase-out.  The difference between these two calculations is the state education aid offset.  Since base cost funding is the biggest part of this offset, the state education aid offset can be estimated at approximately 23 mills of the state tax value loss or $498.2 million when the tax is completely phased out.  However, the actual state education offset is affected by various supplement and guarantee components of the formula.  Since TY 2006 taxable property value data are used in calculating state education aid for FY 2008 and since the TPP tax phase-out began in TY 2006, FY 2008 is the first year in which the state education aid offset is calculated.

### Direct Reimbursements

H.B. 66 also established a new "commercial activity tax" (CAT) and deposited part of the revenue generated through this new tax in the School District Property Tax Replacement Fund (Fund 047) to provide reimbursements to school districts for their revenue losses due to the acceleration of the inventory tax phase-out and the elimination of the rest of the TPP tax.  This reimbursement includes two parts:  the state education aid offset and direct reimbursement for the loss that exceeds the state education aid offset.  Part of the CAT revenue deposited into Fund 047 is transferred to GRF appropriation item 200550, Foundation Funding, to pay for the state education aid offset.

School levies are grouped into two categories for purposes of calculating their tax revenue losses: fixed-rate (inside mills and current expense) levies and fixed-sum (emergency and bond) levies. Fixed-rate levies are based on a millage rate, so that the amount of revenue raised can vary with the taxable property value of the district. Therefore, if a district's taxable property value decreases because of the phase-out of the TPP tax, the amount of revenue the district receives from existing fixed-rate levies also decreases. The reimbursement base for fixed-rate levies is the amount of this revenue loss. Fixed-sum levies are designed to raise a fixed amount of revenue each year. School districts do not lose tax revenue from existing fixed-sum levies when taxable property value decreases; even if there were no reimbursement mechanism, the rate on the remaining taxable property would be adjusted upward to raise the same amount of revenue. In order for a school district to be eligible for fixed-sum levy loss reimbursement, the rate increase on the remaining property of the district has to be greater than 0.5 mills. The reimbursement base for fixed-sum levies is the amount above the 0.5 mill threshold.

The Department of Taxation has determined that school districts have a total reimbursable tax revenue loss of $370.2 million in TY 2006; that amount will grow to $1,129.4 million by TY 2010. JVSDs have a TY 2006 total reimbursable tax revenue loss of $11.0 million that will grow to $37.6 million by TY 2010. Through TY 2010, school districts are held "harmless" for the reimbursement base revenue loss amounts determined by the Department of Taxation for fixed-rate and fixed-sum levies through a combination of the state education aid offset and direct reimbursement. So the combination of the state education aid offset and direct reimbursement payments will be equal to each district's fixed-rate levy loss plus its fixed-sum levy revenue above the 0.5 mill threshold. Beginning in TY 2011, direct reimbursement payments will be phased out at a rate of 3/17 in the first two years and then at a rate of 2/17 per year until completely eliminated after TY 2018. Emergency levies are fully reimbursed from TY 2006 to TY 2010 and will be reimbursed after TY 2010 only when the levies are renewed. Bond levies are reimbursed for the duration of their lives. State education aid increases as a result of the TPP tax changes will continue indefinitely.

# INTERACTION OF SCHOOL FUNDING FORMULA AND TAX POLICIES

As discussed in the state operating revenue section, the local share (charge-off) method currently used in the school funding formula has achieved its goal of distributing a higher share of state aid to districts with lower property wealth. In fact, Chart 6 in that section demonstrates the upward straight-line relationship between each district's property value per pupil and its per pupil local share of base cost funding. Under such a funding method, a school district with a lower per pupil valuation will also have a lower per pupil local share amount while a school district with a higher per pupil valuation will also have a higher per pupil state share amount. Through this method, the state neutralizes the effect of the uneven distribution of taxable property value on each school district's ability to provide the state-defined basic education.

H.B. 920 was designed to limit tax revenue growth without approval of the voters. As shown in the local operating revenue section, H.B. 920 has achieved its stated goal. The majority of tax increases in Ohio are approved by the voters. School districts, joint vocational school districts, and other local governments have been periodically asking voters for tax increases beyond the limitations set by H.B. 920.

While the school funding formula and H.B. 920 have achieved their respective goals, the

> Interaction of school funding formula and H.B. 920 tax policy has created challenges for school districts.

interaction of these two policies has created a unique challenge for school districts. Compared with other local governments, school districts have to ask voter approval of new levies much more frequently in order to maintain or increase their spending levels. While the formula guarantees funding for the state-defined basic education every year with a combination of state education aid and local revenue, enhancement spending is not guaranteed by the formula. Enhancement spending is largely supported by locally approved property tax levies. In order to maintain or increase their enhancement spending, school districts need to ask for new levies periodically. The effect of the interaction of the funding formula and H.B. 920 tax reduction factors on a school district's enhancement spending is often called "reappraisal phantom revenue." The following sections discuss various aspects of the effect of this interaction on school districts, including types of phantom revenue, current provisions that soften the impact of this interaction, and "solutions" to the unique challenge facing school districts as a result of this interaction.

## Types of Phantom Revenue

The constitutionality of the state's school funding system was challenged in a case commonly referred to as *DeRolph*. The second decision issued by the Ohio Supreme Court in this case (*DeRolph II*) identified three types of "phantom revenue." Type I or formula phantom revenue refers to any amount by which the local revenue collected by a district is less than the local share assumed by the funding formula. Type II or reappraisal phantom revenue refers to increases in a district's local share due to increases in its property valuation that are not

