LEGISLATIVE SERVICE COMMISSION

SCHOOL FUNDING COMPLETE RESOURCE

Updated February 2011

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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:

- State-defined basic education spending;
- School district tax revenues above the state-defined basic education level; and
- State competitive grants, other state revenues, and federal program spending.

The first area typically is funded with both state and local revenues, although in FY 2010 and FY 2011 certain federal stimulus funding under the American Recovery and Reinvestment Act (ARRA) is used to help support the state share. The second area is funded with local revenues, and, through property tax rollbacks, state revenues, and the third area is funded with state and 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.

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

In FY 2010, Ohio began to use an "evidence-based" model (EBM) to determine the state-defined basic education cost. Previously, the state used a "building-blocks" model. A discussion of the previous model can be found in the November 2008 edition of this document which is available on the "Publications" section of the LSC web site under "School Funding Resources." State-defined basic education spending in FY 2010 was approximately 65.3% of total statewide spending on public school operations. The second largest spending area, local revenues above the state-defined basic education, was approximately 21.3% of total statewide spending. Finally, state competitive grants, other state revenues, and federal program spending was approximately 13.4% of total statewide spending. Chart 1 shows this breakdown of school operating revenue.
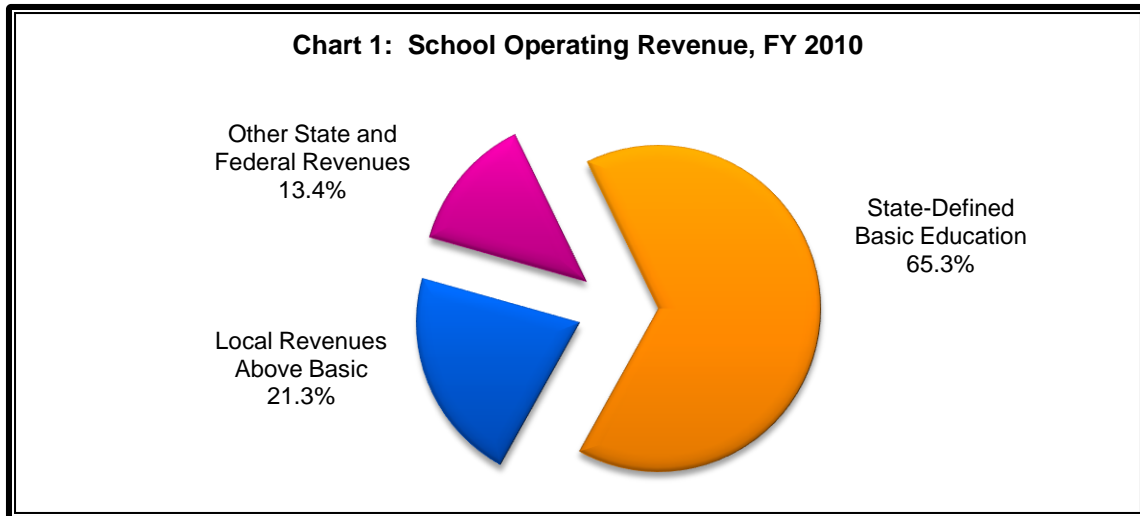
Chart 1: School Operating Revenue, FY 2010

Other State and
Federal Revenues
13.4%

State-Defined
Basic Education
65.3%

Local Revenues
Above Basic
21.3%

The state is mainly concerned with supporting spending for the state-defined basic education. Chart 2 shows, for FY 2010, the breakdown between state (including ARRA funding) and local revenue sources statewide for state-defined basic education spending. State revenues made up 62.8% of state-defined basic education spending, whereas local revenue made up 37.2%. In contrast, the breakdown between state, local, and federal sources statewide for total revenues in FY 2009, the latest year for which these data are available, is 45.4% state, 46.4% local, and 8.2% federal.

**Chart 2: Composition of School District Revenues
for State-Defined Basic Education,
FY 2010**

Local, 37.2%

State, 62.8%
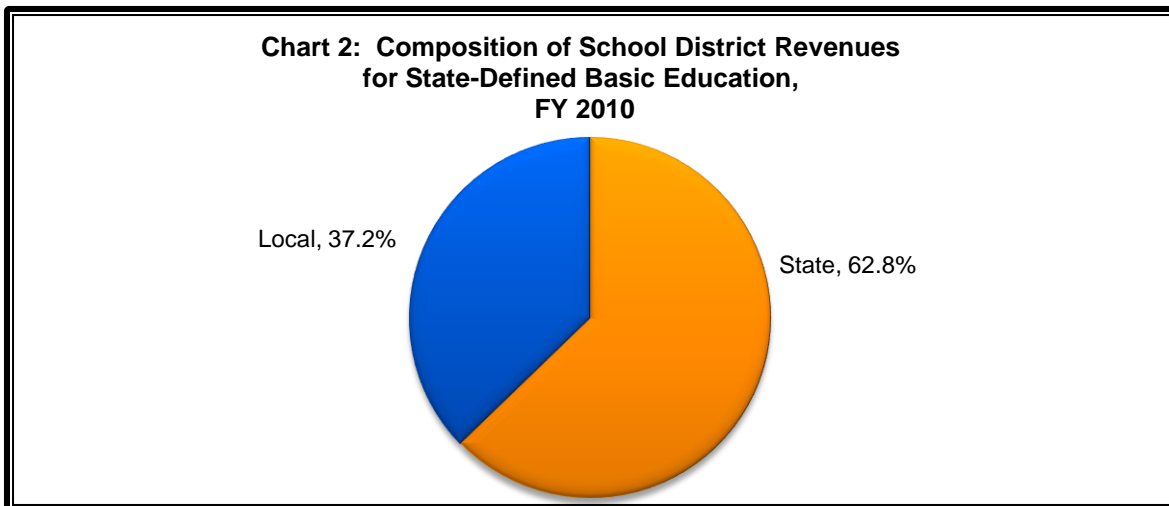
State revenues for education come mainly from the state income tax and the state sales tax; a relatively small portion comes from the profits of the state lottery. Local revenues for education come mainly from school district property taxes, although a small portion comes from school

Lottery profits made up about 8.6% of total state spending on primary and secondary education in FY 2010.

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.

Since local revenues come mainly from school district property taxes, 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

> Local revenues come primarily from property taxes with a smaller amount coming from school district income taxes.

school districts. Chart 3 shows the distribution of valuations per pupil in tax year (TY) 2008. It can be seen that valuations per-pupil range from less than $75,000 in 47 districts to more than $225,000 in 41 districts. The statewide weighted average is $142,739 per pupil while the statewide median district's valuation per pupil is $118,554. The weighted average represents a per-pupil based ranking, which takes into account the size of school districts. The median represents a district based

Chart 3: Distribution of Valuations Per Pupil, TY 2008

ranking, which is represented by the middle district (the 306th district out of 612). Valuations per pupil for the majority (390 or 63.7%) of school districts range from $75,000 to $150,000.

The variation in per-pupil valuation 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. To partially counteract that effect, 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. What this means in practice is that a district with a relatively low revenue-generating capacity will receive a greater portion

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

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 shares (the lower portion of the bar) than districts in the higher wealth quartiles. On average, approximately 75.9% of quartile 1 districts' per-pupil basic education model spending is supported by the state. This percentage decreases to 68.9% for quartile 2 districts, 56.9% for quartile 3 districts, and 41.0% for quartile 4 districts.

Chart 4 also demonstrates that the total basic education model spending per pupil has a negative relationship with a district's property wealth. This results from the educational challenge factor (ECF), a component of the school funding model that will be discussed in detail in the following section on state funding. Other variations in the per-pupil state-defined basic education model cost occur due to the distribution of high need students (disadvantaged, special education, limited English proficient, and career-technical education students for example) among the quartiles. In FY 2010, the average per-pupil basic education spending for quartiles 1 through 4 totaled $8,052 (quartile 1), $6,452 (quartile 2), $6,002 (quartile 3), and $5,122 (quartile 4). The statewide average spending level in FY 2010 was $6,415 per pupil.

Chart 4: State & Local Shares of the Per-Pupil State-Defined Basic Education Model Cost by Wealth Quartile, FY 2010
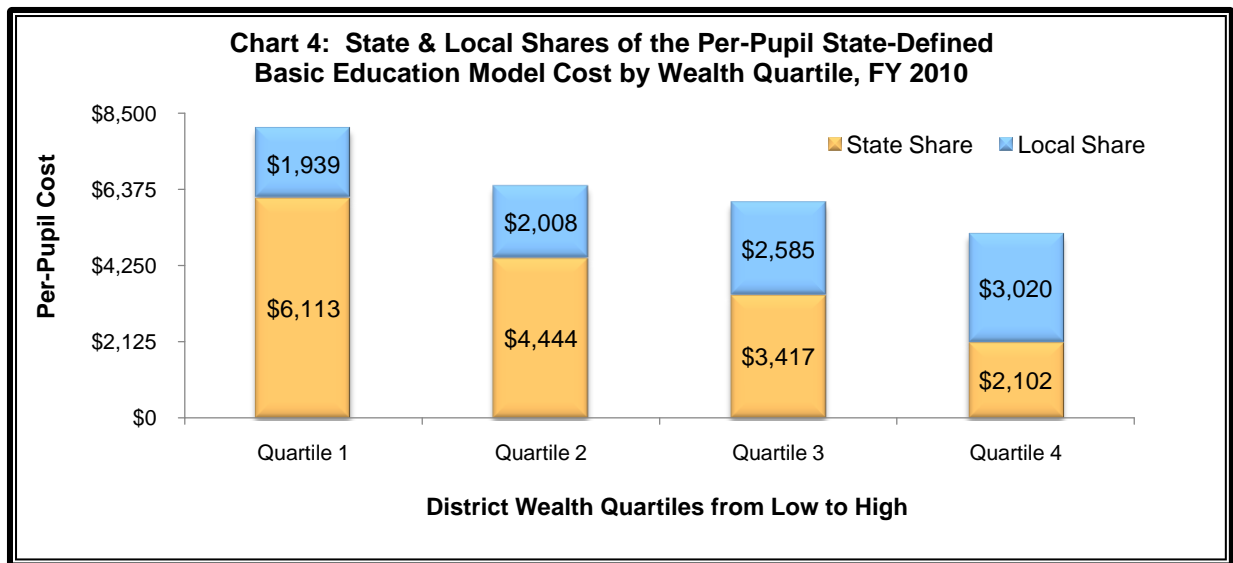
The following analysis of the current school funding system in Ohio includes four parts. The first part looks at state revenue. It addresses how the state determines the state-defined basic education spending level and how the state splits this spending level between state and locally raised revenues. 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. As mentioned in the introduction, in FY 2010, Ohio began to use an "evidence-based" model (EBM) to determine the state-defined basic education cost. Previously, the state used a "building-blocks" model.[1]

The general premise behind the EBM is to identify the number and type of personnel and nonpersonnel factors needed for the state-defined basic education and build a funding model that supports them. Table 1 on the following page lists the factors of the EBM in Ohio in FY 2010. Most of these factors are part of what the model terms the "adequacy amount." The last four factors listed in the table, however, are not part of the adequacy amount. These factors include a guarantee (transitional aid) and a cap (gain cap) that serve to reduce the funding increases and decreases to individual school districts as the state transitions from the previous funding formula to the EBM. The other two factors outside of the adequacy amount – career-technical education and transportation – may eventually be moved within the adequacy amount as the formula is further refined.

> Beginning in FY 2010, Ohio uses an "evidence-based" model to determine the state-defined basic education cost.

Table 1 also shows the basis of the funding for each factor. The previous funding model was mostly student-based. Many of the factors of the EBM are also student-based, although the largest of these (core teachers) depends on the grade level of the student. Other factors are organizational unit or district-based. Organizational units are a construct used by the model to represent typical school buildings. They are explained in more detail below. Another important aspect of the Ohio EBM is the educational challenge factor (ECF). The ECF is district-based. It results in higher adequacy amounts for districts with:

- Relatively high percentages of students who are economically disadvantaged;
- Relatively low percentages of resident adults with a college education; and
- Relatively low property and income wealth.

The far right column of Table 1 indicates the factors of the EBM that have the ECF applied.

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[1] A discussion of the previous model can be found in the November 2008 edition of this document which is available on the "Publications" section of the LSC web site under "School Funding Resources."

Table 1: Ohio Evidence-Based Model for Determining the State-defined Basic Education Cost			
Funding Component	**Funding Factor**	**Basis of Funding**	**ECF**
Instructional Services Support	Core Teachers	Student (grade level dependent)	ECF
	Specialist Teachers	Student (grade level dependent)	ECF
	Lead Teachers	Organizational Unit	ECF
	Special Education Teachers	Weighted Special Education Student	ECF
	Special Education Teacher Aides	Weighted Special Education Student	ECF
	Limited English Proficiency Teachers	LEP Student	ECF
	Supplemental Teachers	Economically Disadvantaged Student	ECF
Additional Services Support	Family and Community Liaisons	Economically Disadvantaged Student	ECF
	Counselors	Student (grade level dependent)	
	Summer Remediation Program	Economically Disadvantaged Student	ECF
	School Nurse Wellness Coordinators	Organizational Unit	
	District Health Professionals	District	
Administrative Services Support	District Administration	District	
	Principals	Organizational Unit	
	Noninstructional Aides	Organizational Unit	
	Building Managers	Organizational Unit	
	Secretaries	Organizational Unit	
Operations and Maintenance Support	Operations and Maintenance Support	Student	
Gifted Education and Enrichment Support	Gifted Student Identification	Student	
	Gifted Coordinators	Student	
	Gifted Intervention Specialists	Organizational Unit	ECF
	Professional Development for Gifted Intervention Specialists	Organizational Unit	
	Enrichment Support	Student	ECF
Technology Resources Support	Licensed Librarians and Media Specialists	Organizational Unit	
	Technical Equipment	Student	
Professional Development	Professional Development	Teacher	
Instructional Materials	Instructional Materials	Student	
Outside Adequacy Amount	Career-Technical Education	District	
	Pupil Transportation	Student or Miles Transported	
	Transitional Aid	District	
	Gain Cap	District	

The adequacy amount, as calculated for FY 2010, including both state and local shares, totaled $10.75 billion statewide. Chart 5 shows the breakdown of this amount by the various funding components. In this chart, the effects of the ECF are removed from the funding factors shown in table 1 and shown separately. Instructional services, even without the effect of the ECF, was by far the largest component, accounting for 63.5% of the total.   Following instructional services in importance was the ECF at 14.7%, administrative services at 6.7%, and operations and maintenance at 6.5%. All the other components combined amounted to 8.6% of the total adequacy amount.

