

FY18-19 School Funding Overview

OSBA Board Leadership Institute
April 21, 2017

Dr. Howard Fleeter
Ohio Education Policy Institute

FY16-17 Funding Formula

- The current FY16-17 school funding formula retains the same basic components from the previous FY14-15 formula:
 - Core Opportunity Aid
 - Career Tech Program & Associated Services funding
 - Funding for Economically Disadvantaged students
 - Gifted Identification & Gifted Program Unit funding
 - K-3 Literacy funding
 - Funding for Limited English Proficient (LEP) students
 - Special Education funding
 - Targeted Assistance
 - Transportation funding

New Components in the FY16-17 Funding Formula

- FY16-17 funding formula also includes several new components
 - Capacity Aid
 - Transportation Supplement
 - Graduation Rate Bonus
 - 3rd Grading Reading Bonus
 - Tangible Personal Property (TPP) Supplement (FY16 only - Governor vetoed FY17 supplement)

Governor's FY18-19 School Funding Formula Overview

- Basic formula the same as in FY16-17
- State Share Index (SSI) updated
- All Per Pupil funding amounts in formula frozen at FY17 levels
- Transportation minimum state share reduced from 50% to 37.5% in FY18 and 25% in FY19
- Guarantee will be reduced for districts that have experienced more than 5% enrollment loss from FY11 to FY16
- Gain Cap set at 5% in both FY18 and FY19
- TPP Supplement eliminated

State Share Index (SSI)

- The SSI is the method for determining the State & Local share of formula funding in each school district.
- The SSI applies to these components of the funding formula:
 - Core Opportunity Aid
 - Special Education Aid
 - Career Technical Education Aid
 - LEP Funding
 - The Equalized portion of K-3 Literacy Aid
 - Transportation Funding
 - Graduation Rate Performance Bonus
 - 3rd Grade Reading Performance Bonus
- The SSI does NOT apply to these components of the formula:
 - Targeted Assistance
 - Economically Disadvantaged Student Aid
 - The Unequalized portion of K-3 Literacy Aid
 - Gifted Student Funding
 - Capacity Aid
 - Transportation Supplement

State Share Index (SSI)

- The State share index approach was first enacted in the FY14-15 funding formula.
- Districts are first ranked according to their property wealth and an index is created based on a comparison of each district to the statewide property value per pupil.
- Next, an income index is created in a similar fashion. In FY14-15 the income index was based on district median income only. In FY16-17 the income index is a combination of median income and Federal Adjusted Gross Income (FAGI) per pupil.
- The income index is included only if it is favorable to the district to do so. Otherwise, the wealth index is based only on property wealth.
- However, most of the districts benefiting from the income factor are higher income districts rather than lower income districts.
- In addition, because it is based on a comparison to statewide valuation, any policy change that impacts valuation in some districts will ultimately affect the SSI in all districts.

FY18-19 State Share Index (SSI)

- FY16-17 SSI is based on the average of TY12, TY13, and TY14 property values. The FY18-19 SSI will be based on the average of TY14, TY15, & TY16 property values.
- 373 districts have their state share go down when the FY18-19 SSI is compared to the FY16-17 SSI. These districts account for 36.1% of the students in the state.
- 213 districts have their state share increase. These districts account for 60.7% of the students in the state.
- 24 districts have the same state share in FY18-19 as in FY16-17.
- The overall state share decreases by 1.5% from 48.1% in FY16-17 to 46.6% in FY18-19.
- The income factor remains flawed by primarily benefiting districts with median income above the statewide median.

