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Overview of the Ohio Senate's FY22-23 School Funding Formula Proposed in HB 110

Dr. Howard Fleeter

Ohio Education Policy Institute

It is OEPI's practice to provide overviews of the school funding-related issues as Ohio's biennial budget process unfolds. This brief report provides an overview of the Senate's proposed school funding formula included in the Senate-passed version of House Bill (HB) 110, the state budget bill for the FY22-23 biennium. The Senate's funding plan was much anticipated this year in light of the Fair School Funding Plan, which was included in the House of Representative's version of the FY22-23 budget bill. The information discussed below has been gathered from: the LSC Department of Education Executive-House-Senate Finance Proposed Comparison Document (the "LSC Comp Doc"); the bill text of HB 110 (as passed by the Senate); and the related simulations published by the Senate Finance Committee.

I. Brief Overview of the Senate's FY22-23 School Funding Proposal

In general, the Senate's FY22-23 school funding plan is essentially a recalculation of the FY19 funding formula with a handful of changes. The main features of the Senate's FY22-23 school funding formula are:

A) The base cost is increased from $6,020 per pupil to $6,110 per pupil. The $6,110 figure is used in both FY22 and FY23, although the FY22 foundation formula funding amount under the Senate proposal is the average of the FY23 proposed foundation funding amount (using the $6,110 base cost figure) and the FY21 actual foundation funding amount. The FY21 foundation funding baseline amount is *prior* to the Governor's $125.2 million COVID-related budget reduction and *after* the FY21 community school, EdChoice, Autism and Jon Peterson voucher deductions have been applied. The $6,110 per pupil figure is based upon a methodology developed by the Senate that is centered around teacher compensation and then supplemented by additional funding relating to building administration and operations, student support services and district administration. The Senate's base cost figure of $6,110 per pupil is nearly $1,100 per pupil lower than the average base cost figure of roughly $7,200 per pupil in the House's school funding formula.

B) The State Share Index (SSI) is tweaked. The SSI, which was first implemented in FY14, is a rather complicated mechanism for computing the state and local share of foundation formula funding. The SSI is based on a wealth index derived from property wealth per pupil in all school districts and also from an income index applied in some, but not all, school districts. The

property and income indexes (if applicable) are combined into a single wealth index for each district which is then translated by a series of equations into a state share percentage, which ranges from a low of 5% in the wealthiest school districts to a maximum of 90% in the poorest school districts.

The Senate's FY22-23 school funding plan modifies the equations used to translate the SSI wealth index into state share percentages, although the range of these percentages is still 5%-90% as was the case from FY14-FY19. According to the LSC Comp Doc, "Changes to the state share index provide more state funds to lower wealth districts and less state funds to higher wealth districts compared to current law." The phrase "current law" refers to the formulas used to compute the FY18/FY19 SSI.

C) Community schools and voucher programs are "directly funded" by the state instead of using the old "deduction" method. "Direct funding" means that school districts receive state foundation formula funding only for the students that they educate, and not on the basis of the long-utilized Formula ADM pupil count (i.e., a district's "average daily membership" count), which included voucher and community school students who live in the school district. (Note that under the Senate funding plan, open enrollment students are still funded in their district of residence and then a deduction and transfer method is used when they open enroll into another district.)

The importance of direct funding is that the state will now pay the entire cost of the community school and voucher programs directly, as opposed to the prior deduction method which effectively included a local share of funding for these programs. The implementation of direct funding for community school and voucher students is a significant positive change, which many public school, community school and even private school supporters have been advocating for many years.

D) All other formula components (i.e., special education, economically disadvantaged aid, transportation, etc.) **are funded using the FY19 funding formula parameters and FY19 student counts.** FY19 student counts are based on the number of enrolled students and not on Formula ADM which included community school and voucher students. The agricultural component of Targeted Assistance is retained (the House-passed plan had eliminated it); however, the per pupil wealth measure used to compute targeted assistance is now based on enrollment rather than on Formula ADM.

E) The Senate's FY22-23 school funding plan still includes a transitional aid guarantee and a gain cap, but the formulas used for each have been modified. 166 districts are subject to the gain cap in FY22, and 167 districts in FY23. 218 districts in both fiscal years are on the bill's two guarantees. There is also a new "gap aid" supplement to provide $16 million additional aid each year to 36 districts whose actual local revenue is less than their local share of funding implied by the FY22-23 foundation formula. And there are also provisions which provide additional "gain cap relief" to 73 rapidly growing school districts, along with a second guarantee that provides a modest amount ($4 million in FY22 and $7 million in FY23) of additional aid to roughly 50 districts.

II. Areas of Concern Regarding the Senate's FY22-23 School Funding Formula

Initial analysis of the Senate's FY22-23 proposed school funding formula reveals several issues. Most of these issues are related to the Senate funding proposal not properly updating the data used to compute the FY22 and FY23 foundation formula funding amounts.

1) The property valuation and income data that is used to compute the State Share Index (SSI) in the Senate's FY22 and FY23 funding plan is the exact same as was used in the FY18/FY19 SSI.

Since its inception in FY14, the data used to compute the SSI has been updated at the beginning of each biennium. The FY18/19 SSI relied upon (i) property values from 2014, 2015 and 2016; (ii) Federal Adjusted Gross Income (FAGI) data from 2013, 2014 and 2015; and (iii) median income data from 2015. The data mentioned above presumably would have been updated by two years to compute the SSI in FY20 and FY21 had the funding formula not been frozen and then updated by an additional two years for use in FY22 and FY23. Property value data is currently available through 2020 and income data through 2019. It is not clear why the Senate's FY22-23 funding proposal did not update to 2018, 2019 and 2020 property values and 2017, 2018 and 2019 income data.