Chart 5: Funding Components of the Adequacy Amount in FY 2010
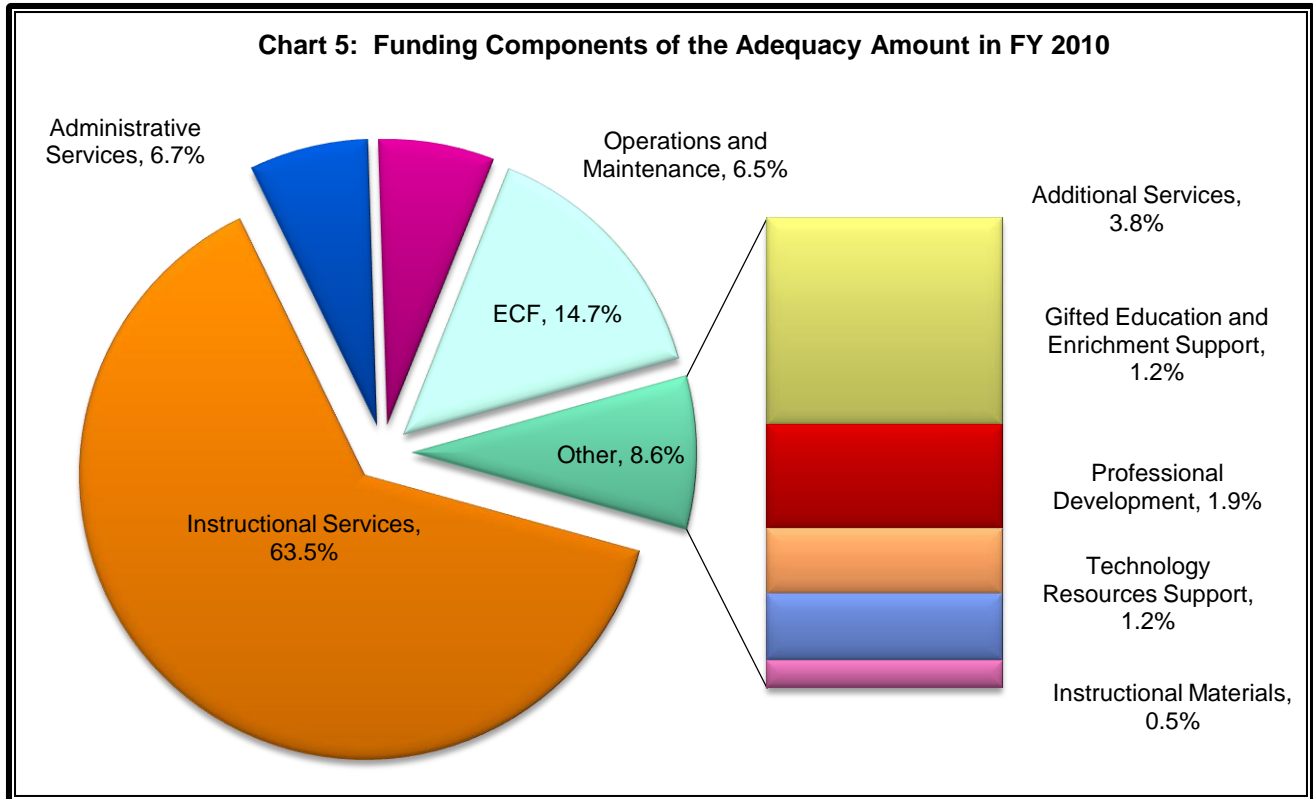
As stated above, the state must first determine the state-defined basic education cost and then must determine how to distribute state funding for this cost to districts (how this cost is to be shared between local and state revenues).   This section on state funding describes each element of the state-defined model cost, how the cost is determined, and how state funds are distributed. It also addresses funding for community schools, educational service centers, open enrollment students, post-secondary enrollment option (PSEO) students, and joint vocational school districts.

Adequacy – State Model Amount

Average Daily Membership

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. Districts count their students over one week in October then calculate the daily average.[2] 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 formula. 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 formula subtracts 80% of the JVS student count from a district's total student count.

> 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.

Generally, the ADM for a fiscal year is based on the October count of the previous fiscal year. An exception to this provision is given to districts for which the October count in the current fiscal year is more than 2% greater than the October count in the previous fiscal year. For these districts, ADM is based on the October count of the current fiscal year. The formula below summarizes the calculation of ADM for each district. The ADM is calculated for the district as a whole and is also broken down by grade level, and for special education students, by type of disability.

Calculation of ADM
If Current Year Resident Student Count <= (Prior Year Resident Student Count x 102%)
ADM = Prior Year Resident Student Count – 80% Prior Year JVS Count
If Current Year Resident Student Count > (Prior Year Resident Student Count x 102%)
ADM = Current Year Resident Student Count – 80% Current Year JVS Count

Statewide, school district ADM funded in Ohio totaled 1,763,208 students in FY 2010.

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[2] For the three years FY 2007-FY 2009, districts performed two counts of their pupils, the first in October and the second in February. The annual ADM was based 75% on the October count and 25% on the February count.

Organizational Units

As shown in table 1, some factors of the school funding model are allocated based on "organizational units." Organizational units are a construct used by the model to represent schools of a standard size. There are three types of organizational units:

Table 2: Types of Organizational Units		
Unit Type	Grades Included	Standard Size
Elementary school	kindergarten through five	418
Middle school	six through eight	557
High school	nine through twelve	733

A district with less than 418 students total is termed a "small district" and is considered to have one organizational unit regardless of the grade level breakdown of its students. Every district is guaranteed to have at least one organizational unit. The calculation of organizational units is summarized below. In FY 2010, 11 districts qualified as small districts and the total number of organizational units was 3,417, including 1,930 elementary, 730 middle, and 750 high. In FY 2009, there were 3,419 actual district schools that were large enough to receive local report cards from the state.

Calculation of Organizational Units
If ADM < 418 students, then Total Organizational Units = 1
If ADM > = 418 students, then
Elementary School Organizational Units = (ADM in grades K through 5) / 418
Middle School Organizational Units = (ADM in grades 6 through 8) / 557
High School Organizational Units = (ADM in grades 9 through 12) / 733
Total Organizational Units = Elementary School + Middle School + High School Units

Educational Challenge Factor (ECF)

As stated previously, the ECF accounted for 14.7% of the total statewide adequacy amount in FY 2010. It is a factor calculated for each school district, which ranges from 0.76 to 1.65. As shown in table 1 above, this factor is applied to 11 factors of the adequacy amount, including all seven of the factors of the instructional services funding component. The ECF uses a combination of three measures – college attainment rate, poverty rate, and wealth per pupil – to provide more funding in the formula to districts with higher needs. Each district's college attainment rate is measured as the percentage of the population that is age 25 or over who has at least a bachelor's degree. Each district's poverty rate is measured as the percentage of the economically disadvantaged students in the district as reported on the district's local report card, referred to as the targeted poverty indicator. Each district's wealth per pupil is measured as 75% of its recognized taxable property valuation plus 25% of the sum of the incomes of its residents, divided by its ADM. This is the same wealth measure that was used in the parity aid component of the previous school funding formula.

Chart 6: Distribution of ECF

Number of School Districts

ECF	Districts
0.75-0.85	11
0.85-0.95	41
0.95-1.05	58
1.05-1.15	123
1.15-1.25	136
1.25-1.35	90
1.35-1.45	43
1.45-1.55	74
1.55-1.65	36

Educational Challenge Factor
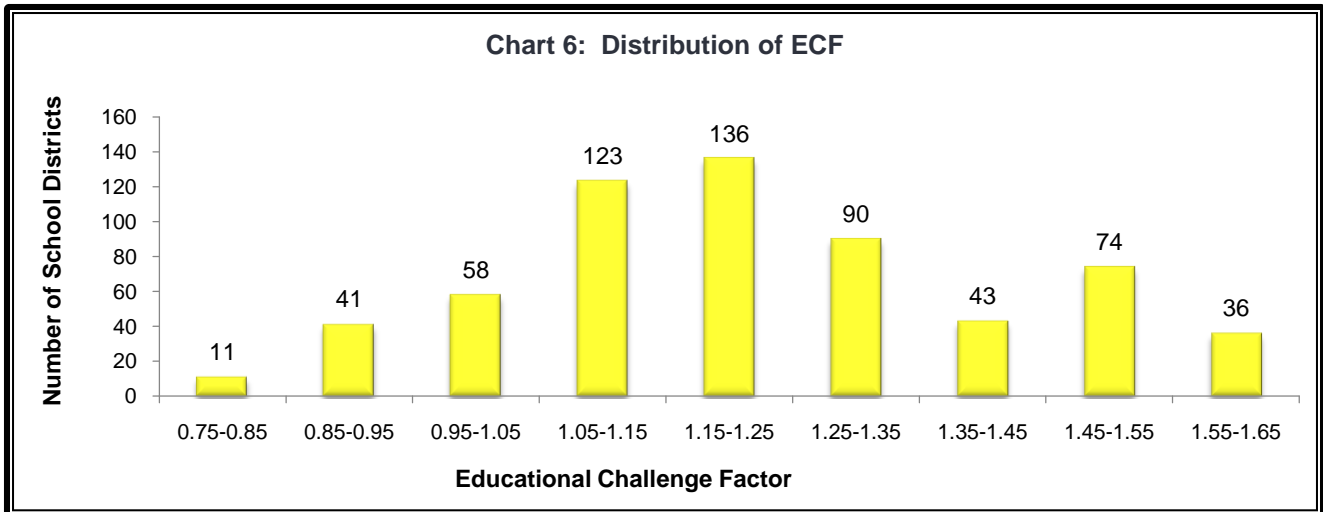
Chart 6 shows the distribution of the ECF over the 612 school districts. As can be seen from the chart, there is a spike in the middle of the distribution. The ECF lies between 1.05 and 1.25 for 259 districts (42.3%). The ECF is below 1.0 for 82 districts (13.4%). For these 82 districts, the effect of the ECF is to lower the adequacy amount. For the remaining 530 (86.6%) districts, the ECF increases the adequacy amount. This effect can be seen further in chart 7, which shows the distribution of the effect of the ECF in FY 2010 on the per-pupil adequacy amount, including both state and local shares. Of the 82 districts with adequacy amounts that decrease as a result of the ECF, 17 have a per-pupil decrease greater than $500. Most districts (62.9%) have increases that are greater than $0 and less than $1,500 per pupil.

Chart 7: Distribution of Change in Per-Pupil Adequacy Amount Due to ECF, FY 2010

Range	Districts
< -$500	17
< $0	65
$0 - $500	118
$500 - $1,000	163
$1,000 - $1,500	104
$1,500 - $2,000	64
$2,000 - $2,500	59
$2,500 - $3,000	21
> $3,000	1

Per-Pupil Change in Adequacy Amount
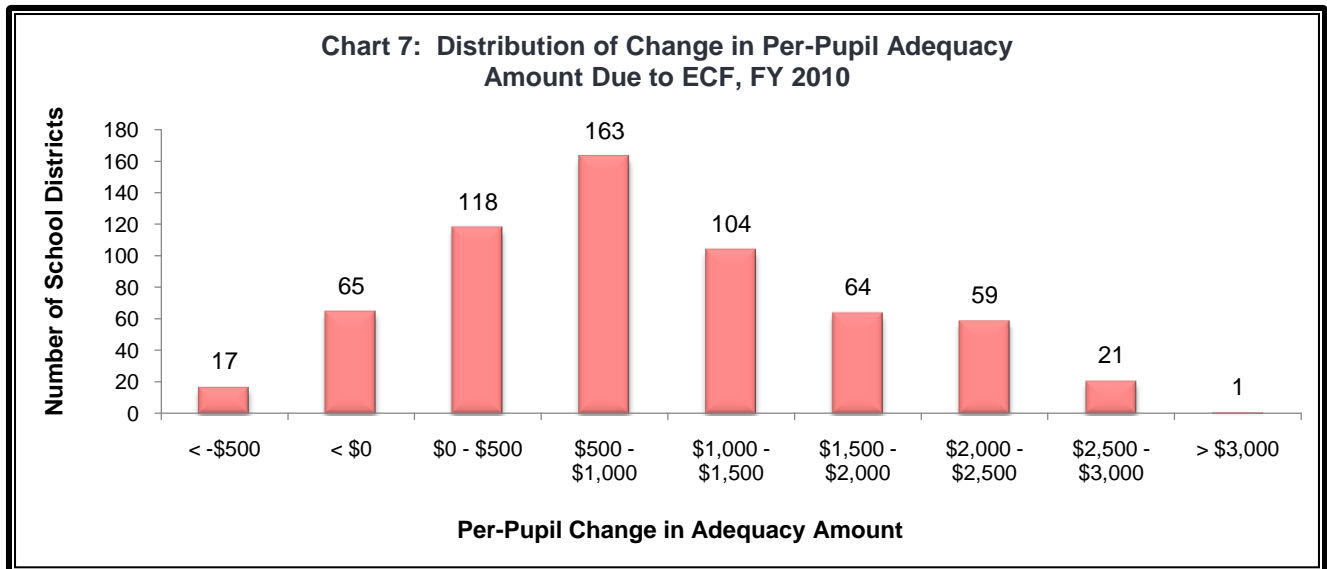
Instructional Services Support

The instructional services support funding component is made up of funding for seven types of teachers: core teachers, specialist teachers, lead teachers, special education teachers, special education teacher aides, teachers for limited English proficient students, and supplemental teachers. The number of each type of teacher funded in each district is calculated as described below. Once the total number of teachers of all types is determined for a district, this number is multiplied by the model's assumed teacher compensation for the fiscal year to arrive at the total amount of the instructional services support for the district.

Core Teachers

Core teachers are teachers of English-language arts, mathematics, science, social studies, or foreign languages. In FY 2010 and FY 2011, the number of core teachers is driven by a student-to-teacher ratio of 19:1 for grades kindergarten through three and 25:1 for grades four through twelve. The ratio for grades kindergarten through three is scheduled to phase down to 17:1 for FY 2012-FY 2013, and 15:1 for FY 2014 and thereafter. The calculation of the number of core teachers for each school district is summarized below. In FY 2010, the number of core teachers calculated by the model statewide was 77,341, including 39,085 in elementary, 16,255 middle, and 22,001 high school.

Calculation of the Number of Core Teachers per School District
For grades K through 3:
Number of core teachers in each grade level = (ADM in the grade level) / 19
For grades 4 through 12:
Number of core teachers in each grade level = (ADM in the grade level) / 25
Total number of core teachers = Sum of the number of core teachers in each grade level K through 12

Specialist Teachers

Specialist teachers provide instruction in art, music, physical education, dance, drama and theater, and visual arts. They are funded at 20% of core teachers in grades kindergarten through eight plus 25% of core teachers in grades nine through twelve. The calculation of the number of specialist teachers for each school district is summarized below. In FY 2010, the number of specialist teachers calculated by the model statewide was 16,568.

Calculation of the Number of Specialist Teachers per School District
Total number of specialist teachers =
0.2 x (Number of core teachers in grade levels K through 8) +
0.25 x (Number of core teachers in grade levels 9 through 12)

Lead Teachers

Lead teachers provide mentoring and coaching for new teachers. They are funded at one teacher per organizational unit. The calculation of the number of lead teachers for each school district is summarized below. In FY 2010, the number of lead teachers calculated by the model statewide was 3,417.

Calculation of the Number of Lead Teachers per School District
Total number of lead teachers = Total number of organizational units

Special Education Teachers

Special education teachers provide the extra time and attention needed to assist in the achievement of special education students. Special education teachers are funded using a 20:1 special education weighted student ADM-to-teacher ratio. To calculate the special education weighted student ADM, the model divides special education ADM into six categories based on the disability of the student. The ADM in each category is given a weight.[3] These categories and weights are listed below. Special education weights have been subject to a phase-in percentage of 90% since FY 2005.

Table 3: Special Education Categories and Weights		
Category		**Weight**
One	Speech only	0.2906
Two	Specific learning disabled, developmentally disabled, other health – minor	0.7374
Three	Hearing impaired, severe behavior disabled	1.7716
Four	Vision impaired, other health – major	2.3643
Five	Orthopedically disabled, multi-disabled	3.2022
Six	Autism, traumatic brain injury, both visually and hearing impaired	4.7205

The calculation of the special education weighted student ADM for each school district is summarized below. In FY 2010, the unweighted statewide ADM in each category was: category 1, 32,506; category 2, 152,267; category 3; 19,864; category 4, 1,633; category 5, 13,785; and category 6, 13,743. Statewide weighted ADM totaled 242,818.

Calculation of the Special Education Weighted Student ADM per School District
Category 1 weighted ADM = (category 1 ADM) x 0.2906
Category 2 weighted ADM = (category 2 ADM) x 0.7374
Category 3 weighted ADM = (category 3 ADM) x 1.7716
Category 4 weighted ADM = (category 4 ADM) x 2.3643
Category 5 weighted ADM = (category 5 ADM) x 3.2022
Category 6 weighted ADM = (category 6 ADM) x 4.7205
Total special education weighted ADM = (Sum of special education weighted ADM for categories 1 through 6) x 0.9

The calculation of the number of special education teachers for each school district is summarized below. In FY 2010, the number of special education teachers calculated by the model statewide was 12,199.

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3 These weights were updated in FY 2010. The special education categories also changed slightly in that vision impaired and orthopedically disabled students now are assigned to categories with a higher weight.

Calculation of the Number of Special Education Teachers per School District
Total number of special education teachers = (Total special education weighted ADM) / 20

Special Education Teacher Aides

In addition to special education teachers, one special education teacher aide is provided for every two special education teachers, with funding phased in at 50% for FY 2010 and FY 2011. The calculation of the number of special education teacher aides for each school district is summarized below. In FY 2010, the number of special education teacher aides calculated by the model statewide was 3,050.

Calculation of the Number of Special Education Teacher Aides per School District
Total number of special education teacher aides = (Total number of special education teachers / 2) x 0.5

Limited English Proficiency (LEP) Teachers

LEP teachers provide for the additional needs of LEP students. They are funded at one teacher per 100 LEP students. The number of LEP students used in the model is equal to the percent of LEP students as defined in federal law multiplied by the district's ADM. The calculation of the number of LEP teachers for each school district is summarized below. In FY 2010, the number of LEP teachers calculated by the model statewide was 354.