FY18-19 SSI Change by Typology

Typology Group	# of Districts in Typology Group	# of Districts SSI Decrease in FY18-19	% Districts SSI Decrease in FY18-19
1. Poor Rural Districts	123	108	87.8%
2. Rural Districts	106	100	94.3%
3. Small Towns	111	73	65.8%
4. Poor Small Towns	89	44	49.4%
5. Suburban Districts	77	24	31.2%
6. Wealthy Suburban	46	12	26.1%
7. Urban Districts	49	11	22.4%
8. Major Urban Districts	6	0	0.0%
0. Outliers	3	1	33.3%
Totals	610	373	61.1%

TY12-TY15 Property Valuation Change by Typology

TypologyGroup	TY12-TY15 % Increase in Real Property Valuation	TY12-TY15 % Increase in PUTPP Property Valuation	TY12-TY15 % Increase in TOTAL Property Valuation	TY12-TY15 % Increase in Total Property Taxes
1. Poor Rural Districts	14.5%	28.2%	16.2%	15.0%
2. Rural Districts	21.4%	41.0%	22.8%	21.9%
3. Small Towns	7.5%	26.1%	8.6%	11.9%
4. Poor Small Towns	3.0%	23.2%	3.9%	6.2%
5. Suburban Districts	1.8%	27.2%	2.6%	4.9%
6. Wealthy Suburban	4.9%	20.5%	5.2%	6.9%
7. Urban Districts	-3.4%	23.1%	-2.4%	3.7%
8. Major Urban Districts	-3.4%	25.9%	-2.1%	1.2%
Totals	4.0%	26.9%	5.0%	6.5%

FY16-17 Foundation Formula Parameter Changes

- In FY16-17, Core Opportunity Aid increased by \$100 per pupil each year
- Special ed per pupil weighted amounts increased by 2% in both FY16 and FY17
- Career tech. per pupil weighted amounts increased by 4% in both FY16 and FY17
- K-3 literacy per pupil amounts increased by 5% in both FY16 and FY17
- Other funding formula parameters remained at FY15 levels in FY16 and FY17

Per Pupil Base Funding Amount Since FY09

- FY09: \$5,732 per pupil (“Building blocks” method)
- FY10-11: OEBM - no per pupil amount
- FY12-13: Bridge Formula (not really a formula)
- FY14: \$5,745 per pupil (no methodology)
- FY15: \$5,800 per pupil (no methodology)
- FY16: \$5,900 per pupil (no methodology)
- FY17: \$6,000 per pupil (no methodology)
- FY18: \$6000 per pupil (frozen)
- FY19: \$6000 per pupil (frozen)

Freezing of Per Pupil Funding Amounts in FY18 and FY19

- Core opportunity aid per pupil amount remains at \$6,000 in FY18 and FY19.
- The base per pupil amount has increased each year from at least FY1990 except for FY10 & FY11 (EBM did not use a per pupil amount) and FY12 & FY13 (Bridge Formula).
- Increases in the per pupil amount are necessary to keep pace with inflation. If the **FY09 base cost of \$5,732** (Building Blocks approach) were **updated for inflation it would be \$6,390 in FY17**. FY09 was the last time the per pupil amount was based on an objective cost methodology.
- Increasing the per pupil amounts in the formula also acts as a safety valve as property values change over time. This is necessary because of phantom revenue.

FY15, FY16 & FY17 Funding Comparison

Funding Component	FY17 Jan. # (ODE)	FY18 (LSC)	FY19 (LSC)
Core Opportunity Aid	\$4,990.9	\$5,028.0	\$5,028.0
Targeted Assistants 1 & 2	\$911.6	\$952.8	\$974.9
Special Education	\$822.8	\$832.0	\$832.0
Limited English Proficient	\$30.9	\$32.2	\$32.2
Disadvantaged Pupil Aid	\$429.8	\$429.8	\$429.8
K-3 Literacy	\$112.8	\$113.2	\$113.2
Gifted	\$81.2	\$81.2	\$81.2
Base Transportation	\$472.1	\$430.2	\$410.2
Computed Formula Aid	\$7,851.9	\$7,893.3	\$7,901.5
Capacity Aid (\$ PeMil) Tier 3*	\$174.4	\$170.1	\$174.0
Career Technical Education**	\$57.7	\$57.9	\$57.9
Transportation Supplement*	\$54.8	\$54.6	\$54.6
Graduation Rate Bonus*	\$20.0	\$19.9	\$19.9
3 rd Grade Reading Bonus*	\$8.4	\$8.4	\$8.4
Total Supplements (outside the cap)	\$315.3	\$310.9	\$314.8
Total Formula Funding Before Cap & Guarantee	\$8,167.2	\$8,210.2	\$8,216.3
Guarantee	\$104.4	\$174.5	\$189.9
# of Districts on Guarantee	133	315	316
Gain Cap Reduction	-\$492.9	-\$466.3	-\$359.2
# of Districts on Gain Cap	151	131	103
Total State Formula Aid	\$7,778.7	\$7,918.4	\$8,047.1
TPP Operating Replacement Payments	\$182.5	\$142.3	\$111.2
# of Districts Receiving TPP Reimbursements	132	101	81
TPP Supplement***	\$43.4	\$0.0	\$0.0
Including TPP Reimbursements & Supplement	\$8,004.6	\$8,060.7	\$8,158.3