matched by increases in a district's local revenue due to H.B. 920 reduction factors. Finally, Type III phantom revenue refers to the higher local share that was previously recognized for districts with median incomes greater than the state median.
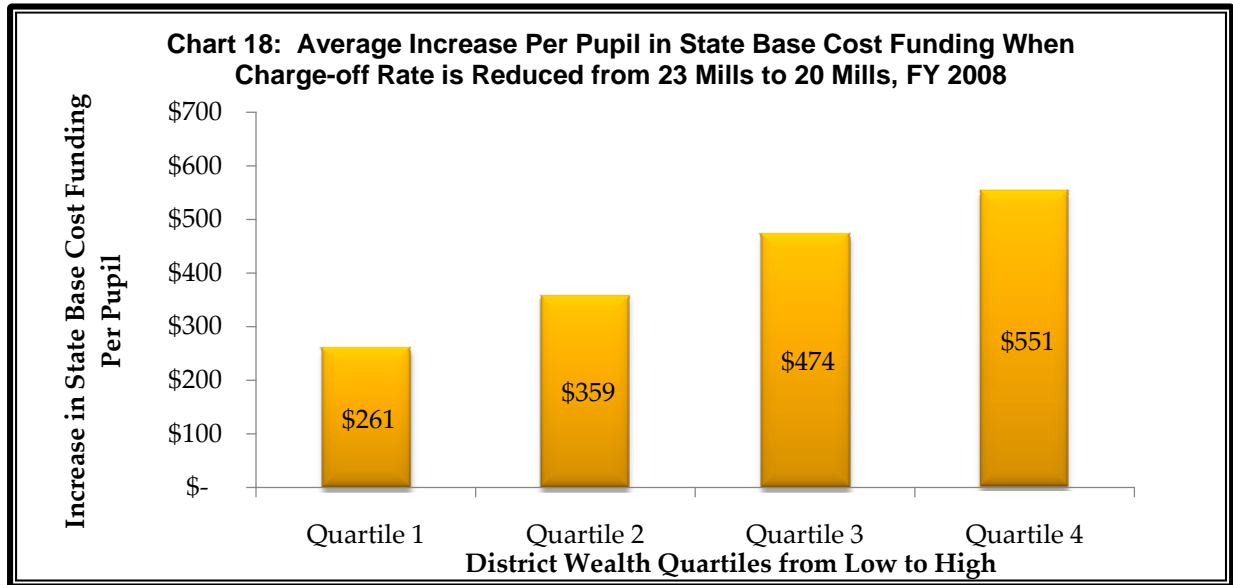
### Type III Phantom Revenue

Type III phantom revenue was completely eliminated by the 122nd General Assembly. Previously, the valuation used to calculate the local share of base cost funding was adjusted upward for districts with median incomes greater than the state median income. There is no longer any income adjustment to the valuation used to calculate the local share.

### Type I – Formula Phantom Revenue

Type I or formula phantom revenue is completely eliminated through the charge-off supplement (gap aid). The origin of Type I phantom revenue is the interaction of the charge-off method and the H.B. 920 tax policy. The formula assumes that districts contribute 23 mills of property valuation to fund their base costs and up to an additional 3.3 mills to fund their costs of special education additional weights, career-technical education additional weights, and modeled transportation. Without additional levies, H.B. 920 reduces current expense revenue from real property down to a floor of 20 mills. It is possible, therefore, that districts will not actually be collecting the 23 to 26.3 mills assumed by the formula. Gap aid fills the gap between the assumed local share and the actual operating revenues collected by districts and therefore, eliminates formula phantom revenue. In FY 2008, the state provided about $85.3 million in gap aid to 158 school districts that may otherwise have experienced formula phantom revenue.

Another way to eliminate formula phantom revenue is to lower the local share to the H.B. 920 floor of 20 mills. If this method had been chosen, state base cost funding would have been approximately $692.8 million higher in FY 2008. This method also has a disequalizing effect. Higher wealth districts benefit more than lower wealth districts. Chart 18 shows the average per pupil increase in state base cost funding by wealth quartile. Districts in the lowest wealth quartile would receive an average per pupil increase in state base cost funding of approximately $261, whereas districts in the highest wealth quartile would receive an average per pupil increase of approximately $551. In addition, unless high wealth districts lower their local revenue collections in response to the increase in state aid, their local enhancement revenues would increase. As shown previously, the current inequities in school district per pupil revenues occur because of inequities in local enhancement revenues.

> Lowering the charge-off rate benefits higher wealth districts more than lower wealth districts.

**Chart 18: Average Increase Per Pupil in State Base Cost Funding When Charge-off Rate is Reduced from 23 Mills to 20 Mills, FY 2008**

Increase in State Base Cost Funding Per Pupil

| Quartile | Value |
|----------|-------|
| Quartile 1 | $261 |
| Quartile 2 | $359 |
| Quartile 3 | $474 |
| Quartile 4 | $551 |

District Wealth Quartiles from Low to High

## Type II – Reappraisal Phantom Revenue

The term "reappraisal phantom revenue" has been used to describe the effect of the interaction of the funding formula and H.B. 920 tax reduction factors on a school district's local enhancement revenue. If a school district does not have any local revenue above the state-defined basic education level, the district will not have any reappraisal phantom revenue. As indicated earlier, 158 school districts received gap aid in FY 2008. These districts are therefore not affected by reappraisal phantom revenue. For districts that are at the H.B. 920 20-mill floor, revenues grow fully when property values increase. These districts are not affected by reappraisal phantom revenue either. In TY 2006 about 324 school districts are at the 20-mill floor in at least one class of real property. There are overlaps between gap aid districts and H.B. 920 20-mill floor districts.

H.B. 920 tax reduction factors are applied not only to school districts, but also to joint vocational school districts and other units of local governments. However, the effect of the H.B. 920 tax reduction factors on school districts is much more significant. This is primarily due to two factors. One is the sheer size of property taxes used for school operations. As indicated earlier, school districts levied $8.5 billion in local operating tax revenue in TY 2006, which accounts for approximately 50% of all school district revenues. This percentage is even higher for those relatively high wealth school districts. For a school district with 70% of all revenues coming from local property taxes, the effect of H.B. 920 tax reduction factors is likely to be significant. The second reason is the fact that with the exception of gap aid districts (145 in FY 2007), every district levies additional taxes to support its enhancement spending. In FY 2007, the average revenue per pupil is $6,762 statewide for the state-defined basic education. However, school districts on average also have an additional $1,513 in local enhancement revenue. In fact, as shown in Chart 9, the top 20% of school districts on average have about $2,800 in per pupil local enhancement revenue. In order to maintain or increase such a large

percentage of revenue above the state-defined basic education level, school districts will periodically have to ask for voter approval of new levies.