Calculation of the Number of LEP Teachers per School District
Total number of LEP teachers = (LEP percentage x ADM) / 100

Supplemental Teachers

Supplemental teachers are funded for students who need additional instructional assistance and to provide assistance with extended-day instruction. They are funded at one tutor per 100 economically disadvantaged students. The number of economically disadvantaged students used in the model is equal to the percentage of economically disadvantaged students in the district as reported on the district's local report card (the targeted poverty indicator) multiplied by the district's ADM. The calculation of the number of supplemental teachers for each school district is summarized below. In FY 2010, the number of supplemental teachers calculated by the model statewide was 7,136.

Calculation of the Number of Supplemental Teachers per School District
Total number of supplemental teachers = (Economically disadvantaged percentage x ADM) / 100

Teacher Compensation

Teacher compensation refers to the amount allocated in a given fiscal year by the model to a specific district for each teacher (including teachers of all seven types described above) calculated by the model. This number is different for each district. It is calculated by multiplying the "statewide base teacher salary" by the ECF. The ECF is a centerpiece of the model and is described in more detail above. The statewide base teacher salary is equal to $56,902 in FY 2010 and $57,812 in FY 2011. The ECF ranges from 0.76 to 1.65, so in FY 2010, teacher compensation ranges from $43,442 ($56,902 x 0.76) to $93,784 ($56,902 x 1.65); in

FY 2011, teacher compensation ranges from $44,137 ($57,812 x 0.76) to $95,284 ($57,812 x 1.65). The calculation of teacher compensation for each school district is summarized below.

Calculation of Teacher Compensation per School District
FY 2010 Teacher compensation = $56,902 x district's ECF
FY 2011 Teacher compensation = $57,812 x district's ECF

Summary

Finally, the total instructional services support component of the model is calculated by adding up the total number of teachers and multiplying this number by the teacher compensation for the district. In this way the ECF affects each factor of instructional services support. This calculation is summarized below. The total amount calculated statewide for instructional services support in FY 2010 was $8.27 billion. Without the ECF, this amount would have been approximately $6.83 billion, so the net effect of the ECF on total instructional services support was an increase of approximately $1.44 billion.

Calculation of Instructional Services Support per School District
Core teacher factor = Number of core teachers x Teacher compensation
Specialist teacher factor = Number of specialist teachers x Teacher compensation
Lead teacher factor = Number of lead teachers x Teacher compensation
Special education teacher factor = Number of special education teachers x Teacher compensation
Special education teacher aide factor = Number of special education teacher aides x Teacher compensation
LEP teacher factor = Number of LEP teachers x Teacher compensation
Supplemental teacher factor = Number of supplemental teachers x Teacher compensation
Instructional services support = Sum of seven teacher factors

Additional Services Support

The second funding component of the model is additional services support. This component is made up of funding for five services: family and community liaisons, counselors, summer remediation programs, school nurse wellness coordinators, and district health professionals. The funding for each of these services is calculated as described below. However, no funding is provided for counselors, school nurse wellness coordinators, or district health professionals in FY 2010 and FY 2011, as the formula is being phased in.

Family and Community Liaisons

Family and community liaisons may include family liaisons, student advocates, and social workers. These staff provide additional support for at-risk students. They are funded at one staff person per 75 economically disadvantaged students. As with the supplemental teacher factor, the number of economically disadvantaged students used in the model is equal to the percentage of economically disadvantaged students in the district as reported on the district's local report card (the targeted poverty indicator) multiplied by the district's ADM. The model provides funding for each staff person equal to the district's ECF multiplied by the salary of $38,633 in FY 2010 and $39,381 in FY 2011. The calculation of the family and community liaison factor for each school district is summarized below. In FY 2010, the number of family and community liaisons calculated by the model statewide was 9,514. The total amount

calculated statewide for the family and community liaison factor in FY 2010 was $479.5 million. Without the ECF, this amount would have been approximately $367.6 million, so the net effect of the ECF on the total family and community liaison factor was an increase of approximately $111.9 million.

Calculation of the Family and Community Liaison Factor per School District
Total number of family and community liaisons = (Economically disadvantaged percentage x ADM) / 75
FY 2010 Family and community liaison factor = (Total number of family and community liaisons in FY 2010) x ($38,633 x district's ECF)
FY 2011 Family and community liaison factor = (Total number of family and community liaisons in FY 2011) x ($39,381 x district's ECF)

Counselors

The model calls for one counselor for every 250 students in grades six through twelve. In FY 2010 and FY 2011, however, no funding is provided for counselors. The calculation of the number of counselors for each school district is summarized below. In FY 2010, the number of counselors calculated by the model statewide would have been 3,826.

Calculation of the Number of Counselors per School District
Total number of counselors = (Sum of ADM in grades 6 through 12) / 250

Summer Remediation Program

Funding is provided for a summer remediation program for at-risk students. The model calculates the number of teachers needed for the program by providing for a 30:1 student-to-teacher ratio and assuming attendance equal to 50% of the economically disadvantaged students in the district. The model provides funding for each summer teacher equal to $3,000 in both FY 2010 and FY 2011 multiplied by the district's ECF. As with the supplemental teacher and the family and community liaison factor, the number of economically disadvantaged students used in the model is equal to the percentage of economically disadvantaged students in the district as reported on the district's local report card (the targeted poverty indicator) multiplied by the district's ADM. The calculation of the summer remediation program factor for each school district is summarized below. In FY 2010, the number of summer remediation teachers calculated by the model statewide was 11,893. The total amount calculated statewide for summer remediation in FY 2010 was $46.5 million. Without the ECF, this amount would have been approximately $35.7 million, so the net effect of the ECF on the summer remediation factor was an increase of approximately $10.8 million.

Calculation of the Summer Remediation Program Factor per School District
Total number of teachers = 0.5 x (Economically disadvantaged percentage x ADM) / 30
FY 2010 Summer remediation program factor = (Total number of teachers in FY 2010) x ($3,000 x district's ECF)
FY 2011 Summer remediation program factor = (Total number of teachers in FY 2011) x ($3,000 x district's ECF)

School Nurse Wellness Coordinators

One school nurse wellness coordinator is provided per organizational unit, except that small districts (districts with less than 418 students) do not receive funding for a school nurse wellness coordinator. Also, in FY 2010 and FY 2011, no funding is provided for school nurse

wellness coordinators. The calculation of the number of school nurse wellness coordinators for each school district is summarized below. In FY 2010, the number of school nurse wellness coordinators calculated by the model statewide would have been 3,406.

Calculation of the Number of School Nurse Wellness Coordinators per School District
If district ADM < 418, then number of school nurse wellness coordinators = 0
If district ADM = > 418, then
Total number of school nurse wellness coordinators = Number of organizational units

District Health Professionals

One district health professional is provided per district. In FY 2010 and FY 2011, however, no funding is provided for district health professionals. In FY 2010, the number of district health professionals calculated by the model statewide would have been 612.

Summary

The total additional services support component of the model is calculated by adding up the five factors, although in FY 2010 and FY 2011, only two of the factors are funded. This calculation is summarized below. The total amount calculated statewide for additional services support in FY 2010 was $526.0 million.

Calculation of Additional Services Support per School District
Additional services support =
Family and community liaison factor +
Summer remediation program factor +

Administrative Services Support

The third component of the model is administrative services support. This component is made up of funding for five types of administrative staff: district administration, principals, noninstructional aides, building managers, and secretaries. The funding for each of these staff persons is calculated as described below. However, no funding is provided for noninstructional aides in FY 2010 and FY 2011.

District Administration

The model provides funding for each district equal to $187,176 in FY 2010 and $190,801 in FY 2011 for district administration. The calculation of the district administration factor for each school district is summarized below. The total amount calculated statewide for district administration in FY 2010 was $114.6 million.

Calculation of the District Administration Factor per School District
FY 2010 District administration factor = $187,176
FY 2011 District administration factor = $190,801

Principal

One principal per organizational unit is funded. However, districts designated by the typology published by ODE in July 2007 as "type 1" (rural/agricultural, high poverty, low median income) or "type 2" (rural/agricultural, small student population, low poverty, low to moderate median income) are guaranteed funding for at least one principal for each of their school buildings. The model provides funding for each principal equal to $89,563 in FY 2010 and $91,297 in FY 2011. The calculation of the principal factor for each school district is summarized below. In FY 2010, the number of principals calculated by the model statewide was 3,663. The total amount calculated statewide for the principal factor in FY 2010 was $328.4 million.

Calculation of the Principal Factor per School District
Total number of principals = Number of organizational units (at least one per building for types 1 and 2 districts)
FY 2010 Principal factor = (Total number of principals in FY 2010) x $89,563
FY 2011 Principal factor = (Total number of principals in FY 2011) x $91,297

Noninstructional Aides

Noninstructional aides assist in activities such as bus loading and recess supervision. They are funded at two per elementary school and middle school organizational units and three per high school organizational unit, except that small districts (districts with less than 418 students) are funded at a total of one noninstructional aide. In FY 2010 and FY 2011, however, no funding is provided for noninstructional aides. The calculation of the number of noninstructional aides for each school district is summarized below. In FY 2010, the number of noninstructional aides calculated by the model statewide would have been 7,569.

Calculation of the Number of Noninstructional Aides per School District
If district ADM < 418, then number of noninstructional aides = 1
If district ADM = > 418, then number of noninstructional aides =
(Sum of elementary and middle school organizational units) x 2 +
(High school organizational units) x 3

Building Managers

Building managers supervise the noncurricular, noninstructional administrative functions of school operations. They are funded at one per organizational unit. The model provides funding for each building manager equal to $33,624 in FY 2010 and $34,275 in FY 2011. The calculation of the building manager factor for each school district is summarized below. In FY 2010, the number of building managers calculated by the model statewide was 3,417. The total amount calculated statewide for the building manager factor in FY 2010 was $114.9 million.

Calculation of the Building Manager Factor per School District
Number of building managers = Number of organizational units
FY 2010 Building manager factor = (Number of building managers in FY 2010) x $33,624
FY 2011 Building manager factor = (Number of building managers in FY 2011) x $34,275

Secretaries

One secretary is funded per elementary and middle school organizational units, and three per high school organizational unit, except that small districts (districts with less than 418 students) are funded at a total of one secretary. The model provides funding for each secretary equal to $33,624 in FY 2010 and $34,275 in FY 2011. This is the same as the funding provided for each building manager. The calculation of the secretary factor for each school district is summarized below. In FY 2010, the number of secretaries calculated by the model statewide was 4,914. The total amount calculated statewide for the secretary factor in FY 2010 was $165.2 million.

Calculation of the Secretary Factor per School District
If district ADM < 418, then number of secretaries = 1
If district ADM = > 418, then number of secretaries =
(Sum of elementary and middle school organizational units) +
(High school organizational units) x 3
FY 2010 Secretary factor = (Number of secretaries in FY 2010) x $33,624
FY 2011 Secretary factor = (Number of secretaries in FY 2011) x $34,275

Summary

The total administrative services support component of the model is calculated by adding up the five factors, although in FY 2010 and FY 2011, only four of the factors are funded. This calculation is summarized below. The total amount calculated statewide for administrative services support in FY 2010 was $723.1 million.

Calculation of Administrative Services Support per School District
Administrative services support =
District administration factor +
Principal factor +
Building manager factor +
Secretary factor

Operations and Maintenance Support

The fourth component of the model is operations and maintenance support. This component is funded at $884 per student, but is phased in at 45% for the FY 2010-FY 2011 biennium. The calculation of operations and maintenance support for each school district is summarized below. The total amount calculated statewide for operations and maintenance support in FY 2010 was $701.4 million.

Calculation of Operations and Maintenance Support per School District
FY 2010 Operations and maintenance support = ($884 x 0.45) x (FY 2010 ADM) = $397.80 x (FY 2010 ADM)
FY 2011 Operations and maintenance support = ($884 x 0.45) x (FY 2011 ADM) = $397.80 x (FY 2011 ADM)

Gifted Education and Enrichment Support

The fifth component of the model is gifted education and enrichment support. Gifted education and enrichment support is made up of funding for five factors: gifted student identification, gifted coordinators, gifted intervention specialists, professional development for gifted intervention specialists, and enrichment support. The funding for each of these services is calculated as described below.

Gifted Student Identification

Funding is provided at $5 per student in FY 2010 and FY 2011. The calculation of gifted student identification for each school district is summarized below. The total amount calculated statewide for gifted student identification in FY 2010 was $8.8 million.

Calculation of Gifted Student Identification per School District
FY 2010 Gifted student identification = $5 x (FY 2010 ADM)
FY 2011 Gifted student identification = $5 x (FY 2011 ADM)

Gifted Coordinators

One gifted coordinator is funded for every 2,500 students. The model provides funding for each gifted coordinator equal to $66,375 in FY 2010 and $67,660 in FY 2011. The calculation of funding for gifted coordinators is summarized below. In FY 2010, the number of gifted coordinators calculated by the model statewide was 705. The total amount calculated statewide for the gifted coordinator factor in FY 2010 was $46.8 million.

Calculation of Gifted Coordinators per School District
FY 2010 Gifted coordinators = (FY 2010 ADM / 2,500) x $66,375
FY 2011 Gifted coordinators = (FY 2011 ADM / 2,500) x $67,660

Gifted Intervention Specialists

One gifted intervention specialist is funded per organizational unit. The model provides funding for each gifted intervention specialist equal to $56,902 in FY 2010 and $57,812 in FY 2011, which is the same as the statewide base teacher salary, adjusted by each district's ECF. Funding for gifted intervention specialists is phased in at 20% in FY 2010 and 30% in FY 2011. The calculation of funding for gifted intervention specialists is summarized below. In FY 2010, the number of gifted intervention specialists calculated by the model statewide was 3,417. The total amount calculated statewide for gifted intervention specialists in FY 2010 was $46.8 million. Without the ECF, this amount would have been approximately $38.9 million, so the net effect of the ECF on the gifted intervention specialist factor was an increase of approximately $7.9 million.

Calculation of Gifted Intervention Specialists per School District
Total number of gifted intervention specialists = Total number of organizational units
FY 2010 Gifted intervention specialist factor = ($56,902 x district's ECF) x number of gifted intervention specialists in FY 2010 x 0.2
FY 2011 Gifted intervention specialist factor = ($57,812 x district's ECF) x number of gifted intervention specialists in FY 2011 x 0.3

Professional Development for Gifted Intervention Specialists

Professional development for gifted intervention specialists is funded at $1,833 per organizational unit, except that funding is phased in at 20% for FY 2010 and 30% for FY 2011. The calculation of funding for gifted intervention specialist professional development is summarized below. The total amount calculated statewide for the gifted intervention specialist professional development factor in FY 2010 was $1.3 million.

Calculation of Gifted Intervention Specialist Professional Development per School District
FY 2010 Gifted intervention specialist professional development = $1,833 x number of organizational units x 0.2
FY 2011 Gifted intervention specialist professional development = $1,833 x number of organizational units x 0.3

Enrichment Support

Funding of $100 per student, adjusted by each district's ECF, is provided for student enrichment activities, except that this funding is phased in at 20% for FY 2010 and 30% for FY 2011. The calculation of enrichment support for each school district is summarized below. The total amount calculated statewide for the enrichment support factor in FY 2010 was $42.4 million. Without the ECF, this amount would have been approximately $35.3 million, so the net effect of the ECF on the enrichment support factor was an increase of approximately $7.1 million.

Calculation of Enrichment Support per School District
FY 2010 Enrichment support = ($100 x district's ECF x 0.2) x (FY 2010 ADM) = $20 x district's ECF x (FY 2010 ADM)
FY 2011 Enrichment support = ($100 x district's ECF x 0.3) x (FY 2011 ADM) = $30 x district's ECF x (FY 2011 ADM)

Summary

The total gifted education and enrichment support component of the model is calculated by adding up the five factors. This calculation is summarized below. The total amount calculated statewide for gifted education and enrichment support in FY 2010 was $146.0 million.

Calculation of Gifted Education and Enrichment Support per School District
Gifted education and enrichment support =
Gifted identification +
Gifted coordinators +
Gifted intervention specialists +
Professional development for gifted intervention specialists +
Enrichment support

Technology Resources Support

The sixth component of the model is technology resources support. This component is made up of funding for two services: licensed librarians and media specialists and technical equipment. The funding for each of these services is calculated as described below.