* These components are excluded from the gain cap limitation

** Career Tech. funding was moved outside both the gain cap and guarantee calculation in FY17

*** FY17 TPP Supplement restored in SB 208 at 96% of FY15 Total State Formula Aid + TPP

Replacement payments

Caps and Guarantees

- The **Transitional Aid Guarantee** means that in FY16 & FY17 no district received less formula funding than was received in FY 2015.
- In FY18 and FY19 the guarantee is based on FY17. However districts with more than 5% enrollment loss will see their guarantee amount reduced in FY18.
- The **Gain Cap** means that increases in state funding are capped at 5.0% in FY18 and an additional 5.0% in FY19
- The **TPP Supplement** was intended to ensure that no district received less state formula funding + TPP reimbursement in FY16 and FY17 than was received in FY15. However, the Governor vetoed the TPP Supplement in FY17. It was then replaced at a

FY15-19 Guarantee & Gain Cap

- Transitional Aid Guarantee:
 - FY15: \$165.9 million (188 districts)
 - FY16: \$123.6 million (173 districts)
 - FY17: \$104.4 million (133 districts)
 - FY18: \$181.2 million (315 districts)
 - FY19: \$196.8 million (321 districts)
- Gain Cap (7.5% in both FY16 and FY17):
 - FY15: \$669.2 million (237 districts)
 - FY16: \$603.9 million (188 districts)
 - FY17: \$492.9 million (151 districts)
 - FY18: \$465.7 million (130 districts)
 - FY19: \$358.7 million (103 districts)

FY17 figures are based on ODE January # 1 SFPR
FY18 & FY19 figures from OBM budget spreadsheets

FY18-19 Guarantee & Gain Cap

- Gain Cap (7.5% in both FY16 and FY17):
 - The gain cap allowed for 7.5% growth in formula funding in both FY16 and FY17.
 - In FY18 and FY19 the gain cap has been reduced to 5% each year.
- Transitional Aid Guarantee:
 - From FY17 to FY18 the cost of the guarantee increases by 74% under the Governor's proposed formula and the number of districts on the guarantee increases from 133 to 315 (an increase of nearly 2.5 times)
 - If the Governor had not made the enrollment-based reductions to the guarantee, 363 districts (59.5%) would have been on the guarantee in FY18.
 - Administration has stated that they do not want to be funding "phantom students" who are no longer in the district.

4 Reasons a District Would End up on the Guarantee in FY18/19

1. The district was on the guarantee in FY17 and remains on the guarantee in FY18
2. The district's SSI decreased from FY16-17 to FY18-19
3. The district's transportation funding decreased because of the reduction of the minimum transportation state share from 50% in FY17 to 37.5% in FY18 and 25% in FY19.
4. The district's Targeted Assistance or Capacity Aid decreased from FY17 to FY18. (These 2 components are recomputed every year.)

As mentioned earlier, normally annual increases in the per pupil amounts in the formula would provide a "hedge" against any of these circumstances.

Breakdown of Districts on Guarantee in FY18

- 125 of 133 districts on guarantee in FY17 remain on guarantee in FY18
- 238 "new" districts placed on guarantee in FY18 prior to guarantee reduction.
- 138 of these districts had SSI decrease
- 13 districts had transportation funding reduced
- 85 districts had both their SSI decrease and transportation funding reduced
- 2 districts had Capacity Aid decrease

So Why Such a Large Increase in Districts on the Guarantee?