## Provisions that Soften the Effect of H.B. 920 Tax Reduction Factors

Three provisions of the school funding formula help to soften the impact of H.B. 920 tax reduction factors on districts' enhancement revenues. These are recognized valuation, parity aid, and various guarantee and supplement components of the formula.

### Recognized Valuation

In the base cost funding formula, the recognized valuation provision phases in the valuation growth due to a reappraisal or update over a three-year period. As seen in the example of District A (Table 28), District A's total taxable value increased from $112.5 million in TY 2005 to $120.0 million (including $6.0 million of inflationary increase in real property) in TY 2006 after it went through a reappraisal. In FY 2008 the formula only recognizes one-third of the inflationary increase in District A's real property so District A's recognized valuation is $116.0 million ($120.0 million - $4.0 million). Without the recognized valuation provision, District A's local share of base cost funding would have increased by an additional $92,000 ($4,000,000 x 0.023) in FY 2008. Its local share for categorical costs would also have increased by an additional $7,669 so that its total local share for the state-defined basic education would have increased by an additional $99,669 in FY 2008. This would have resulted in an additional decrease of $99,669 in local enhancement revenue in FY 2008. In FY 2007, recognized valuation increased the state share of base cost funding statewide by about $192.2 million. Over a full six-year reappraisal/update cycle, recognized valuation increases the state share by about $125 million per year statewide.

### Parity Aid

Parity aid further buffers the effect of H.B. 920 tax reduction factors on a district's enhancement revenue. It particularly lessens the effect for low property and low income wealth districts' enhancement revenue. Although parity aid equalizes additional mills of local enhancement revenue, it does not require that districts actually levy additional mills to obtain the state equalization funding. This is important because a district's overall effective tax rate may decrease as a result of H.B. 920 reduction factors being applied after a reappraisal or update. If parity aid only equalized the additional mills the district actually levied, then the number of mills equalized by parity aid may also decrease as a result of H.B. 920 reduction factors, which would compound the effect of H.B. 920 tax reduction factors instead of softening it. In FY 2008, approximately $478.6 million in parity aid was distributed to the 419 lowest wealth school districts.

To demonstrate the effect of reappraisal phantom revenue, consider the example of the hypothetical District A. Table 25 in the previous section shows the effect of the H.B. 920 reduction factors on District A's local revenues when District A goes through a reappraisal. Table 28 shows the effect of the interaction of the funding formula and H.B. 920 reduction factors on District A's local enhancement revenue. To isolate this interaction effect, this example assumes that District A's ADM and special and career-technical education weights do not change from FY 2007 to FY 2008 and uses the initial state share percentage in both years. The total base cost for District A increases because of increases in the base cost formula amount and the base funding supplements. Due to the reappraisal, District A's recognized valuation increases by $3,500,000 and, therefore, its local share of base cost funding increases by $80,500 ($3,500,000 x 0.023). District A's local share for categorical costs also increases by $6,802 so that its total local share for the state-defined basic education increases by $87,302 in FY 2008. As we saw in Table 25, however, due to the H.B. 920 reduction factors, District A's local revenue only increases by $75,160. District A's local enhancement revenue is the amount of its local revenue above its local share for the state-defined basic education. Since District A's local share increases by more than its local revenue increase, its local enhancement revenue decreases by the difference, $12,142. It is this mismatch in the local share growth rate and the local revenue growth rate constrained by H.B. 920 tax reduction factors that leads to the reappraisal phantom revenue phenomenon.

| Table 28: Reappraisal Phantom Revenue Example – District A | | | |
|---|---|---|---|
| | FY 2007 | FY 2008 | Change |
| Formula ADM | 931 | 931 | |
| Formula Amount | $5,403 | $5,565 | |
| Base Funding Supplements Per Pupil | $47.99 | $49.42 | |
| Base Cost | $5,074,872 | $5,227,025 | $152,153 |
| Total Taxable Valuation | $112,500,000 | $120,000,000 | $7,500,000 |
| Recognized Valuation | $112,500,000 | $116,000,000 | $3,500,000 |
| Charge-off | $2,587,500 | $2,668,000 | $80,500 |
| State Base Cost Funding | $2,487,372 | $2,559,025 | $71,653 |
| State Share Percentage | 49.0% | 49.0% | |
| State Share of Weighted Funding | $210,161 | $216,215 | $6,054 |
| Local Share of Weighted Funding | $218,621 | $225,423 | $6,802 |
| Total State Share | $2,697,533 | $2,775,240 | $77,708 |
| Total Local Share | $2,806,121 | $2,893,423 | $87,302 |
| Local Revenue | $3,083,200 | $3,158,360 | $75,160 |
| Local Enhancement Revenue | $277,079 | $264,937 | -$12,142 |

As seen in this example, there is no reappraisal phantom revenue in the state-defined basic education. In both FY 2007 and FY 2008, the formula guarantees District A to have sufficient state and local revenue to pay for the cost of the state-defined basic education. What the formula does not guarantee is the amount of local enhancement revenue available. District A's local enhancement revenue decreases by $12,142 after the reappraisal. If District A wants to maintain or increase the amount of local enhancement revenue that was available before the reappraisal, it will have to ask the district's voters to approve a new levy.

### Guarantees and Supplements

As discussed in the state operating revenue section, various guarantees and supplements have been added into the formula that is used to divide the cost of the state-defined basic education between the state and local school districts. After FY 2008, these include transitional aid, the excess cost supplement, and gap aid. The effect of these guarantees and supplements is to decrease the local share that would otherwise be assigned to school districts by the formula and, accordingly, increase the state share. These guarantees and supplements effectively help stabilize the amount of enhancement revenues available to school districts when they go through a reappraisal or update, therefore softening the effect of the H.B. 920 reduction factors on school districts' enhancement revenues. In FY 2008, funding for the various guarantees and supplements totaled about $594.8 million.