Licensed Librarians and Media Specialists

Funding for licensed librarians and media specialists is provided at $60,000 per organizational unit, except that this funding is phased in at 20% for FY 2010 and 30% for FY 2011. The calculation of the licensed librarian and media specialist factor for each school district is summarized below. The total amount calculated statewide for the licensed librarian and media specialist factor in FY 2010 was $41.0 million.

Calculation of Licensed Librarian and Media Specialist Factor per School District
FY 2010 Licensed librarian & media specialist factor = ($60,000 x 0.2) x (Number of organizational units in FY 2010) = $12,000 x (Number of organizational units in FY 2010)
FY 2011 Licensed librarian & media specialist factor = ($60,000 x 0.3) x (Number of organizational units in FY 2011) = $18,000 x (Number of organizational units in FY 2011)

Technical Equipment

Funding for technical equipment is provided at $250 per student, except that this funding is phased in at 20% for FY 2010 and 30% for FY 2011. The calculation of the technical equipment factor for each school district is summarized below. The total amount calculated statewide for technical equipment in FY 2010 was $88.2 million.

Calculation of Technical Equipment Factor per School District
FY 2010 Technical equipment factor = ($250 x 0.2) x (FY 2010 ADM) = $50 x (FY 2010 ADM)
FY 2011 Technical equipment factor = ($250 x 0.3) x (FY 2011 ADM) = $75 x (FY 2011 ADM)

Summary

The technology resources support component of the model is calculated by adding up the two factors. This calculation is summarized below. The total amount calculated statewide for technology resources support in FY 2010 was $129.2 million.

Calculation of Technology Resources Support per School District
Technology resources support =
Licensed librarian and media specialist factor +
Technical equipment factor

Professional Development

The seventh component of the model is professional development support. This component is funded at $1,833 per teacher in FY 2010 and FY 2011, for the total number of core teachers, specialist teachers, lead teachers, and special education teachers funded under instructional services support. The calculation of the professional development factor for each school district is summarized below. The total amount calculated statewide for professional development in FY 2010 was $200.8 million.

Calculation of Professional Development Factor per School District
FY 2010 Professional development factor =   (Number of core, specialist, lead, and special education teachers in FY 2010) x $1,833
FY 2011 Professional development factor =   (Number of core, specialist, lead, & special education teachers in FY 2011) x $1,833

Instructional Materials

The final component of the adequacy amount is the instructional materials factor. This component is funded at $165 per student, except that this funding is phased in at 20% for FY 2010 and 30% for FY 2011. The calculation of the instructional materials factor for each school district is summarized below. The total amount calculated statewide for instructional materials in FY 2010 was $58.2 million.

Calculation of Instructional Materials Factor per School District
FY 2010 Instructional materials factor = ($165 x 0.2) x (FY 2010 ADM) = $33.00 x (FY 2010 ADM)
FY 2011 Instructional materials factor = ($165 x 0.3) x (FY 2011 ADM) = $49.50 x (FY 2011 ADM)

Adequacy Amount Summary

The total adequacy amount for each district is simply the sum of the eight components. This calculation is summarized below. As mentioned previously, the total amount calculated statewide for the adequacy amount in FY 2010 was $10.75 billion.

Calculation of the Adequacy Amount per School District
District's total adequacy amount =
Instructional services support +
Additional services support +
Administrative services support +
Operations and maintenance +
Gifted education and enrichment support +
Technology resources support +
Professional development factor +
Instructional materials factor

Adequacy Amount – Distribution of State Funds

After determining the adequacy amount as described above, the state's second challenge is to determine how to distribute state funding to school districts to assist them all to meet this adequacy amount 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 adequacy amount formula helps to neutralize the effect of these different levels of property wealth on school districts' abilities to fund the adequacy amount. This is accomplished by basing the local share of the adequacy amount on a uniform 22 mills (2.2%) of local property tax levies, as measured by multiplying each district's taxable property value (total or recognized valuation) by 0.022. After the local share is met, the state makes up the difference. Therefore, the adequacy amount formula creates an inverse relationship between the state share of adequacy amount 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 adequacy amount funding from the state.

In FY 2010, 22 mills of statewide valuation was $5.59 billion. For 60 districts with relatively high valuations per pupil, however, 22 mills exceeded the total adequacy amount by $233.6 million. The state share of the adequacy amount for all districts combined was $5.40 billion.

Table 4: Adequacy Amount Formula
Total Adequacy Amount = Local Share + State Share
Local Share = Total or Recognized Valuation x 0.022
State Share = Total Adequacy Amount – Local Share

Total versus Recognized Valuation

As can be seen in table 4, the local share of the adequacy amount is based on either the "total" or 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 has largely been 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. Total valuation includes those large increases immediately as total valuation simply refers to the total taxable property value of the district. Recognized valuation, on the other hand, "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. This helps to prevent a school district's state adequacy amount funding from fluctuating significantly from one year to another because of reappraisals and updates. Recognized valuation is calculated as follows:

Calculation of Recognized Valuation
Recognized Valuation in Update or Reappraisal Year =   Total Valuation – 2/3 x Inflationary Increase
Recognized Valuation in Second Year = Total Valuation – 1/3 x Inflationary Increase
Recognized Valuation in Third Year = Total Valuation

The formula uses total valuation to determine the local share for school districts with effective class I current expense tax rates of 20.1 or lower.[4] The formula uses recognized valuation to determine the local share for all other districts. In FY 2010, total valuation was used for 388 districts (63.4%) and recognized valuation was used for the remaining 224 districts (36.6%).

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, valuation for a given tax year is used in the adequacy formula for the fiscal year two years after that tax year. For example, the valuation for TY 2008 is used in the formula for FY 2010 funding purposes. In TY 2008 (FY 2010), total school district taxable valuation statewide was $256.19 billion. Use of recognized valuation for 224 districts decreased the valuations used in the formula for those districts by a total of $2.20 billion. In FY 2010, therefore, recognized valuation reduced the local share and, accordingly, increased the state share of adequacy funding for the 224 districts by about $48.4 million ($2.20 billion x 0.022). 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.

Adjustments to District Valuations

Whether total or recognized valuation is used for a district, there are two adjustments that may be made to the district's valuation. The first is for districts with relatively large amounts of tax exempt property. If a district's tax exempt property (not counting property owned by the federal government) is at least 25% of its potential property valuation, its

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[4] These districts are either on or close to being on the H.B. 920 20-mill floor in class I real property. The effect of the H.B. 920 floor is discussed in the section of this document entitled "Local Operating Revenue."

valuation is reduced for the purposes of the formula. The calculation of this adjustment is summarized below. In FY 2010, 22 districts received this adjustment. These districts valuations were reduced by $1.10 billion resulting in a reduction in their local shares of approximately $24.2 million.

Calculation of Exempt Property Adjustment
Exempt property value = Total tax exempt property value - Tax exempt property owned by federal government
Potential Property = Taxable property value + Exempt property value
Adjustment = greater of $0 or Exempt Property - 0.25 x Potential Property
Adjusted valuation = Taxable property value - Adjustment

A second adjustment is made to the valuation of districts that receive payments in lieu of taxes on certain tax exempt property. This adjustment first went into effect in FY 2008. In FY 2010, 26 districts received the adjustment, which increased the valuations of these districts by a total of $129.7 million resulting in an increase in their local shares of approximately $2.9 million.

Charge-off Rate

The local share of the adequacy amount is also called the charge-off and the millage rate (22 mills or 2.2%) that is applied to valuation to obtain the local share is called the charge-off rate. In TY 2008, statewide school district operating revenue was approximately 33.1 mills of statewide total taxable property value. At the 22-mill charge-off, about 66.5% (22/33.1) of local operating revenue is part of the adequacy amount. The remaining 33.5% of local operating revenue may be used by school districts that are able to pass levies beyond the 22 mill level to provide education and services above the adequacy amount. The charge-off rate is scheduled to phase down from 22 mills to 20 mills by FY 2014.

State Share Percentage

A district's state share percentage is the percentage of the adequacy amount calculated for that district that is funded by the state. It is used in the formula for transportation funding and is calculated as summarized below. In FY 2010, the overall state share percentage was 50.2%.

Calculation of the State Share Percentage
State Share Percentage = (State Share of the Adequacy Amount) divided by (Total Adequacy Amount)

Funding Outside of the Adequacy Amount

For the FY 2010-FY 2011 biennium, the adequacy amount does not include funding for either career-technical education or transportation. State funding is provided for these two factors outside of the adequacy amount. In addition, the formula applies a guarantee and a cap that smooth the state funding actually received by school districts over the biennium.

Career-Technical Education – Amount and Distribution of State Funds

For FY 2010 and FY 2011, each district is provided funding for career-technical education equal to 100.75% of the amount received for career-technical education in the prior year. The calculation of career-technical education aid for each school district is summarized below. The total amount calculated statewide for in FY 2010 was $51.1 million.

Calculation of Career-Technical Education Aid per School District
FY 2010 Career-technical education aid = District's FY 2009 career-technical education aid x 1.0075
FY 2011 Career-technical education aid = District's FY 2010 career-technical education aid x 1.0075

Transportation – Amount and Distribution of State Funds

A formula recommended by the State Board of Education in June 2006 began to be used in FY 2010 for transportation funding. However, the total amount of state aid for transportation is restricted to the appropriation level in both FY 2010 and FY 2011. Additionally, a supplemental transportation payment is provided to districts with both wealth per pupil at or below the state median and bus ridership density at or below the state median. The transportation formula covers the transportation of all pupils in buses owned by the district or operated through a contract. All other types of pupil transportation to and from school are reimbursed through a method determined separately through rules adopted by the State Board. The transportation formula is based on transportation costs as reported by school districts for the prior fiscal year and current year ridership counts. Funding consists of a base payment and additional amounts for districts that transport nontraditional riders, districts that transport high school students, districts that transport students who live between one and two miles from school, and districts that meet an efficiency target established by ODE. Details of these calculations are given below.

Base Payment

The transportation formula looks at two statewide cost measures from the previous year: the average cost per-pupil transported and the average cost per mile driven. These state averages are computed after removing the ten districts with the highest and lowest costs per pupil and costs per mile, respectively. These average costs are then applied to the number of pupils transported and the number of miles driven in the current year for each district. To calculate the base payment for each district, the greater of these two amounts is then multiplied by the greater of 60% or the district's state share percentage of the adequacy amount. The calculation of the base payment for each school district is summarized below. The total amount calculated statewide for the base transportation payment in FY 2010 was $769.5 million.

Calculation of Base Transportation Payment per School District
District's per-pupil subsidy =
(State average cost per pupil in previous year) x (Number of pupils transported in current year)
District's per mile subsidy =
(State average cost per mile in previous year) x (Number of miles driven in current year)
If the district's per-pupil subsidy is greater than its per mile subsidy, then base payment =
(District's per-pupil subsidy) x (Greater of 60% or district's state share percentage of adequacy amount)
If the district's per mile subsidy is greater than its per-pupil subsidy, then base payment =
(District's per mile subsidy) x (Greater of 60% or district's state share percentage of adequacy amount)

Nontraditional Rider Adjustment

Nontraditional riders are nonpublic or community school students who are transported by their resident school district. Districts that transport these students receive additional funding equal to 10% of their base payment multiplied by the percentage of their riders who are nontraditional. The calculation of the nontraditional rider adjustment for each school district is summarized below. In FY 2010, the formula calculated a total nontraditional rider adjustment of $3.8 million for 419 districts.

Calculation of Nontraditional Rider Adjustment per School District
Nontraditional rider adjustment =
(Number of nontraditional riders) / (Total number of riders) x 0.1 x base payment

High School Rider Adjustment

The state requires that districts transport only pupils in grades kindergarten through eight. However, high school riders are counted for funding purposes. If districts choose to offer transportation to all high school students who live at least one mile from school, they receive additional funding equal to 2.5% of their base payment. The calculation of the high school rider adjustment for each school district is summarized below. In FY 2010, the formula calculated a total high school rider adjustment of $10.6 million for 539 districts.

Calculation of High School Rider Adjustment per School District
If district does not offer transportation to all high school students, then high school rider adjustment = 0
If district offers transportation to all high school students, then high school rider adjustment = 0.025 x base payment

Short Distance Adjustment

The state only requires districts to transport pupils who live farther than two miles from school. However, riders who live between one and two miles from school are counted for funding purposes. If districts choose to offer transportation to students enrolled in grades kindergarten to eight who live at least one mile from school, they receive additional funding equal to 2.5% of their base payment. The calculation of the short distance adjustment for each school district is summarized below. In FY 2010, the formula calculated a total short distance adjustment of $10.3 million for 550 districts.

Calculation of Short Distance Adjustment per School District
If district does not offer transportation to K-8 students who live between one and two miles from school, then
Short distance adjustment = 0
If district offers transportation to K-8 students who live between one and two miles from school, then
Short distance adjustment = 0.025 x base payment

Efficiency Adjustment

ODE calculates a target number of riders per bus for each district. This number is based on the statewide median riders per bus adjusted for the density (riders per square mile) of the district. An efficiency index is then calculated for each district by dividing the district's median riders per bus by its target riders per bus. If the district's efficiency index is at least 1.5, then it receives additional funding equal to 10% of its base payment. If the district's efficiency index is less than 1.0, then it receives no additional funding. If the district's efficiency index is between 1.0 and 1.5, the additional funding it receives is equal to its base payment times a percentage that increases from zero to 10% on a sliding scale as the district's index gets larger. The calculation of the efficiency adjustment for each school district is summarized below. In FY 2010, the formula calculated a total efficiency adjustment of $11.9 million for 334 districts.

Calculation of Efficiency Adjustment per School District
District's efficiency index =
(District's median number of riders per bus) / (District's target number of riders per bus)
If district's efficiency index = > 1.5, then
Efficiency adjustment = 0.1 x base payment
If district's efficiency index < 1.5 but > 1.0, then
Efficiency adjustment = (Efficiency index – 1) / 5 x base payment
If district's efficiency index < = 1.0, then
Efficiency adjustment = 0

Summary of Prorated Transportation Aid

The four adjustments are added to the base payment to get the allocation for each district. This allocation is adjusted so that no district has an allocation that is greater than its actual transportation spending from the prior year. In order to keep the total statewide payment to the amount earmarked for such purposes in item 200502, Pupil Transportation, the percentage the appropriation amount is of the current year's total allocation is applied to each district's allocation. The calculation of the prorated transportation payment for each school district is summarized below. In FY 2010, the formula calculated a total allocation of $497.0 million. To this allocation and adjustment percentage of 73.3% was applied to keep state aid equal to the appropriation of approximately $364.1 million.

Calculation of Transportation Payment per School District
District's transportation allocation = Base payment +
Nontraditional rider adjustment + High school adjustment + Short distance adjustment + Efficiency adjustment
Total statewide allocation = Sum of all district allocations
Adjustment percentage = (Earmarked appropriation)/(Total statewide allocation)
District's prorated transportation payment = (District's transportation allocation) x (Adjustment percentage)

Supplemental Transportation Payment

The formula requires a supplemental transportation payment be granted to districts with both wealth per pupil and bus ridership density at or below the state median. Wealth per pupil is measured using both income and property value. Qualifying districts are paid the difference between the full calculated amount for transportation and the prorated payment the district would otherwise receive, phased in at 30% in FY 2010 and 70% in FY 2011. The calculation of the supplemental transportation payment for each school district is summarized below. In FY 2010, the supplemental transportation payment totaled $8.4 million for 202 districts.

Calculation of Supplemental Transportation Aid per School District
District's wealth per pupil = 2/3 x Per-pupil property wealth + 1/3 x Per-pupil income wealth
If (District's wealth per pupil < = State median wealth per pupil) and (District bus ridership density
< = State median bus ridership density), then FY 2010 Supplemental transportation aid =
(District's transportation allocation – District's prorated transportation payment) x 0.3
If (District's wealth per pupil < = State median wealth per pupil) and (District bus ridership density
< = State median bus ridership density), then FY 2011 Supplemental transportation aid =
(District's transportation allocation – District's prorated transportation payment) x 0.7

Additional Funding Adjustments

The final allocation for each district is adjusted further based on the funding the district received in the prior year. These adjustments include two funding guarantees and a funding cap. Generally, the effect of these adjustments is to smooth district funding so that, in FY 2010 for example, each district is allocated between 99% and 100.75% of the funding the district was allocated in FY 2009.