- When FY14-15 SSI and FY16-17 SSI are compared, 389 districts had their SSI go down.
- When FY16-17 SSI and FY18-19 SSI are compared, 373 districts had their SSI go down.
- Yet the number of districts on the guarantee declined in both FY16 and FY17 and the number of districts on the guarantee in both FY18 and FY19 increased.
- The major difference is that in the FY18-19 biennium the per pupil amounts in the formula are all frozen, and in the FY16-17 biennium most per pupil amounts were increased and additional components (Capacity Aid, Transportation Supplement, were added).

How Governor's Guarantee Reduction Works

- Enrollment loss from FY11 to FY16 is computed. This is based on Total ADM for each year (actual # of students).
- Districts that have lost greater than 5% of enrollment and are on the guarantee will experience funding reductions.
- District losing greater than 10% of Total ADM will see a 5% funding cut. Districts between 5% and 10% enrollment loss will see a funding cut = % enrollment decline - 5% (i.e. 7.5% decline in enrollment = 2.5% funding reduction).
- Guarantee reduction = percentage of formula funding, not percentage of guarantee amount. Thus, a district with 10% or more enrollment loss and total state aid = \$10 million including a guarantee of \$1 million, would see their guarantee reduced by \$500,000, NOT \$50,000.
- The funding reduction cannot exceed guarantee amount.

TPP Replacement Payment Phase-out Under SB 208

- Instead of basing the TPP reductions on a maximum percentage of each district's total resources, SB 208 provides that each district that is still receiving TPP replacement payments in FY17 will then see annual reductions of a maximum of 5/8th of a mill of local property valuation.
- The SB 208 TPP phase-out formula slows down the loss of TPP replacement payments for many districts. No regular K-12 district is worse off under SB 208 than they would have been under HB 64. (However, 3 JVSDs are worse off.)
- The SB 208 TPP replacement phase-down is in permanent law and will apply until all TPP payments are eliminated (see next slide).
- **Warning to districts with electric generating facilities:** Coal fired power plants are being devalued. This stands to create substantial reductions in local property tax revenues for these districts.

FY11-FY27 TPP Replacement Payments and # of Districts

Fiscal Year	TPP Operating Replacement Payments (\$ in millions)	# of Districts Receiving TPP Payments
FY11	\$985.9	610
FY12	\$651.8	421
FY13	\$420.3	260
FY14	\$420.3	260
FY15	\$420.1	260
FY16	\$281.7	202
FY17*	\$180.5	131
FY18*	\$142.7	101
FY19*	\$111.9	82
FY20*	\$90.7	69
FY21*	\$73.4	56
FY22*	\$60.0	44
FY23*	\$48.6	42
FY24*	\$39.8	35
FY25*	\$32.6	29
FY26*	\$26.6	22
FY27*	\$22.0	19

* FY17 -FY27 figures are estimates prepared by Howard Fleeter based on ODE FY16 data LSC SB208 data.

FY17-FY19 TPP Operating Levy Replacement Payment Summary

	FY17	FY18	FY19
TPP Operating Levy Replacement Payments*	\$180.5	\$142.3	\$111.2
# of Districts Receiving Payments	131	101	81
TPP Supplement*	\$43.9	\$0	\$0
# of Districts Receiving Supplement	75	0	0
# of Districts Receiving Either or Both TPP Related Payments	158	101	81
Total State TPP Payments	\$224.4	\$142.3	\$111.2
Change from Year to Year		-\$82.1	-\$31.1

of Districts Losing State Aid from FY17 to FY18 by % Loss (with & without TPP Reductions)

Range of Decrease in State Funding	# of Districts with FY18 Decrease in Funding - Formula Only	# of Districts with FY18 Decrease in Funding - Formula + TPP
>20% Decrease	0	18
10-20% decrease	0	14
5-10% decrease	65	81
4-5% decrease	41	32
3-4% decrease	32	36
2-3% decrease	23	29
1-2% decrease	26	28
½-1% decrease	25	29
1/10 / 2% decrease	45	48
<1/10% decrease	89	75
Total # of districts	346	390