## Proposals to Eliminate the Effect of H.B. 920 Tax Reduction Factors

It is challenging for the school funding formula to attempt to completely address the effect of H.B. 920 tax reduction factors without creating new concerns. The formula is designed to target limited state resources to districts with lower capacities to ensure similar state-defined basic education to every student. The formula has achieved its purpose. It is difficult to address the challenge created by the interaction of the formula and state tax policies by modifying the formula alone. Addressing the effect of this interaction needs to occur in the state tax policy arena as well.

While H.B. 920 started out as a law (hence the name), it is now firmly placed in the Ohio Constitution as Article XII Section 2a. There are other provisions on property tax in Article XII Section 2 and elsewhere. These provisions form a complex web of provisions that limit significant changes to property tax law. Discussion of these many provisions is beyond the scope of this analysis. Suffice it to say that the main ways to blunt the effects of H.B. 920 all involve complex constitutional issues. The two main ways are to increase the number of inside mills and to increase the 20-mill floor. While the legislature can increase the H.B. 920 floor, the mechanism of how this can be accomplished without significant and immediate property tax increases is not clear. Increasing the number of inside mills is arguably constitutional but any law attempting to do so will likely be reviewed by the Ohio Supreme Court before it is

Consider again the example of the hypothetical District A as shown in Table 29. Although District A's wealth per pupil increases, it does not increase as much as the threshold wealth per pupil, so its parity aid per pupil increases. In fact, in the example of District A, its increase in total parity aid outweighs its decrease in local enhancement revenue due to H.B. 920 tax reduction factors so that its total enhancement revenue increases.

| Table 29: Effect of Parity Aid on Reappraisal Phantom Revenue Example – District A | | | |
|---|---|---|---|
| | FY 2007 | FY 2008 | Change |
| Formula ADM | 931 | 931 | |
| Recognized Valuation | $112,500,000 | $116,000,000 | $3,500,000 |
| Property Wealth Per Pupil | $120,838 | $124,597 | $3,759 |
| Income Wealth Per Pupil | $106,000 | $109,000 | $3,000 |
| Wealth Per Pupil (2/3 property + 1/3 income) | $115,892 | $119,398 | $3,506 |
| Threshold Wealth Per Pupil | $159,862 | $170,400 | $10,538 |
| Difference from Threshold | $43,971 | $51,002 | $7,031 |
| Parity Aid Per Pupil | $330 | $408 | $78 |
| Total Parity Aid | $307,230 | $379,848 | $72,618 |
| Local Enhancement Revenue | $277,079 | $264,937 | -$12,142 |
| Total Enhancement Revenue | $584,309 | $644,785 | $60,476 |

implemented. This makes potential policy changes uncertain and the timing for such changes unknown.

Over the years various "formula solutions" have been proposed to address the effect of H.B. 920 tax reduction factors on school district enhancement revenue. These proposals all tend to gradually move away from the current wealth-based local share system to a system that will base each district's local share on the methods used by the district to raise local revenues. They all tend to be costly and, more importantly, tend to shift more state resources to higher wealth districts; this appears to go against the stated equalization goal of the formula and may raise a difficult equalization issue for the state, especially over the long run. Part of the reason that the formula cannot completely address the effect of H.B. 920 tax reduction factors is that there is no clear and fair way to measure the amount of reappraisal phantom revenue for each district. It is therefore difficult for the formula to attempt to compensate school districts for something that cannot be reasonably quantified. H.B. 920 tax reduction factors were not designed with reimbursement in mind.

> Proposals to counteract the effect of H.B. 920 reduction factors on school district enhancement revenues through the funding formula alone tend to shift state resources over the long run to higher wealth districts.

One of the proposed ways to measure reappraisal phantom revenue is to compare the amount of revenue a district actually collected to the amount of tax revenue the district would have collected if the district's total rate (the sum of inside mills used for current expenses, emergency mills, and current expense mills prior to the application of H.B. 920 tax reduction factors) had been applied to real property. The problem with this approach is that the total rates for many districts would not be nearly as high as they are today if there was no H.B. 920. Furthermore, without H.B. 920, every district's total rate will equal its effective rate. With H.B. 920 the difference between a district's total rate and its effective rate is a cumulative result of levy options used by the district over the last 30 years. This difference is not a measure of a district's wealth or tax effort. It will therefore be difficult to use such a measure to quantify a district's reappraisal phantom revenue amount.

As discussed earlier, while both current expense and emergency levies are used to support school operations, current expense levies are subject to H.B. 920 tax reduction factors and emergency levies are not. Because of this different treatment, two districts with the same effective rate could have very different total rates. For example, Fairlawn Local (Shelby County) and Millcreek-West Unity Local (Williams County) had similar effective Class I tax rates in TY 2006 (24.52 mills and 24.64 mills) and they also have similar wealth per pupil ($87,087 and $91,630). However, Fairlawn Local's total rate is 28.10 mills while Millcreek-West Unity Local's total rate is 49.50 mills. In other words, Fairlawn's effective rate is about 87.3% of its total rate while Millcreek-West's effective rate is only about 49.8% of its total rate. If the total rate is used to quantify reappraisal phantom revenue and the state reimburses districts based on this measure, Millcreek-West Unity Local will receive much more state aid than Fairlawn Local. Since these two districts have similar wealth and their residents are making similar tax efforts, it may be difficult for the state to justify why one receives substantially more state aid than the other.

On average in TY 2006, Class I effective rates are about 60% of the total rates for school districts; they range from less than 40% for some districts to 100% for some other districts. Table 30 summarizes the distribution of school district effective Class I rates as percentages of their total rates.

| Table 30: Distribution of School District Effective Class I Rates as Percentages of Their Total Rates, TY 2006 ||
|---|---|
| **Range** | **Number of School Districts** |
| < 40% | 26 |
| 40% - 50% | 151 |
| 50% - 60% | 145 |
| 60% - 70% | 124 |
| 70% - 80% | 99 |
| 80% - 90% | 34 |
| 90% - 100% | 33 |

## The Fundamental Impact of H.B. 920 on Ohio School Districts

School district property tax revenue grew from approximately $3.0 billion in TY 1986 to approximately $8.0 billion in TY 2004, an increase of 166.7%. Personal income in Ohio grew from approximately $107.6 billion in TY 1986 to approximately $293.4 billion in TY 2004, an increase of 172.7%. Even without H.B. 920 reduction factors, it does not seem reasonable to assume that property tax revenues would increase at a rate much above the rate of increase of personal income. If the percentage increase in property tax revenue over the 18 years from TY 1986 to TY 2004 had matched the percentage increase in personal income, property tax revenues would only be about 2.3% higher. Since property tax revenue growth has generally matched the growth in personal income tax revenue under H.B. 920, it is likely that property tax revenue would be much the same today without H.B. 920 or another tax limiting mechanism. However, the path traveled to reach today's point would have been much different. There would have been far fewer levy votes and perhaps a different distribution of revenue.