Transitional Aid

Transitional aid is provided to districts in FY 2010 to guarantee 99% of their FY 2009 state aid. In FY 2011, transitional aid guarantees districts 98% of their FY 2010 state aid. The supplemental transportation payment is not included in a district's state aid when transitional aid is calculated. In FY 2010, transitional aid totaling $890.9 million was paid to 424 districts.

Calculation of Transitional Aid per School District
If (state share of adequacy amount + prorated transportation payment + career-technical education aid) < 0.99 x (FY 2009 state aid), then
FY 2010 transitional aid = 0.99 x (FY 2009 state aid) – (state share of adequacy amount + prorated transportation payment + career-technical education aid)
If (state share of adequacy amount + prorated transportation payment + career-technical education aid) = > 0.99 x (FY 2009 state aid), then
FY 2010 transitional aid = 0
If (state share of adequacy amount + prorated transportation payment + career-technical education aid) < 0.98 x (FY 2010 total state aid – FY 2010 supplemental transportation payment), then
FY 2011 transitional aid = 0.98 x (FY 2010 state aid – FY 2010 supplemental transportation payment) – (state share of adequacy amount + prorated transportation payment + career-technical education aid)
If (state share of adequacy amount + prorated transportation payment + career-technical education aid) = > 0.98 x (FY 2010 total state aid – FY 2010 supplemental transportation payment), then
FY 2011 transitional aid = 0

Additional Transitional Aid

In FY 2011, an additional transitional aid payment is calculated for districts who qualified for the supplemental transportation payment in FY 2010. This additional transitional aid guarantees districts 98% of their FY 2010 state aid, including the supplemental transportation payment.[5]

Calculation of FY 2011 Additional Transitional Aid per School District
If (state share of adequacy amount + prorated transportation payment + career-technical education aid + supplemental transportation payment) < 0.98 x (FY 2010 total state aid), then
FY 2011 additional transitional aid = 0.98 x (FY 2010 state aid) – (state share of adequacy amount + prorated transportation payment + career-technical education aid + supplemental transportation payment)
If (state share of adequacy amount + prorated transportation payment + career-technical education aid + supplemental transportation payment) = > 0.98 x (FY 2010 total state aid), then
FY 2011 additional transitional aid = 0

Gain Cap

Total school district state aid is equal to the sum of the state share of the adequacy amount, the prorated transportation payment, the supplemental transportation payment, career-technical education aid, and transitional aid.[6] However, the combined state share of the adequacy amount and the prorated transportation payment is subject to a gain cap of 0.75% in FY 2010 and in FY 2011. The supplemental transportation payment and career-technical education aid are not subject to the gain cap. In FY 2010, the gain cap reduced funding to 167 districts by a total of $189.6 million.

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[5] Based on preliminary funding data for FY 2011, six districts are receiving a total of $240,000 in additional transitional aid.

[6] For districts receiving transitional aid in FY 2010, total state aid is equal to 99% of FY 2009 state aid plus any supplemental transportation payment. For districts receiving transitional aid in FY 2011, total state aid is equal to 98% of FY 2010 state aid plus any supplemental transportation payment.

Total State Formula Funding

The calculation of total state aid for each school district is summarized below. In FY 2010, a total of $6.54 billion was allocated to the 612 school districts in Ohio.

Calculation of Total State Aid per School District
FY 2010 Total state aid = Lesser of
1. State share of adequacy amount + Prorated transportation payment + Supplemental transportation payment + Career-technical education aid + Transitional aid; or
2. 1.0075 x (FY 2009 total state aid – FY 2009 career-technical education aid) + Supplemental transportation payment + Career-technical education aid
FY 2011 Total state aid = Lesser of
1. State share of adequacy amount + Prorated transportation payment + Supplemental transportation payment + Career-technical education aid +Transitional aid; or
2. 1.0075 x (FY 2010 total state aid – FY 2010 career-technical education aid) + Supplemental transportation payment + Career-technical education aid

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. 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 allocated 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.

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

Educational Service Centers (ESC)

All local school districts are required to be associated with an educational service center (ESC). Of the 612 school districts in Ohio, 370 are local districts. The remaining districts are either exempted village districts (49) or city districts (193). Although exempted village and city districts are not required to be associated with an ESC, many have established agreements with

ESCs and are considered as "client districts." Three types of ESC payments are required of local and client districts. ODE deducts these payments from the state funding provided to the districts and transfers it to the appropriate ESC.

The first is an allowance for supervisory services, which is a unit cost based on the education and experience level of the person providing the services. In FY 2010, the statewide cost of the supervisory allowance was $22.9 million. The second type of funding is a per-pupil amount for the general expenses of the ESC. Generally, this per-pupil amount is $6.50. In FY 2010, the statewide cost of the per-pupil amount was $11.5 million. The final type of funding is an extended service allowance for preschool special education teachers. In FY 2010, the statewide cost of the special education extended service allowance was $1.4 million. In addition to these required payments, ESCs receive over half their funding through contracts with school districts, the cost of these contracts is also deducted from the school districts' state aid allocations and transferred to the ESCs. In FY 2010, the cost of these contracts totaled $160.9 million. In sum, therefore, a total of $196.7 million was deducted from school district state aid and transferred to ESCs in FY 2010. ESCs also receive funding directly from the state. This funding includes a per-pupil amount, gifted funding, early childhood special education funding, and special education transportation funding. In FY 2010, direct state funding for ESCs totaled $88.4 million.

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 93,000 students (5.2% of public school enrollment) in FY 2010. As stated previously, all students are counted in the school district in which they reside for funding purposes, including those who are educated outside of their home district, such as community school students. Funding for community schools is provided as a per-pupil deduction from each community school student's district of residence. There is no local share for community schools since they do not have taxing authority. The formula for computing state aid for community schools is similar to that used in prior years and is described below. Unlike school district ADM, community school ADM is based on a monthly count during the current fiscal year.

Base Cost Funding for Community Schools

Community schools are provided base cost funding, which includes a base cost formula amount plus the base funding supplements. Current law establishes the per-pupil formula amount as $5,718 for FY 2010 and $5,703 for FY 2011 and sets the per-pupil base funding supplements as $50.91 for both FY 2010 and FY 2011, which was the amount specified for FY 2009. The calculation of base cost funding for community schools is summarized below.

Calculation of Base Cost Funding per Community School
FY 2010 Base cost funding = Community school ADM x ($5,718 + $50.91) = Community school ADM x ($5,768.91)
FY 2011 Base cost funding = Community school ADM x ($5,703 + $50.91) = Community school ADM x ($5,753.91)

Special Education Weighted Funding for Community Schools

Community schools are provided additional weighted funding for special education. Special education weighted ADM is calculated using the weights and categories used in FY 2009. The weighted ADM is then multiplied by $5,732 for both FY 2010 and FY 2011. The calculation of special education weighted funding for community schools is summarized below.

Calculation of the Special Education Weighted Student ADM per Community School
Category 1 weighted ADM = (category 1 ADM) x 0.2892
Category 2 weighted ADM = (category 2 ADM) x 0.3691
Category 3 weighted ADM = (category 3 ADM) x 1.7695
Category 4 weighted ADM = (category 4 ADM) x 2.3646
Category 5 weighted ADM = (category 5 ADM) x 3.1129
Category 6 weighted ADM = (category 6 ADM) x 4.7342
Total special education weighted ADM = (Sum of special education weighted ADM for categories 1 through 6) x 0.9

Calculation of Special Education Weighted Funding per Community School
Special education weighted funding = Total special education weighted ADM x $5,732

Career-Technical Education Weighted Funding for Community Schools

Community schools are provided additional weighted funding for career-technical education. Weighted ADM is calculated in the same manner as in prior years. The weighted ADM is then multiplied by $5,732 for both FY 2010 and FY 2011. The calculation of career-technical education weighted funding for community schools is summarized below.

Calculation of the Career-Technical Education Weighted Student ADM per Community School
Total career-technical education weighted ADM =
(Job training and workforce development ADM x 0.57) +
(Other vocational education ADM x 0.28)

Calculation of Career-Technical Education Weighted Funding per Community School
Career-technical education weighted funding = Total career-technical education weighted ADM x $5,732

Other Funding for Community Schools

In addition to base cost funding, special education weighted funding, and career-technical education weighted funding, community schools are provided funding for poverty-based assistance and parity aid. Only traditional "brick and mortar" community schools, not e-schools, are eligible to receive this funding. E-schools are schools where instruction is primarily by computer.

Generally, the per-pupil amount to be deducted from a school district in FY 2010 and FY 2011 and transferred to a community school for parity aid and poverty assistance is equal to the per-pupil amount paid to the respective school district for FY 2009. The all-day kindergarten portion of poverty assistance, however, is paid a bit differently. For each community school student entitled to attend school in a district that was eligible for all-day kindergarten payments in FY 2009, a community school will be paid one half of the base cost formula amount in each year, or $2,859 for FY 2010 ($5,718 x 0.5) and $2,851.50 for FY 2011 ($5,703 x 0.5). If the district in which the student is entitled to attend school received a payment for all-day kindergarten in FY 2009, the amount for FY 2010 and FY 2011 is deducted from the district's state education aid. If the district in which the student is entitled to attend school did not receive a payment for all-day kindergarten in FY 2009, the amount for FY 2010 and FY 2011 is paid by the state.

Summary of State Aid for Community Schools

The total amount of state aid for community schools is calculated by adding together the different types of aid, except that e-schools do not receive funding for poverty-based assistance or parity aid. The calculation is summarized below.

Calculation of State Aid for Community Schools
State aid for community schools =
Base cost funding +
Special education weighted funding +
Career-technical education weighted funding +
Poverty-based assistance (including all-day kindergarten funding) +
Parity aid

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, base cost funding, including the formula amount and base cost supplements and any career-technical education weighted costs applicable to the student are deducted from the resident district's state aid and transferred to the educating district. These amounts are calculated in the same way as they are calculated for community schools (see above). 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 2010, approximately 2.8% 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 state aid has been earmarked in the state operating budget to be used to help fund this program. The rest of the funding for the program comes from the state GRF without any deduction from Cleveland. In FY 2010, $11.9 million was deducted from Cleveland's state aid to fund this program for a total program spending of about $16.0 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 FY 2010, $20.1 million was transferred for the scholarships for students in 321 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. The maximum scholarship award is $4,200 for grades K-8 and $5,000 for grades 9-12. Scholarship students are counted in the resident district's ADM in order to calculate state aid and $5,200 is deducted from the resident districts' state aid for each scholarship student. In FY 2010, a total of $59.8 million was deducted statewide for over 11,000 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' ADMs 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 2010, $21.8 million was deducted statewide from state aid for school districts (including joint vocational school districts) for the 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 2010, $1.8 million was set aside for this purpose.

Joint Vocational School Districts

Currently, there are 49 joint vocational school districts (JVSDs). 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 separate formula than that used to fund regular school districts. For the FY 2010-FY 2011 biennium, the budget specifies that each JVSD receive an increase of 0.75% over the prior year's funding in each year. In previous years, JVSDs were funded using a formula that was parallel to that used for regular school districts. In FY 2010, state aid for JVSDs totaled $261.0 million.

LOCAL OPERATING REVENUE

The primary local funding source for schools is locally voted property taxes, which account for approximately 96.5% of local operating revenue. The other 3.5% comes from school district income taxes. In TY 2008, school districts levied a total of $8.47 billion in operating tax revenue. An additional $1.16 billion was levied for permanent improvements and debt service. School district income taxes totaled $298.0 million in FY 2010. In TY 2008, joint vocational school districts levied a total of $343.2 million in property tax revenue. 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:

- Class I real property (residential and agricultural);
- Class II real property (commercial, industrial, and mineral);
- Public utility tangible personal property; and
- 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). Public utility 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 5 shows the statewide total taxable property value composition based on the four property categories for TY 2008. 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, public utility tangible personal property, and then general business tangible personal property. Since taxes are collected on a calendar year basis and state education aid is allocated on a

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

fiscal year basis, the state funding formula generally uses the second prior year's assessed value data. TY 2008 assessed value data, therefore, is used in making FY 2010 state education aid payments.

Table 5: Taxable Property Value, TY 2008		
Property Category	**Amount**	**Percentage**
Class I real property	$187.71 billion	73.3%
Class II real property	$53.48 billion	20.9%
Public utility TPP	$8.44 billion	3.3%
General business TPP	$6.56 billion	2.5%
Total Taxable Property Value	**$256.19 billion**	**100.0%**

School District Taxable Property Value Composition

Table 5 gives the taxable property value composition in TY 2008 for the state. However, the composition for each individual district varies widely across the state. Table 6 shows the maximum, minimum, and median ranges for each category.

Table 6: The Taxable Property Value Composition, TY 2008			
Category	**Minimum**	**Maximum**	**Median**
Class I Real	16.7%	97.0%	79.1%
Class II Real	1.3%	58.9%	14.2%
Public Utility TPP	0.3%	62.6%	3.1%
General Business TPP	0.1%	18.2%	1.9%

A change in tax policy on a particular category of property generally has 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 had 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 2008. It can be seen that valuations per-pupil range from less than $75,000 in 47 districts to more than $225,000 in 41 districts. The statewide weighted average is $142,739 per pupil while the statewide median district's valuation per pupil is $118,554. The weighted average represents a per-pupil based ranking, which takes into account the size of school districts. The median represents a district ranking, which is represented by the middle district (the 306th district out of 612). Valuations per total ADM for the majority (390 or 63.7%) of school districts range from $75,000 to $150,000 in TY 2008.

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

The variation in per-pupil valuation 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.

Chart 3: Distribution of Valuations Per Pupil, TY 2008
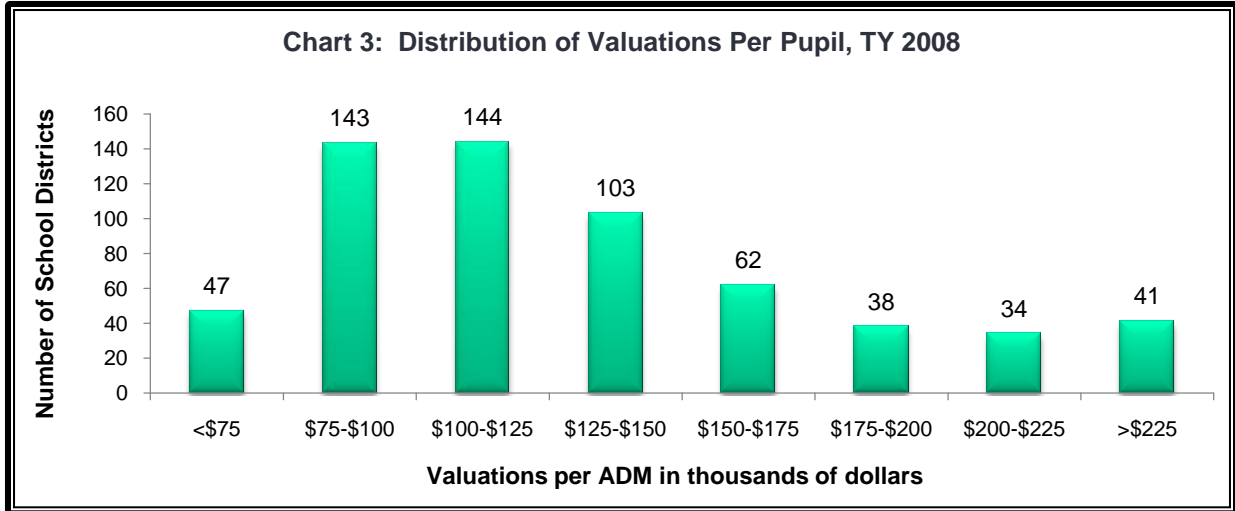
Growth in Taxable Property Values

The statewide average property value growth rate was 2.5% per year from TY 2003 to TY 2008; however, the growth rate for each year was not even (see table 7). 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. 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 2004 and TY 2007 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 and negative growth in TY 2006 through TY 2008 is a result of the phase-out of general business TPP taxes coupled with stagnation in real property values.

> Growth in taxable value varies from year to year.

Table 7: Annual Growth Rate of Total Taxable Property Value						
Tax Year	2003	2004	2005	2006	2007	2008
Annual growth rate	3.5%	2.5%	6.7%	2.8%	-0.3%	-0.1%

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

Generally, 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. 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

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

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.

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.

> 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.

> Even with H.B. 920 reduction factors revenues may increase from inside mills, new

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 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 are now 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.

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

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.