Additionally, the SSI is based upon a district property value per pupil measure and a FAGI per pupil measure. The FY18/19 SSI used 2017 student counts to compute these figures. The FY22/23 SSI also uses these same 2017 student counts. FY18/19 SSI used Total ADM as the student count which included community school and voucher students (Total ADM and Formula ADM were very similar). The FY22/23 Senate proposal uses enrollment as the student count which excludes community school and voucher students. However, the Senate's enrollment figure used to calculate the SSI is *still* based on FY17 data. In light of the fact that FY21 student enrollment figures have been abnormal in many districts as a result of the COVID pandemic, FY20 student counts are generally considered to be the most recently available data.

In order to utilize the most current data available, the Senate proposal should update property values to 2018-2020 and income from 2017-2019 and then divide these figures by 2020 enrollment to get the per pupil numbers necessary for the computation of the revised State Share Index contained in its FY22-23 funding plan. ***By using data that is now three bienniums old, the Senate's school funding proposal will create significant disruptions and likely be much more costly in the FY24-25 biennium when property values, income and enrollment are updated.***

It is also important to note that the Targeted Assistance calculation in the Senate's FY22-23 funding formula suffers from the exact same problem of still relying on 2014-2016 property values and 2013-2015 income data that were first used in the FY19 funding formula. Those data should also be updated to current figures.

2) The teacher salary calculation that is the basis of the Senate base cost methodology is from FY19. Because the $6,110 amount is used in both FY22 and FY23 this means that FY19 teacher salary data is used for the FY23 funding formula, a similar four-year gap to the House's school funding formula that uses FY18 teacher salary data for its FY22 funding formula amount.

It is not clear whether or not FY21 teacher salary is available at this point in time; however, it is also not clear why FY20 teacher salary data was not employed by the Senate. One possible reason for this choice is that the Senate decided to base its funding model upon a recalculation of the FY19 funding formula, a choice that also relies on outdated property value, income and enrollment data as pointed out above.

3) The $90 increase in the base cost amount proposed by the Senate does not keep pace with inflation.

Base Cost amounts for recent years are shown below:

FY09: $5,732
FY14: $5,745
FY15: $5,800
FY16: $5,900
FY17: $6,000
FY18: $6,010
FY19: $6,020

There was no per pupil amount used under the Evidence Based Model for school funding employed in FY10 and FY11, and there was no per pupil amount used in FY12, FY13, FY20 and FY21 because the funding formula was suspended by the legislature in each of those years.

The FY09 per pupil amount of $5,732 was based on the Building Blocks approach. However, the per pupil amounts from FY14-FY19 shown above were chosen by the legislature and were not based on any adequacy methodology.

There are several different ways to show that the $6,110 per pupil base cost figure proposed by the Senate does not keep pace with inflation.

FY09 is the last year the base cost per pupil amount was based on a defensible adequacy methodology. Measuring inflation from July 2008 (the beginning of FY09) until now (April 2021) reveals a 21.4% inflation rate. In contrast, $6,110 divided by $5,732 shows an increase of only 6.6%. Thus, inflation since FY09 has been more than three times the rate of increase in the foundation level proposed by the Senate.

Looked at another way, if the $5,732 per pupil amount from FY09 were simply increased by inflation it would have reached $6,959 as of April 2021, implying it would be nearly $7,000 per pupil by the time that FY22 begins.

Taking a shorter run view, inflation since FY19 (measured both from the beginning or the middle of FY19) has been 6.0%. However, the increase from $6,020 to $6,110 is only 1.5%. Thus, the Senate proposal would increase the foundation level by only 1/4th the rate of inflation since 2019. Adjusting the FY19 base cost of $6,020 for inflation would result in a base cost figure of $6,381 for FY22. A second adjustment set at 2.0% as an estimate of an additional year of inflation would result in a base cost figure of $6,509 for FY23.

4) The use of the State Share Index itself is an issue. Many observers of Ohio school finance - including this author - were optimistic in 2013 that the implementation of a new method for determining the state and local share of school funding would be an improvement over the previous "chargeoff" approach. However, the new method (the SSI) has proven in practice to be even more problematic than the chargeoff. Not only is the SSI significantly more complicated, but the SSI also functions by creating a wealth index which serves to intertwine Ohio's 609 school districts with one another.

This means that changes in property values (and income) in some districts will affect the amount of state aid received in other districts. An example of this occurred several years ago when the Current Agricultural Use Valuation (CAUV) formula for valuing agriculture property was changed by the legislature. The change caused agricultural property values to decrease which not only lowered the wealth in districts with such property but also lowered the overall statewide property valuation. Because the SSI property value index compares property values per pupil to the state average, districts with no agricultural property now appeared wealthier than before because their unchanged property values were now compared to a lower statewide average. This change then caused these districts to receive less state aid even though their circumstances did not change.

An additional fundamental problem with the SSI is that it incorporates income in an inconsistent manner. The most compelling argument for using income in the state/local share calculation is that income reflects the "ability to pay" local taxes by residents in each school district. Lower income persons have less disposable income than higher income persons and are thus less able to support local levies, which are often required in Ohio as a result of HB 920, a property tax limitation mechanism. Thus, while the inclusion of an income index in the SSI is indeed a step forward, the fact that the index is mostly applied in higher income rather than lower income school districts undermines its usefulness.

The state/local share mechanism included in the House's FY22-23 school funding proposal is not only simpler than the SSI but it also avoids the two problems discussed immediately above. Under the House funding plan, districts will see their state aid change from year to year based only upon how their property value and income have changed while changes in the circumstances of other districts will have no impact. Additionally, the House's income factor is applied to all districts in an equitable manner. As a final note, the Houses' state/local share calculation is based upon the most currently available data, as is their Targeted Assistance calculation.