The fundamental impact of H.B. 920 on education, therefore, does not seem to be lower revenues but rather the necessity of more voted levies to achieve those revenues. Having more levies requires superintendents, school board members, and some other school administrators to lead levy campaigns more frequently than would a system with no limitation on the growth of local property taxes. Most districts at the 20-mill floor also have many levy campaigns because the emergency levies that many districts use have a maximum length of five years. Spending more time on levies takes away the time school district leaders have to spend on other activities that are at the core of providing students in the districts with quality educations. On the other hand, more levies give the voters in a district more opportunities to decide whether or not they are willing to support the district financially. In effect, levies have provided opportunities for district officials and voters to communicate with each other.

> H.B. 920 tax reduction factors tend to lead to more school district levy campaigns.

Reappraisal phantom revenue is a result of any system that limits the tax revenue growth in real property relative to the valuation growth. As long as there is a tax revenue growth limitation mechanism, school districts will have to pass additional levies to keep previously available local enhancement revenue dollars growing with inflation. Reappraisal phantom revenue may have become more apparent under H.B. 920 due to the existence of two tax rates (voted millage and effective millage) and the H.B. 920 reduction factors. Under the previous millage rollback system, there was only one effective rate and this rate was adjusted downward in the reappraisal year. However, in order to maintain the same amount of local enhancement revenue school districts also needed to pass additional levies under the old system.

One positive benefit to H.B. 920's effect on enhancement revenue is that it appears to be somewhat equalizing for the system. School districts that have higher H.B. 920 tax reduction factors tend to have high millage rates, high real property value growth, and a high proportion of real property (especially Class I real property). Districts with lower H.B. 920 tax reduction

factors tend to have low real property value, low growth in real property value, and school district income taxes. These characteristics indicate that H.B. 920 tends to pull down the tax rates in wealthy districts more than in poor districts. Without H.B. 920, tax rates and revenues in wealthy districts might be even higher than they currently are today.

# FEDERAL OPERATING REVENUE

As shown in the introduction, in FY 2007 federal revenue makes up about 8.0% of public school revenue in the state. Table 31 shows the growth of federal revenue per pupil over the last ten years. It can be seen that as a percentage of total school revenues, federal revenues have increased from a little under 6.0% in the late 1990s and early 2000s to 8.5% in FY 2006, in FY 2007 growth in federal revenues slowed, dropping the percentage to 8.0%. Federal revenues per pupil have increased 133.7% over this ten-year period from $353 in FY 1998 to $825 in FY 2007.

| Table 31:  Growth of Federal Revenue Per Pupil, FY 1997 –  FY 2007 | | | |
|---|---|---|---|
| Fiscal Year | Per Pupil Federal Revenue | Annual Percentage Change | As a Percent of Total District Revenue Per Pupil |
| FY 1998 | $353 | 2.0% | 5.7% |
| FY 1999 | $377 | 6.8% | 5.6% |
| FY 2000 | $406 | 7.7% | 5.8% |
| FY 2001 | $473 | 16.5% | 6.2% |
| FY 2002 | $488 | 3.2% | 6.1% |
| FY 2003 | $550 | 12.7% | 6.7% |
| FY 2004 | $684 | 24.4% | 7.7% |
| FY 2005 | $783 | 14.5% | 8.4% |
| FY 2006 | $824 | 5.2% | 8.5% |
| FY 2007 | $825 | 0.1% | 8.0% |

## Distribution of Federal Funds

### Ohio Department of Education

A large portion of federal funding for schools is passed through ODE and is, therefore, a part of ODE's budget. However, schools may also receive grants directly from the federal government. The major federal programs funded through ODE's budget are the Individuals with Disabilities Education Act (IDEA), Title 1A of the Elementary and Secondary Education Act (reauthorized in the No Child Left Behind Act (NCLB)), the Federal School Lunch and Breakfast Program, and NCLB's Improving Teacher Quality grants. Funding for these and other major federal programs is presented in Table 32.

| Table 32: Major Federal Program Funding for Ohio Schools, FY 2004 – FY 2007 | | | | | |
|---|---|---|---|---|---|
| Program Name | FY 2004 | FY 2005 | FY 2006 | FY 2007 | Change FY2004-2007 |
| IDEA | $ 288.1 million | $ 411.5 million | $ 487.0 million | $ 495.1 million | 71.9% |
| Title 1A | $ 391.4 million | $ 384.5 million | $ 396.6 million | $ 398.6 million | 1.8% |
| School Lunch and Breakfast | $ 228.0 million | $ 261.3 million | $ 267.7 million | $ 281.4 million | 23.4% |
| Improving Teacher Quality | $ 97.7 million | $ 103.7 million | $ 106.2 million | $ 105.6 million | 8.1% |
| Career-Technical | $ 47.6 million | $ 47.3 million | $ 48.3 million | $ 47.0 million | - 1.3% |
| Reading First | $ 23.1 million | $ 31.8 million | $ 46.4 million | $ 29.3 million | 26.8% |

There are two major classifications of federal education grant programs administered by ODE – entitlement grants and discretionary grants. Entitlement grants are formula driven subsidy payments to school districts and other local education agencies. According to ODE, entitlement grants account for about 81% of all federal education funds received by ODE. Unlike entitlement grants, ODE has some control over the distribution of discretionary grants.

> Approximately 81% of the federal funds that flow through ODE are distributed to local educational programs based on federal formulas.