A total of 329 districts (53.8%) were at the H.B. 920 20-mill floor in at least one class of real property in TY 2008. These 329 floor districts tend to be smaller than average and represent approximately 35.3% of statewide total ADM. The number of floor districts has increased over the last several years. In TY 1996 there were 218. Of the 329 floor districts in TY 2008, 96 districts were at the floor in both class I and class II real property, 203 districts were in class I only, and the other 30 districts were in class II only.

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

Table 8 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 77.3%, 69.6%, and 71.6%, respectively. In fact, 245 (74.5%) of the floor districts in TY 2008 are rural districts.

District Type	Description	Total Districts	Floor Districts	% Districts on Floor
Type 0	Outliers - island districts	3	3	100.0%
Type 1	Rural/agricultural - high poverty, low median income	97	75	77.3%
Type 2	Rural/agricultural - small student population, low poverty, low to moderate median income	161	112	69.6%
Type 3	Rural/small town - moderate to high median income	81	58	71.6%
Type 4	Urban - low median income, high poverty	102	36	35.3%
Type 5	Major Urban - very high poverty	15	1	6.7%
Type 6	Urban/Suburban - high median income	107	35	32.7%
Type 7	Urban/Suburban - very high median income, very low poverty	46	9	19.6%
	Total	**612**	**329**	**53.8%**

Table 8: The Number and Percentage of H.B. 920 Floor Districts by District Type, TY 2008

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 329 floor districts in TY 2008, 238 districts (72.3%) had either emergency levies or school district income taxes. Table 9 shows that the majority of districts that levy these two types of taxes are floor districts: 62.1% of districts with emergency levies and 77.2% 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 operating tax rate (including both property taxes and school district income taxes) for the

329 floor districts was 28.38 mills in TY 2008, compared to an average of 35.46 mills for nonfloor districts and an average of 33.07 mills for all districts.

Table 9: H.B. 920 Floor District Supplemental Levies, TY 2008			
	Total Districts	Floor Districts	% Districts on Floor
Emergency Levies	232	144	62.1%
School District Income Tax (FY 2009)	184	142	77.2%

Summary of Local Tax Levies and H.B. 920

Table 10 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. On the following two pages a detailed example is presented using a hypothetical district.

Table 10: 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		Subject to H.B. 920 Tax Reduction Factors?	
Existing Real Property	--	Yes	--
New Construction – Real Property	--	No	--
Tangible Personal Property	--	No	--

Table 11 gives an example of the effect of H.B. 920 reduction factors and the H.B. 920 floor on a hypothetical district. The first column of the table shows the district's property value and local operating revenue for TY 2008. In TY 2008, the district's total property value is $112.5 million, which is split among the four categories as shown in the table. In TY 2008, the district has 3 inside mills devoted to current expenses and 30 current expense voted mills. For purposes of simplicity, it is assumed that the district does not have any emergency levies and that no new levies were passed in TY 2009.

The district goes through a real property reappraisal in TY 2009 and experiences an inflationary increase in real property value due to the reappraisal of $6.0 million. The second column of table 11 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 2009 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 2009 from existing real property (real property that was taxed in TY 2008) is equal to the revenue collected on the property in TY 2008 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 2008 to 24 mills in TY 2009 in order to generate the same amount of tax revenue ($1,982,500) from that existing property. The district does, however, receive an increase in revenue on real property from the three inside mills and from new construction. In addition, the district 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 the district despite H.B. 920 tax reduction factors and no new levies being passed in TY 2009.

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 11 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 in TY 2009. 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, the district 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, the district also realized an additional tax increase of $136 from class II new construction. Overall, with the H.B. 920 20-mill floor guarantee, the district's total revenue increases by 2.4% from TY 2008 to TY 2009, compared with the overall increase of 2.0% under the hypothetical scenario without the 20-mill floor.

Table 11: Hypothetical District's Property Value and Local Operating Revenue, TY 2009			
	TY 2008	**TY 2009 (Assuming No 20-Mill Floor)**	**TY 2009 (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 taxing district, but they do not necessarily prevent taxes

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

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.

Table 12 shows an example of the effects of H.B. 920 tax reduction factors on three taxpayers living in the hypothetical district. For purposes of simplicity, the example ignores inside mills and new construction. As seen from the table, the district, 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 have an effective current expense rate of 24 mills in TY 2009. 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 12: Effects of H.B. 920 Tax Reduction Factors on Individual Taxpayers			
District A	**TY 2008**	**TY 2009 (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

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 $298.0 million in school district income taxes was collected by 184 school districts (30.1%) in FY 2010. As shown in table 9, 77.2% of these are H.B. 920 20-mill floor districts. These 184 districts tend to be smaller than average and represent approximately 16.6% of statewide total ADM. These districts have an average ADM of approximately 1,600 students and an average property valuation per pupil of approximately $123,000 compared to an average ADM of approximately 3,500 students and an average property valuation per pupil of approximately $147,000 for the other 428 districts.

Chart 8: Distribution of Income Tax Per Pupil, FY 2010
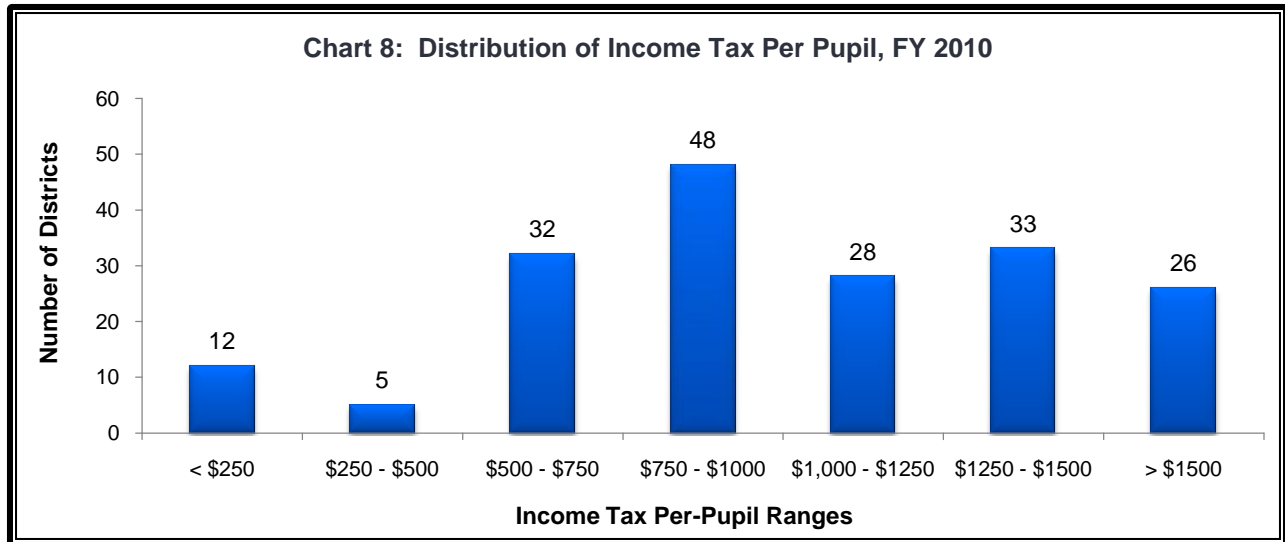
Chart 8 shows the distribution of income tax revenues per pupil for the 184 districts with such revenues in FY 2010. Per-pupil school district income tax collections range from less than $100 to almost $3,000 with an average of $1,000 per pupil for these 184 districts. Per-pupil amounts of less than $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 9 shows the distribution of income tax equivalent effective millage rates for the 184 districts with income tax revenues in FY 2010. Effective millage rates range from less than one mill to over 19 mills with an average of 8.1 mills for these 184 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.

Chart 9: Distribution of School District Income Tax Equivalent Effective Tax Rates, FY 2010
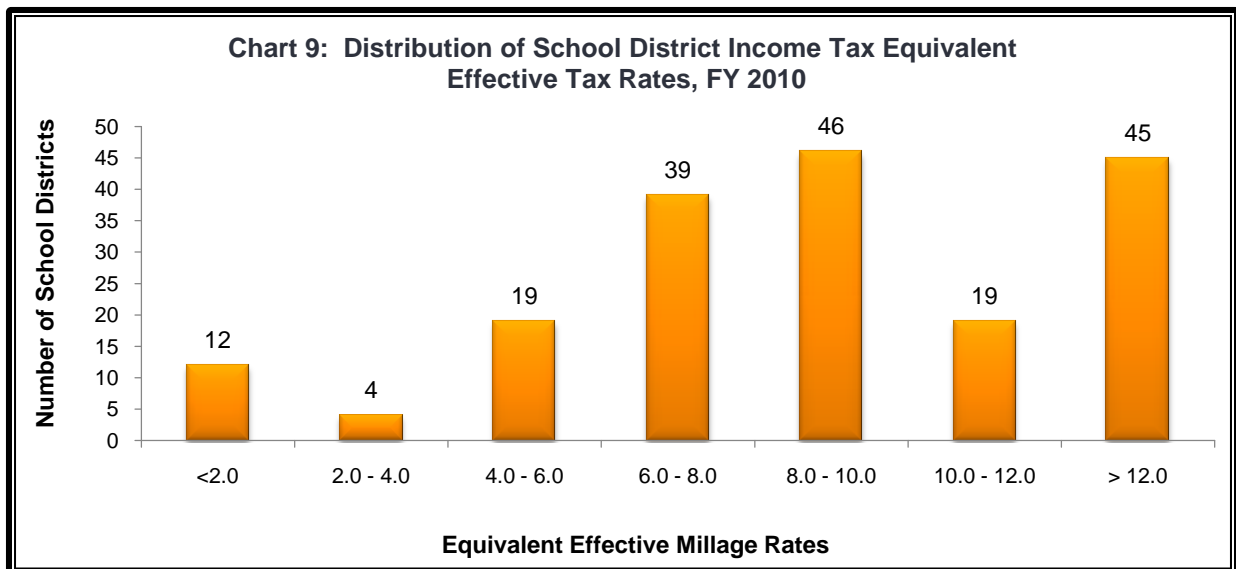
Summary of School District Effective Operating Tax Rates

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 2008, these range from about 20 mills in the bottom eight districts to more than 50 mills in the top five districts. The Shaker Heights City SD (Cuyahoga County), the Cleveland Heights-University Heights City SD (Cuyahoga County), and the Ottawa Hills Local SD (Lucas County) have the highest overall effective operating tax rates of 71.1, 60.4, and 56.7 mills, respectively. The statewide average is 33.1 mills and the statewide median is 30.0 mills. Chart 10 shows the distribution of overall effective operating tax rates. It can been seen from the chart that the equivalent overall effective rates for 384 school districts (62.7%) range from 25 to 37.5 mills.

Chart 10: Distribution of Overall Effective Operating Tax Rates, TY 2008

Effective Millage Rates	Number of School Districts
<22.5	106
22.5-25.0	42
25.0-27.5	63
27.5-30.0	93
30.0-32.5	89
32.5-35.0	71
35.0-37.5	68
37.5-40.0	39
40.0-42.5	15
42.5-45.0	14
>45.0	12
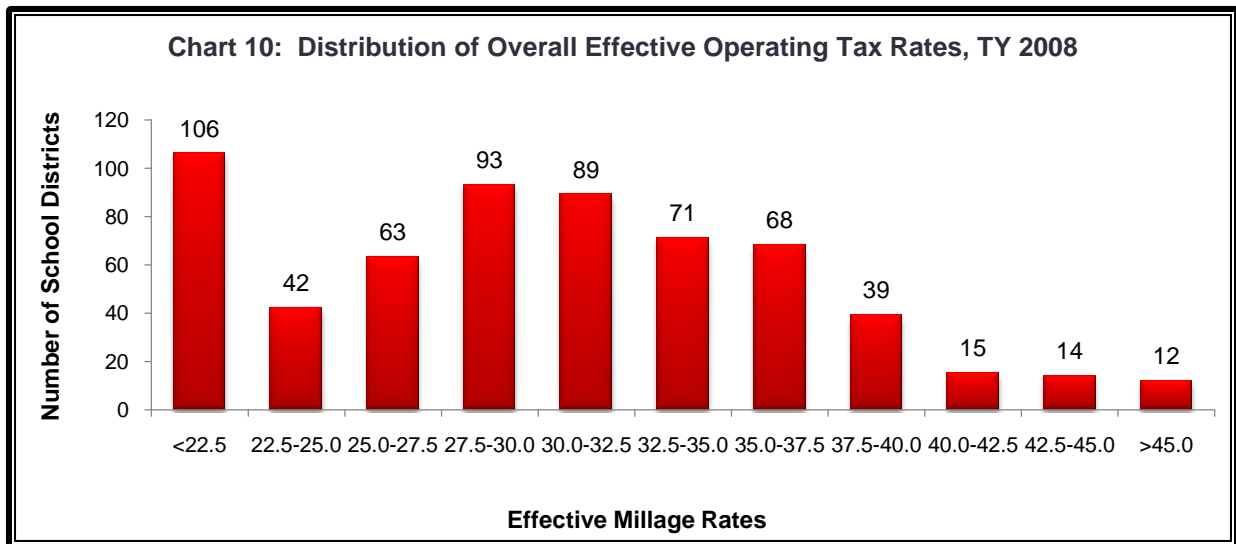
Chart 11 shows the average equivalent overall effective operating tax rates for groups of districts categorized by valuation per pupil in TY 2008. Average rates are generally lower for those districts with the lowest valuations per pupil although they tend to decrease for the

Chart 11: Average Overall Effective Operating Tax Rates by Valuation Per Pupil, TY 2008

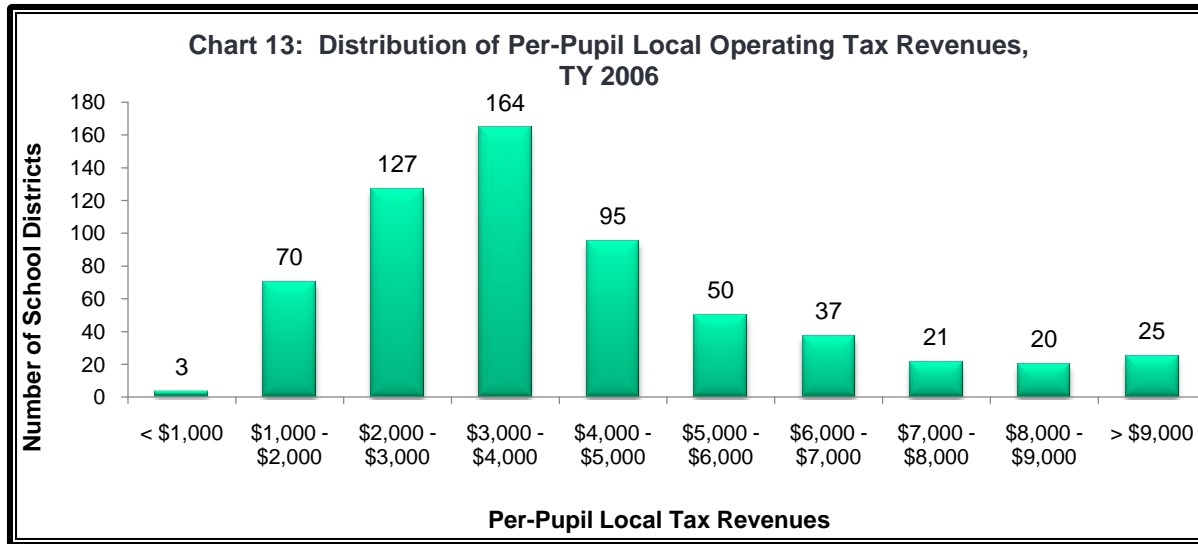| Per-Pupil Valuation	Effective Millage Rates
<$75,000	28.5
$75,000-$100,000	31.4
$100,000-$125,000	30.7
$125,000-$150,000	30.9
$150,000-$175,000	36.3
$175,000-$200,000	35.8
$200,000-$225,000	33.7
>$225,000	32.8
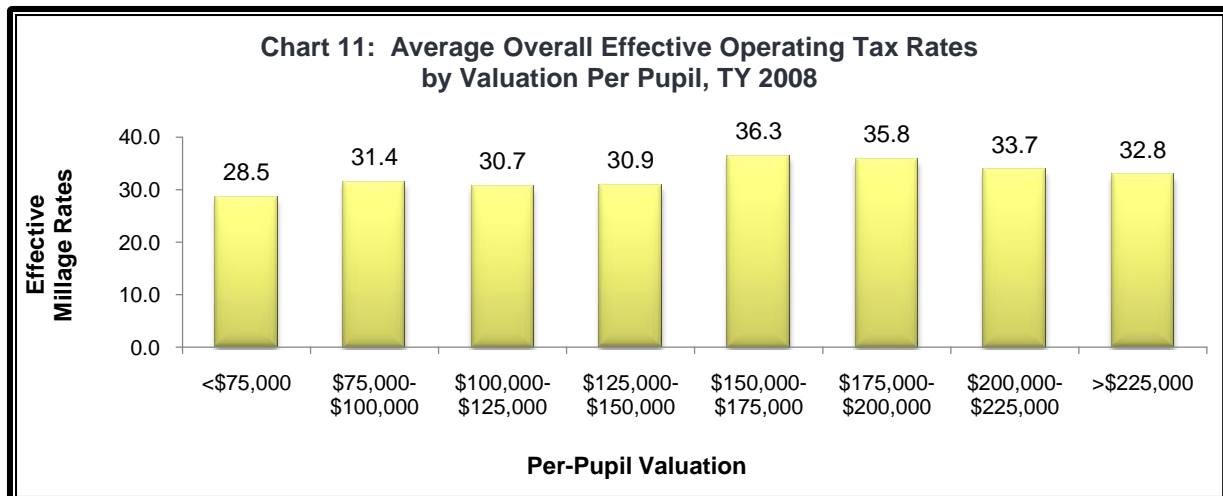
highest wealth districts. Having too many low wealth districts with high tax rates is generally a sign of a poorly designed school finance system. In such a situation, low wealth districts are forced to levy high millage rates to provide a basic education. In general, this does not appear to be the pattern in Ohio.

Summary of School District Operating Tax Revenue

As indicated earlier, school districts collected a total of $8.47 billion in operating taxes in TY 2008. Chart 12 shows school district operating tax revenues by levy type. Current expense levies, representing approximately 73.5% of total operating tax revenues, were the largest component. Inside millage generated 13.7%, emergency levies 9.3%, and school district income tax levies 3.5%.

Chart 12: School District Operating Revenues by Levy Type, TY 2008

Inside Mills
13.7%

Emergency
9.3%

SD Income Tax
3.5%

Current Expense
73.5%
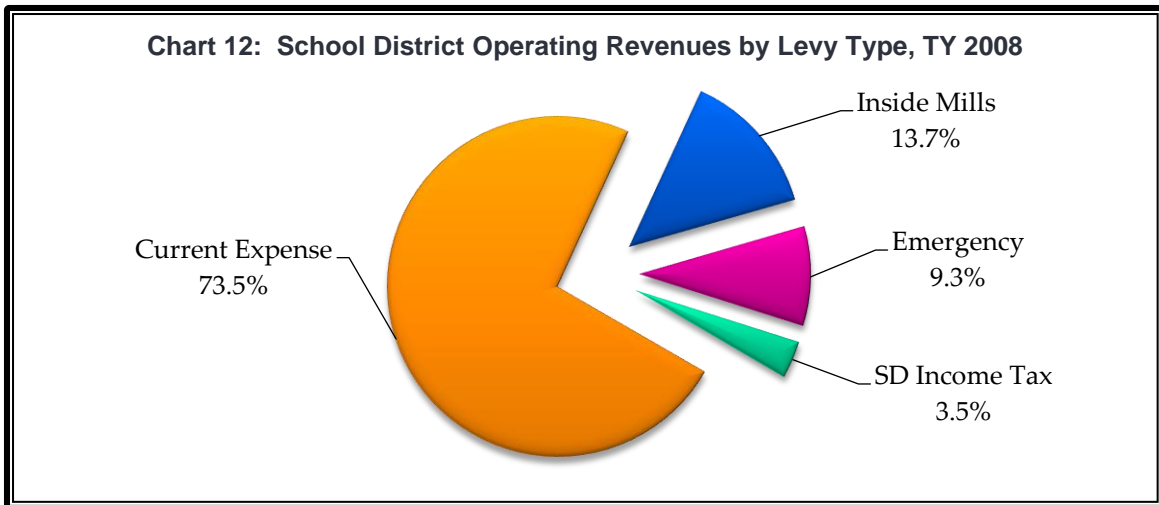
In TY 2008, local operating tax revenues per-pupil range from less than $1,000 in the bottom three school districts to more than $9,000 in the top 25 districts. The statewide weighted average is $4,720 and the statewide median is $3,635. Chart 13 shows the distribution of per-pupil local operating tax revenues. It can be seen from the chart that for 386 school districts (63.1%), 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 13: Distribution of Per-Pupil Local Operating Tax Revenues, TY 2006

Number of School Districts (y-axis): 0 to 180

| Per-Pupil Local Tax Revenues	Number of School Districts
< $1,000	3
$1,000 - $2,000	70
$2,000 - $3,000	127
$3,000 - $4,000	164
$4,000 - $5,000	95
$5,000 - $6,000	50
$6,000 - $7,000	37
$7,000 - $8,000	21
$8,000 - $9,000	20
> $9,000	25

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 2008, the 49 JVSDs collected a total of $343.2 million in local 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 2008, average valuation per pupil for all JVSDs is approximately $4.2 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.

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 2010, school districts received a total of $970.4 million and JVSDs received a total of $38.6 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 14 shows the average rollback reimbursement per pupil in the four wealth quartiles for FY 2010.

Chart 14: Average Rollback Reimbursement Per Pupil by Wealth Quartile, FY 2010
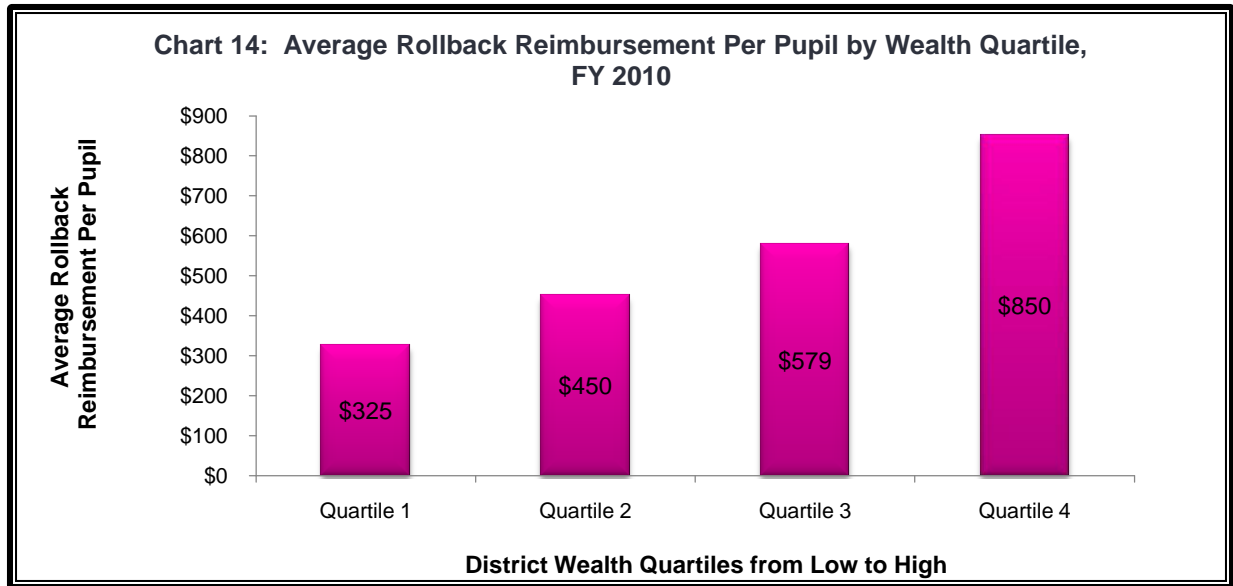
Phase-Out of General Business Tangible Personal Property (TPP) Tax

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 was 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 for districts statewide for each year of the phase-out is given in table 13. As can be seen from table 13, 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 13: 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
TY 2008	$15.6 billion
TY 2009	$20.9 billion
TY 2010	$21.3 billion
TY 2011	$21.7 billion

**Chart 15: Distribution of Per-Pupil TPP Taxable Value Loss due to
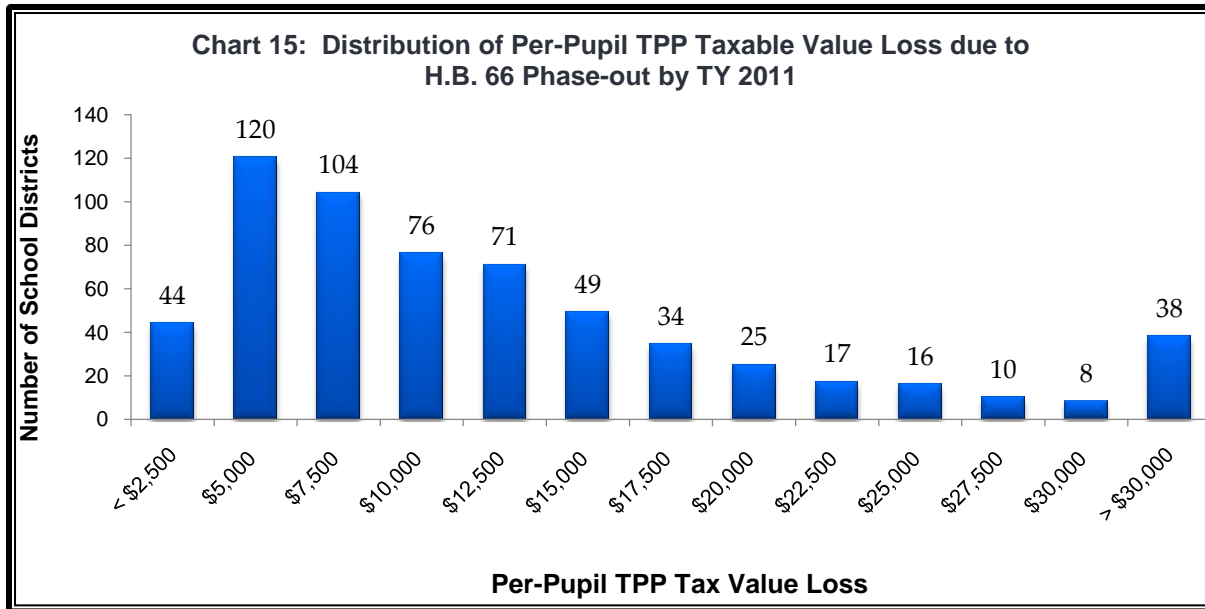H.B. 66 Phase-out by TY 2011**

Chart 15 shows the distribution of per-pupil TPP taxable valuation loss by TY 2011 over the 612 school districts. Per-pupil valuation losses range from a little under $600 for Wyoming City in Hamilton County to over $150,000 for Cuyahoga Heights Local in Cuyahoga County with an average of about $12,000 and a median of about $8,800. 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 adequacy funding to each district is dependent on each district's property valuation. One effect of the phase-out of the TPP tax is that districts' property valuations have decreased causing their local shares of adequacy funding to decrease and in turn causing the state share of adequacy funding to increase. The resulting 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. In FY 2010 and FY 2011, the offset is the greater of the offset calculated for that year or the offset calculated for FY 2009. In FY 2010, the state education offset statewide was $113.5 million for districts and $3.2 million for JVSDs.

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 7047) to provide reimbursements to school districts for their revenue

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

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 7047 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 2013, 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 loss above the 0.5 mill threshold. Beginning in TY 2014, direct reimbursement payments will be phased out at a rate of 8/17 in the first year 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 2013 and will be reimbursed after TY 2013 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. For FY 2010, the direct reimbursement for districts was \$999.8 million and for JVSDs was \$33.8 million.

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. 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 these two policies has created a unique challenge for school districts. Compared with other local governments, school districts have to ask for voter approval of new levies much more frequently in order to maintain or increase their spending levels. The effect of the interaction of the funding formula and H.B. 920 tax reduction factors on a school district's spending above the state-defined level is often called "reappraisal phantom revenue." The following sections discuss various aspects of the effect of this interaction on school distr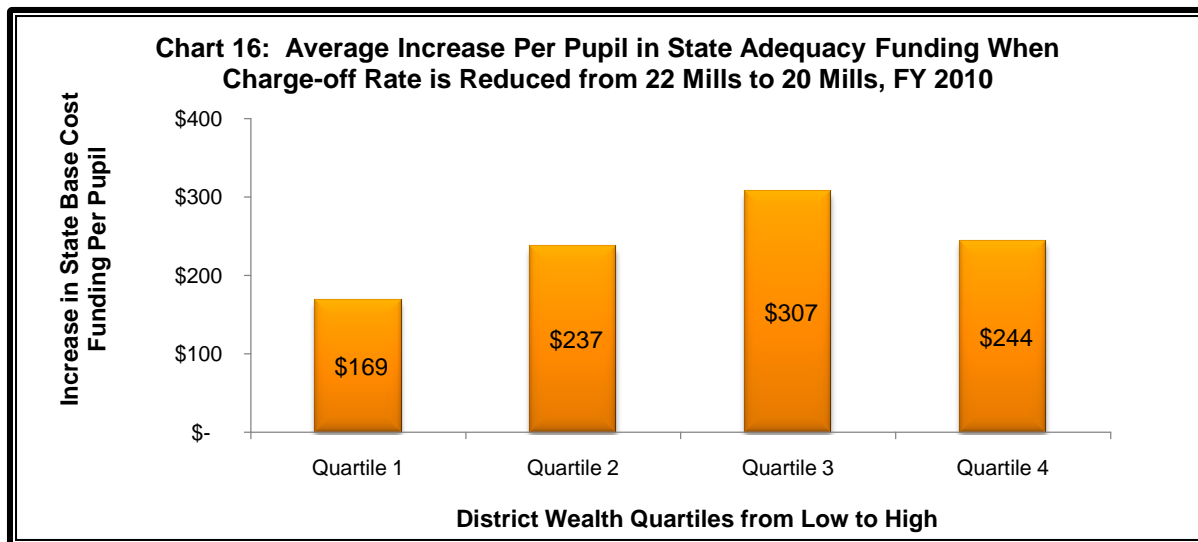icts, including types of phantom revenue, current provisions that soften the impact of this interaction, and "solutions" to the unique challenge facing school districts as a result of this interaction.

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

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 I – Formula Phantom Revenue

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 22 mills of property valuation to fund their adequacy amounts. 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 are not actually collecting the 22 mills assumed by the formula. Current law proposes to reduce the charge-off rate to 20 mills by FY 2014. Once the charge-off rate reaches 20 mills, formula phantom revenue will be eliminated.[7] One consequence of reducing the charge-off rate is that lower charge-off rates tend to favor higher wealth districts more than lower wealth districts. Chart 16 shows the increase per pupil in the state share of the adequacy amount by district wealth quartile if the charge-off had been 20 mills in FY 2010. Districts in the lowest wealth quartile benefit the least on average with an increase of approximately $169 per pupil, whereas districts in the third highest quartile benefit the most on average with an increase of

Chart 16: Average Increase Per Pupil in State Adequacy Funding When Charge-off Rate is Reduced from 22 Mills to 20 Mills, FY 2010

approximately $307 per pupil. Districts in the highest wealth quartile do not benefit as much as those in quartile three because many of these districts are so wealthy that their local share at 20 or 22 mills completely covers their adequacy amount so there is little to no increase in state funding when the local share decreases.

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

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[7] The formula in use prior to FY 2010 eliminated Type I phantom revenue with a supplement called "gap aid" or the "charge-off supplement." This supplement paid districts for any difference between the calculated charge-off and the revenues actually raised by the district.

revenue above the state-defined basic education level. 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. 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 2008 about 329 school districts are at the 20-mill floor in at least one class of real property.

To demonstrate the effect of reappraisal phantom revenue, consider the example of the hypothetical district shown in table 14. Table 11 in the previous section shows the effect of the H.B. 920 reduction factors on the district's local revenues when the district goes through a reappraisal. Table 14 shows the effect of the interaction of the funding formula and H.B. 920 reduction factors on the district's local revenue above the charge-off. To isolate this interaction effect, this example assumes that the district's ADM does not change from FY 2010 to FY 2011. The total adequacy amount for the district increases because of increases in the underlying factors of the formula. Due to the reappraisal, the district's recognized valuation increases by $3,500,000 and, therefore, its local share of adequacy funding increases by $77,000 ($3,500,000 x 0.022). As we saw in table 11, however, due to the H.B. 920 reduction factors, the district's local revenue only increases by $75,160. Since the district's local share increases by more than its local revenue increase, its local revenue above the state-defined basic education level 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 14: Reappraisal Phantom Revenue Example			
	FY 2010	FY 2011	Change
Formula ADM	931	931	
Adequacy Amount	$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	$2,475,000	$2,552,000	$77,000
State Adequacy Funding	$2,599,872	$2,675,025	$75.153
Local Revenue	$3,083,200	$3,158,360	$75,160
Local Revenue Above State-Defined Level	$608,200	$606,360	-$1,840

Type III – Income Adjustment 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.