The degree of control varies from grant to grant. There are three different types of discretionary federal grants: competitive grants, state-level activity grants, and state administration grants. Competitive grants are generally awarded to eligible school districts and other local education agencies based on application criteria established within the federal grant guidelines. Competitive grants account for approximately 10% of all federal education funds received by ODE. State-level activities include technical assistance, professional development, program evaluation, and program improvements. The majority of these funds (about 7% of all federal education funds received by ODE) are distributed to educational partners outside of ODE. State administration grants are used by ODE to manage the other grants, including awarding grants to schools, monitoring recipients, accounting, auditing, data systems, facilities, etc. Allowable state administration expenses for federal programs range from 1% to 8% of the total grant amounts. ODE indicates that, on average, its administrative expenses are approximately 2% of all federal education grants.

### Targets of Federal Funding

Federal funding mainly targets children from low-income families (in particular Title 1A and school lunch and breakfast) and children with disabilities (in particular IDEA). The effects of this targeting are evident in Table 33, which shows per pupil federal revenue by district type. As can be seen from the table, major urban districts with high levels of poverty (type 5) receive on average $1,828 per pupil in federal revenues, whereas suburban districts with very low levels of poverty (type 7) receive on average $311 per pupil in federal revenues. The percentage

of special education students is not inherently related to district type, although, as can be seen from the table, districts with higher levels of poverty tend to also have higher percentages of special education students, which reinforces the distribution of federal revenues to those districts.

| District Type | Description | % Special Education Students | % Poverty Students | Federal Revenue Per Pupil |
|---|---|---|---|---|
| Table 33: Per Pupil Federal Revenue by District Type, FY 2007 | | | | |
| Type 1 | Rural/agricultural - high poverty, low median income | 15.0% | 5.0% | $ 890 |
| Type 2 | Rural/agricultural - small student population, low poverty, low to moderate median income | 13.2% | 2.1% | $ 531 |
| Type 3 | Rural/small town - moderate to high median income | 11.5% | 1.7% | $ 401 |
| Type 4 | Urban - low median income, high poverty | 14.8% | 6.2% | $ 923 |
| Type 5 | Major Urban - very high poverty | 16.3% | 15.8% | $ 1,828 |
| Type 6 | Urban/Suburban - high median income | 12.4% | 2.5% | $ 443 |
| Type 7 | Urban/Suburban - very high median income, very low poverty | 10.3% | 1.0% | $ 311 |

## Use of Federal Funds

Unlike the bulk of state and local revenues, schools are generally restricted in their use of federal revenues to the specific purpose of the grant. Federal law drives state and school policy in several key areas, especially special education through IDEA and school accountability and teacher quality through NCLB. Most federal revenues are to be used by schools to fulfill federal law in these areas. IDEA grants, for example, are to help pay for the additional costs of providing special education and related services to children with disabilities. These services are largely governed through Individual Education Programs (IEPs) that are developed for all special education students pursuant to federal law. NCLB has become the driving force nationwide behind accountability policy. It requires a single, statewide accountability system to be applied to all public school buildings and districts. NCLB also requires teachers to meet a state-defined standard of being "highly qualified." Federal Title 1A grants as well as Improving Teacher Quality and Reading First grants are to be used by schools to comply with these mandates. Title 1A grants generally are tied to services provided to low-income students.
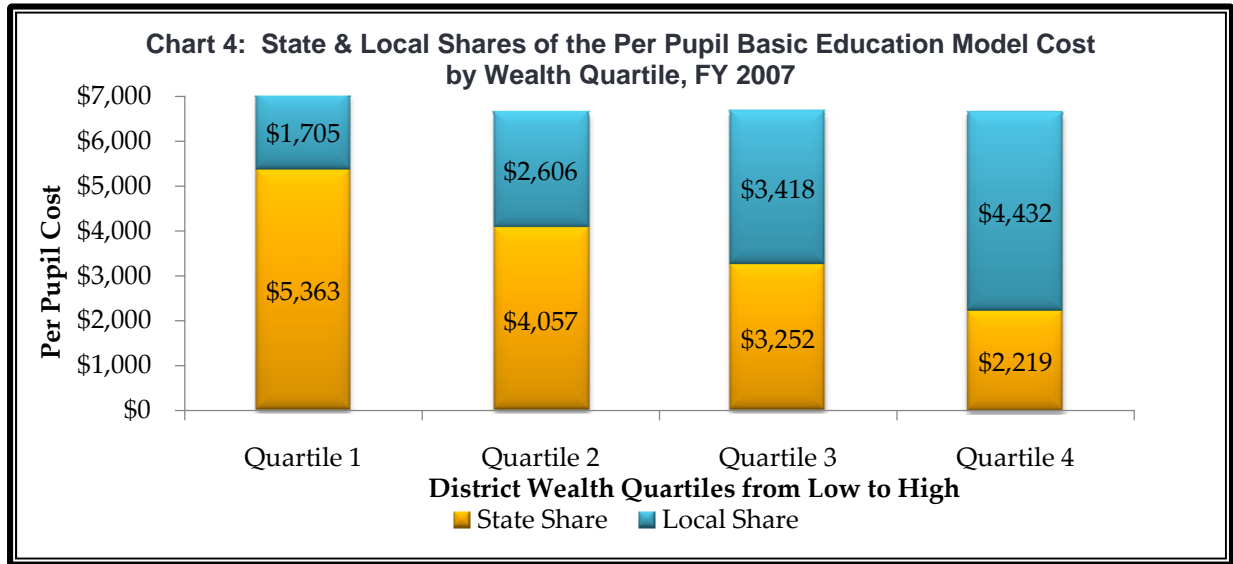
# SUMMARY

As stated in the introduction, this analysis of operating funding for public schools in Ohio is meant to assist legislators in understanding the current school funding system. This analysis has discussed the respective roles played by state, local, and federal revenues in funding school operations in Ohio. To help summarize this discussion, two charts (Chart 4 from the introduction and Chart 9 from the state funding for enhancement spending – parity aid section) are reproduced here along with a new chart (Chart 19). Chart 4 shows the state and local shares for the per pupil cost of the state-defined basic education model by wealth-based quartile; Chart 9 shows local and state enhancement revenues per pupil by wealth-based quartile; and Chart 19 shows per pupil revenues from all sources by wealth-based quartile. The four wealth-based quartiles used in all three charts are identical; they order districts from low to high in terms of property value per pupil and then group districts into four groups with roughly the same number of students. Quartile 1 districts have the lowest average property value per pupil; quartile 4 districts have the highest average property value per pupil.

This analysis has divided school district operating spending into three components: (a) state-defined basic education model spending (72.7% in FY 2007), which is funded by a combination of state education aid and a portion of locally raised (mainly property) tax revenue, (b) enhancement spending above the state-defined basic education level (19.3% in FY 2007), which is primarily funded by the other portion of locally raised tax revenue that is not used to fund the state-defined basic education model cost, and (c) federal education spending (8.0% in FY 2007), which is generally targeted to students from low income families and students with disabilities.

The cornerstone of the state-defined basic education model is a uniform base cost per pupil, which represents the state-determined cost of providing a basic education to a "typical" student. The model then adds a series of adjustments to take into account the different challenges school districts face in providing the same state-defined basic education to students with different needs. The model essentially attempts to treat similar students alike and different students differently in order to ensure a similar level of basic education for all students. The current state funding formula guarantees, through a combination of state and local revenues, the full amount of spending determined by the model for every student in the state regardless of the property wealth of the district where the student lives.

Chart 4 demonstrates that the state funding formula has indeed achieved the goal of ensuring a similar state-defined basic education level of funding for all students. As seen from the chart, there is little difference in total model cost per pupil among the four wealth-based quartiles; quartile 1 districts have on average a slightly higher total cost per pupil amount because their students tend to have higher needs (disadvantaged, special education, and pupil transportation, for example). The chart also shows that the state share of the model cost is the highest (75.9%) for the lowest wealth quartile 1 and that the state share decreases as the wealth level increases. On average the state pays more than 50% of the state-defined basic education model cost (55.0% in FY 2007). The combination of state and local revenue produces a similar

**Chart 4: State & Local Shares of the Per Pupil Basic Education Model Cost by Wealth Quartile, FY 2007**

| | Quartile 1 | Quartile 2 | Quartile 3 | Quartile 4 |
|---|---|---|---|---|
| Local Share | $1,705 | $2,606 | $3,418 | $4,432 |
| State Share | $5,363 | $4,057 | $3,252 | $2,219 |

District Wealth Quartiles from Low to High

■ State Share  ■ Local Share

spending level determined by the state-defined basic education model for all students across every school district.

The equalization feature of the distribution formula is independent of the funding level determined by the model used by the state. Once a targeted spending level for the state-defined basic education is determined, the formula will ensure that every district has sufficient state and local revenues to support that level of spending. Whether this targeted spending level is $6,762 statewide as in FY 2007 or, perhaps, $7,600 in FY 2012, the current school funding formula will neutralize the effect of the uneven distribution of property wealth on a school district's ability to provide the state-defined basic education every year. This inherent equalization nature of the formula essentially eliminates the impact of H.B. 920 tax reduction factors on school district spending for the state-defined basic education. There is no disparity or phantom revenue in the state-defined basic education level.

While the formula guarantees revenue for the state-defined basic education for all students, revenue above the state-defined basic education is largely unequalized and is not guaranteed. Since enhancement revenue is largely unequalized, the uneven distribution of property wealth and income wealth affects a school district's ability to raise local revenue to support spending above the state-defined basic education level. The amount of local enhancement revenue per pupil, therefore, varies significantly across school districts. As seen from Chart 9, per pupil local enhancement revenue is clearly related to a district's wealth. The average local enhancement revenue per pupil (the bottom portion of the bar) for quartile 4 districts (the top 20%) is almost four times higher than the average for quartile 1 districts, three times higher than the quartile 2 average, and almost two times higher than the quartile 3 average. While there is no disparity in the state-defined basic education, inequity occurs in the local enhancement spending level. Where a student lives affects the amount of local enhancement revenue available for that student. In FY 2007, local enhancement revenue totals approximately $2.6 billion statewide.
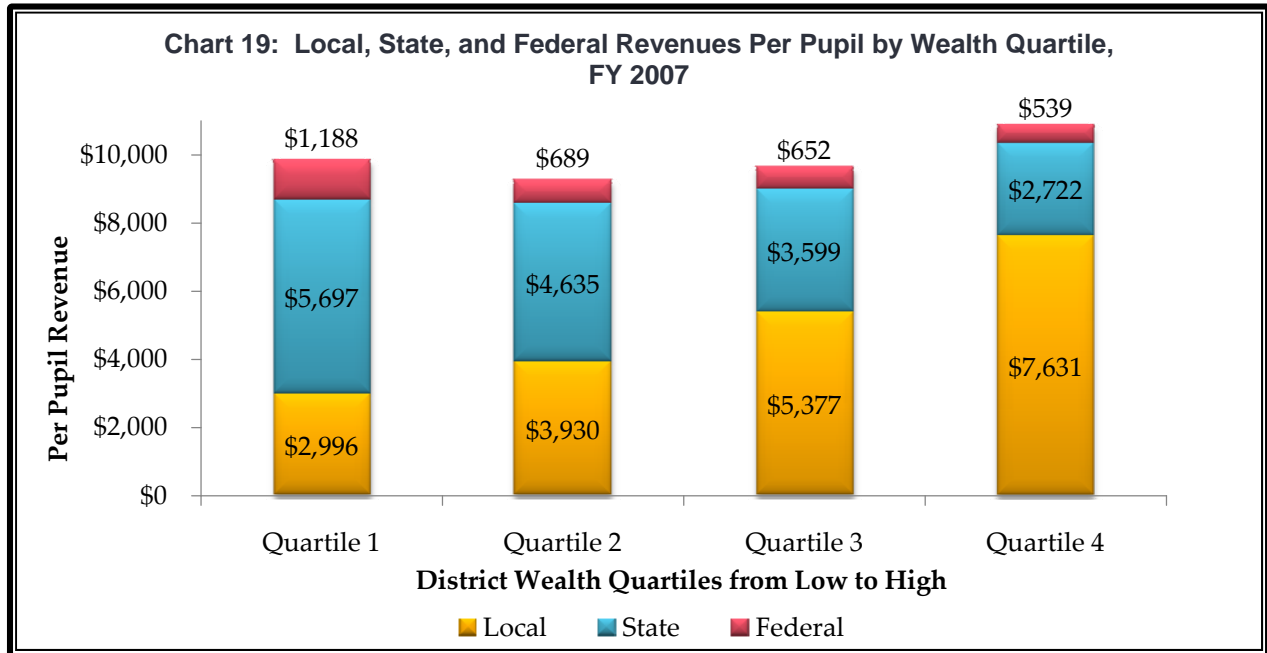
The state attempts to equalize a portion of local enhancement revenue through parity aid. While it is relatively small in comparison with the total amount of local enhancement revenue available, parity aid has substantially leveled the playing field for the bottom 80% (the first three quartiles) of school districts. As seen from Chart 9, when parity aid is included, the average enhancement revenue per pupil for quartile 1 districts is actually slightly higher than that for quartile 2 districts. Parity aid also reduces the difference between quartile 4 and quartile 1 by 50%. However, the top 20% (quartile 4) districts still have significantly higher amounts of enhancement revenues even with parity aid; they support their higher levels of spending by seeking approval of levies from local voters. Since the enhancement revenue is not guaranteed by the formula, H.B. 920 tax reduction factors, which limit revenue growth from existing real property, force school districts to periodically ask for new levies in order to sustain or increase their enhancement revenues. The effect of H.B. 920 tax reduction factors on a school