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

Two provisions of the school funding formula help to soften the impact of H.B. 920 tax reduction factors on districts' revenues. These are recognized valuation and transitional aid.

Recognized Valuation

In the adequacy funding formula, the recognized valuation provision phases in the valuation growth due to a reappraisal or update over a three-year period for districts that are not on the H.B. 920 floor in class I real property. As seen in the example in table 14, the hypothetical district's total taxable value increased from $112.5 million in TY 2008 to $120.0 million (including $6.0 million of inflationary increase in real property) in TY 2009 after it went through a reappraisal. In FY 2011 the formula only recognizes one-third of the inflationary increase in the district's real property so the district's recognized valuation is $116.0 million ($120.0 million - $4.0 million). Without the recognized valuation provision, the district's local share of adequacy funding would have increased by an additional $88,000 ($4,000,000 x 0.022) in FY 2011. This would have resulted in an total decrease of $89,840 in local revenue above the state defined level in FY 2011. In FY 2010, recognized valuation increased the state share of adequacy funding statewide by about $20.4 million.

Transitional Aid

As discussed in the state operating revenue section, transitional aid has 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. The effect of transitional aid is to decrease the local share that would otherwise be assigned to school districts by the formula and, accordingly, increase the state share. Transitional aid effectively helps stabilize the amount of revenues above the state-defined level available to school districts when they go through a reappraisal or update, therefore softening the effect of the H.B. 920 reduction factors. In FY 2010, funding for transitional aid totaled about $890.9 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

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

Conversion levies

H.B. 1 offers certain school districts the option of proposing a new type of property tax levy to their voters. This new levy option is called a conversion levy because it converts existing current expense levies, which are fixed-rate levies and subject to H.B. 920 tax reduction factors, to a fixed-sum levy, which is much like the emergency levy currently being used in many districts. Adopting a conversion levy would allow districts to drop their class 1 (residential and agricultural) real property current expense millage down to the H.B. 920 floor of 20 mills. Once the millage reaches the floor, H.B. 920 tax reduction factors no longer have an effect, so that tax revenues on these 20 current expense mills increase when class 1 real property values increase due to inflation. Tax revenues received from the conversion levy itself will not increase with inflation. A fixed-sum levy such as the conversion levy is designed to raise a fixed sum of revenue each tax year regardless of the property value in the district.

H.B. 1 holds school districts harmless for the revenue losses that would result from the conversion levy. Under the Ohio Constitution, if levy millage is reduced, the full levy must be reduced, including the gross millage rate (charged to public utility tangible property), the class 2 millage rate (charged to commercial and industrial real property), and the class 1 millage rate. Tax rates for class 1 and class 2 must stay proportional to the tangible rate. Furthermore, generally for any given levy, the gross millage rate and the class 2 millage rate are higher than the class 1 millage rate. Therefore, if the class 1 millage rate is reduced to be replaced by a conversion levy, the class 2 and gross millage rates must also be reduced, generally to a greater degree than the class 1 rate. Under H.B. 1, school districts will be reimbursed for the amount of tax revenue lost from commercial and industrial real property and public utility tangible property, phased out over the course of 13 years in increments equal to half of the inflationary revenue growth recognized in class 1 property due to the suspension of H.B. 920 tax reduction factors. Since H.B. 1 became effective in July 2009 through the November 2010 election, only one district has asked for voter approval of a conversion levy. The voters in that district rejected the levy.

Proposed Formula Solutions

Over the years various "formula solutions" have been proposed to address the effect of H.B. 920 tax reduction factors on school district 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.

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 had similar wealth per pupil ($87,087 and $91,630). However, Fairlawn Local's total rate was 28.10 mills while Millcreek-West Unity Local's total rate was 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.

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 revenue dollars above the state-defined level 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 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

In FY 2009 federal revenue makes up about 8.2% of public school revenue in the state. Table 15 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 around 6.0% in the early 2000s to around 8.0% in the late 2000s. Federal revenues per pupil have increased 116.6% over this ten-year period from $406 in FY 2000 to $879 in FY 2009.

Table 15: Growth of Federal Revenue Per Pupil, FY 2000 – FY 2009			
Fiscal Year	Per-Pupil Federal Revenue	Annual Percentage Change	As a Percent of Total District Revenue Per Pupil
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%
FY 2008	$864	4.8%	8.2%
FY 2009	$879	1.8%	8.2%

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)), and the Federal School Lunch and Breakfast Program. Funding for these and other major federal programs is presented in table 16.

Table 16: Major Federal Program Funding for Ohio Schools ($ million), FY 2006 – FY 2009					
Program Name	FY 2006	FY 2007	FY 2008	FY 2009	Change FY2006 -2009
IDEA	$ 487.0	$ 495.1	$ 491.5	$ 438.4	71.9%
Title 1A	$ 396.6	$ 398.6	$ 412.1	$ 499.5	1.8%
School Lunch and Breakfast	$ 267.7	$ 281.4	$348.9	$352.8	23.4%
Improving Teacher Quality	$ 106.2	$ 105.6	$93.9	$103.1	8.1%
Career-Technical	$ 48.3	$ 47.0	$44.7	$45.3	- 1.3%

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. 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

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

of this targeting are evident in table 17, 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.

Table 17: Per-Pupil Federal Revenue by District Type, FY 2009				
District Type	Description	% Special Education Students	% Poverty Students	Federal Revenue Per Pupil
Type 1	Rural/agricultural - high poverty, low median income	14.8%	4.8%	$934
Type 2	Rural/agricultural - small student population, low poverty, low to moderate median income	13.2%	3.2%	$566
Type 3	Rural/small town - moderate to high median income	11.4%	2.2%	$424
Type 4	Urban - low median income, high poverty	14.8%	5.0%	$927
Type 5	Major Urban - very high poverty	15.7%	8.0%	$1,562
Type 6	Urban/Suburban - high median income	12.5%	2.8%	$485
Type 7	Urban/Suburban - very high median income, very low poverty	10.1%	1.1%	$327

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 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.

American Recovery and Reinvestment Act

The American Recovery and Reinvestment Act (ARRA) provided additional one-time federal funding to the state and school districts mainly to be used for FY 2010 and FY 2011. In FY 2010, the state portion of school foundation funding was supported by $417.6 million in ARRA funding. In addition, ARRA provided an additional $365.3 million in FY 2010 for federal programs above Ohio's normal allocation. ARRA spending on federal school programs in FY 2010 is summarized in the following table.

| Table 18: Additional Federal Program Expenditures Provided by ARRA, FY 2010	
Program Name	**Additional Funding**
IDEA (school age children)	$ 210.5 million
Title 1A	$ 145.7 million
IDEA (preschool children)	$ 6.1 million
Educational Technology	$ 3.5 million
School Cafeteria Equipment	$ 2.9 million
McKinney Vento Grants	$ 0.6 million

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.

In summary, the largest part of state revenues flow to schools through the state foundation formula. The foundation formula determines a state-defined basic education level for each district that is primarily based on the size of the district (the number of students) and the district's educational challenge factor (ECF). This state-defined basic education level is funded by both a local and a state share. The local share is based on a uniform percentage of a district's property tax generating capacity. The uniform percentage is called the charge-off (22 mills (2.2%) in FY 2010 and FY 2011) and a district's property tax generating capacity is determined by a measure of its taxable property value. The state share is generally equal to the total state-defined basic education level minus the local share, although transitional aid results in the state paying more than that amount for many districts and the gain cap results in the state paying less than that amount for some other districts. The state also provides money to school districts in the form of property tax rollbacks and reimbursements, and various grant programs. Chart 17 shows the distribution of per-pupil state revenues in FY 2009. As can be seen from the chart, per-pupil state revenues in FY 2009 ranged from less than $2,000 in five districts to more than $8,000 in five districts. Most districts (361, 59%) received per-pupil state revenues from $4,500 to $6,500.


Chart 17: Distribution of Per-Pupil State Revenues, FY 2009
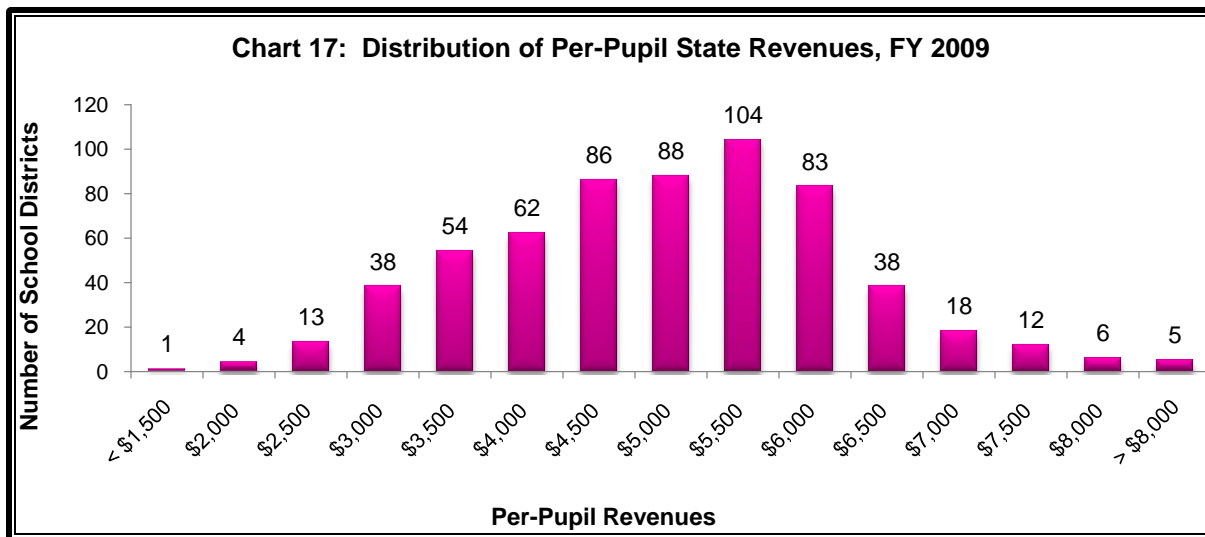
Local revenues mainly are determined by a district's taxable property value and effective property tax rates. These effective tax rates are determined through periodic tax levies that are either approved or rejected by the voters residing in the district. The rates for certain types of levies are reduced by H.B. 920 when a district's taxable real property value increases due to inflation. A small percentage of local revenues are determined by the incomes of district residents and the school district income tax rate approved by voters in certain districts. Chart 18 shows the distribution of per-pupil local revenues in FY 2009. As can be seen from the chart, per-pupil local revenues in FY 2009 ranged from less than $1,500 in five districts to more than $10,000 in 14 districts. Most districts (414, 68%) received per-pupil local revenues from $2,500 to $5,500.

Chart 18: Distribution of Per-Pupil Local Revenues, FY 2009
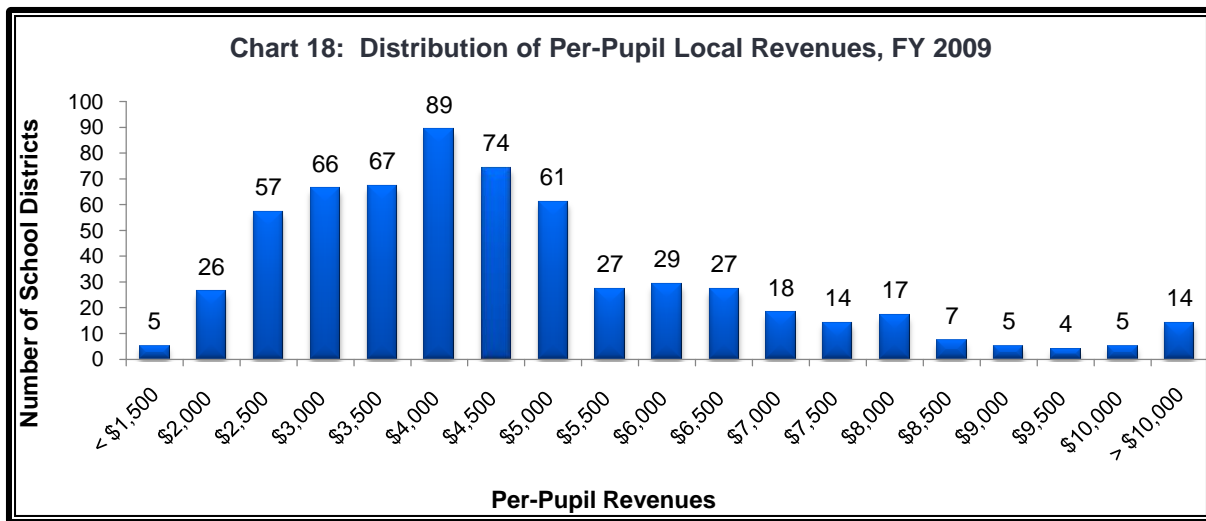
Federal revenues mainly are targeted to special education and economically disadvantaged students. Chart 19 shows the distribution of per-pupil federal revenues in FY 2009. As can be seen from the chart, per-pupil federal revenues in FY 2009 ranged from less than $100 in eight districts to more than $1,800 in six districts. Most districts (359, 59%) received per-pupil federal revenues from $400 to $800.

Chart 19: Distribution of Per-Pupil Federal Revenues, FY 2009
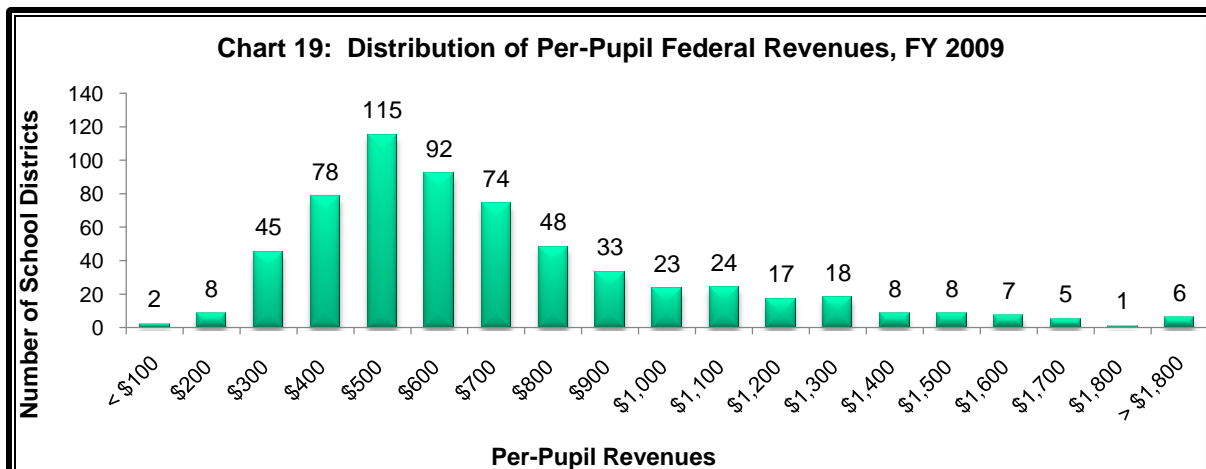
Finally, Chart 20 presents per-pupil revenues in FY 2009 from all three sources by district wealth quartile. In FY 2009, average per-pupil revenues from all sources were $9,941 in quartile 1, $9,096 in quartile 2, $9,639 in quartile 3, and $10,637 in quartile 4. As can be seen from the chart, state and federal revenues help to counteract the relatively high local revenues collected by high wealth districts, resulting in a more even revenue distribution than if funding came solely from local sources.

Chart 20: Revenues Per Pupil, All Sources, FY 2009

Legend: ■ Local ■ State ■ Federal

District Wealth Quartiles from Low to High	Local	State	Federal
Quartile 1	$2,820	$5,890	$1,232
Quartile 2	$3,640	$4,805	$651
Quartile 3	$5,091	$3,778	$770
Quartile 4	$7,099	$3,105	$433

Y-axis: Revneus Per Pupil ($-, $2,000, $4,000, $6,000, $8,000, $10,000, $12,000)

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