**Chart 9: Enhancement Revenues by Wealth Quartile, FY 2007**
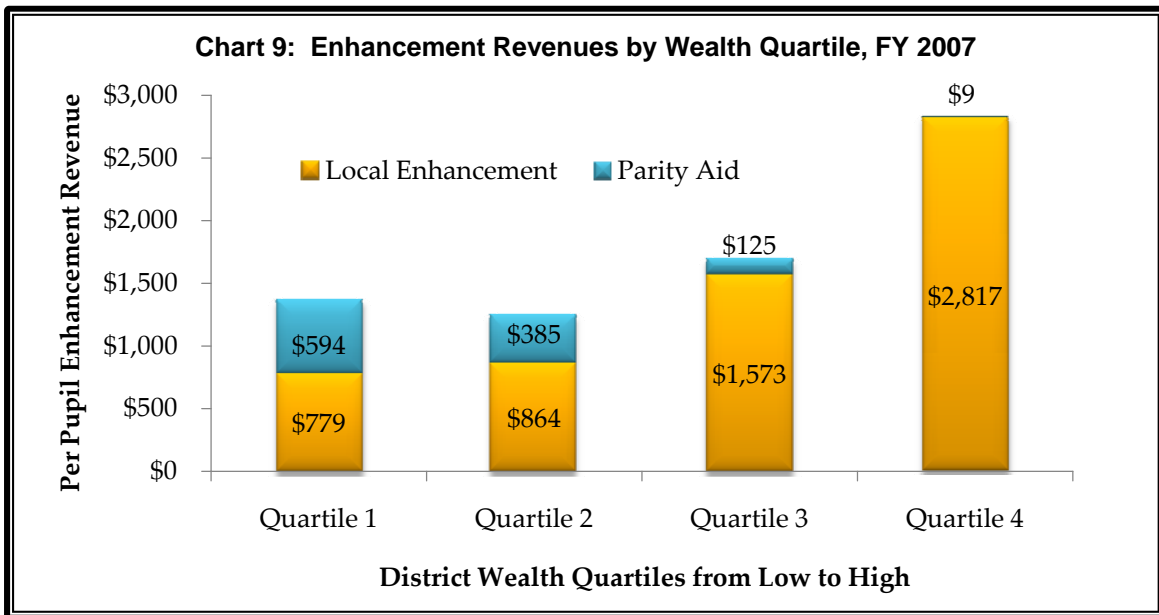


district's enhancement revenue is also called reappraisal phantom revenue, which is a by-product of the interaction of the current school funding formula and H.B. 920 tax policy.

While it plays a relatively small role in funding schools (8.0% of total school district operating revenue in FY 2007), federal revenue has been growing rapidly in recent years. It helps equalize school district spending since it mainly targets students from low-income families and students with disabilities. Chart 19 shows all revenues per pupil for the same four wealth-based quartiles. As seen from the chart, federal revenue per pupil for quartile 1 districts is twice as high as that for quartile 4 districts. Quartile 1 includes several major urban districts, which tend to receive more federal revenues. As a result, the average total revenue per pupil for quartile 1 is higher than the averages for quartiles 2 and 3, although still $1,000 per pupil lower than the average for quartile 4.

**Chart 19: Local, State, and Federal Revenues Per Pupil by Wealth Quartile, FY 2007**

| Quartile | Local | State | Federal |
|----------|-------|-------|---------|
| Quartile 1 | $2,996 | $5,697 | $1,188 |
| Quartile 2 | $3,930 | $4,635 | $689 |
| Quartile 3 | $5,377 | $3,599 | $652 |
| Quartile 4 | $7,631 | $2,722 | $539 |

Per Pupil Revenue

District Wealth Quartiles from Low to High

Local   State   Federal

However, it is very important to note that the numbers shown in Chart 19 do not take into account student characteristics and unique challenges facing individual school districts. A district with a higher proportion of students with special needs (special education, career-technical education, or intervention, for example) often needs to incur a higher level of spending in order to provide a similar level of educational services to all of its students. It is challenging to decide the appropriate level of additional funding needed for a student with special needs and for a district with unique challenges. That is perhaps why the school funding debate is an ongoing issue not only in Ohio but also in almost every other state. Since inequity occurs only in the enhancement spending level and since H.B. 920 tax reduction factors also affect only a district's ability to maintain or increase its enhancement spending level, enhancement spending is perhaps one of the areas that should be explored more in the ongoing school funding debate in Ohio.