

Ohio's Current School Funding System

Funding for primary and secondary education in Ohio represents a large share of the state's budget. According to the Office of Budget and Management, the amount set aside for school funding is approximately 36% of the total General Revenue Fund. But that is only part of the story.

The School Funding Mix

Most states, including Ohio, fund schools through a combination of state, local, and federal funds.

- Federal funds make up only about 8% of the total.*
- While it is a major portion of the state's budget, state spending for schools represents 46%.
- The remaining 46% of funding for schools comes from local taxpayers.

*These figures include funds for school operations. Separate state and local funds pay for school construction and renovation.

The state funding figure includes revenue from the Ohio Lottery. In 2006, the total lottery proceeds that went to education was \$646.3 million (approximately 7% of state funding for education at that time).

How is State Funding Determined?

Basic Aid

The state starts by determining how much it should cost a school district to provide its students with a basic education – in other words, to educate pupils with no special needs or support requirements. Currently, the formula is based on certain education “building blocks” as measured by:

- Average teacher salaries
- Average salaries of support staff
- Average classroom sizes
- Average costs for maintenance and overhead

The amount is translated into a basic cost per student, or the *foundation* amount. For fiscal year 2009, the foundation level is \$5,732 per pupil.

Local Districts' Share

Ohio's aid formula assigns a responsibility to each local school district to pay a portion of the foundation amount. Generally, this local share equals the amount of money that the school district would raise with a 23 mill (2.3%) property tax. This amount will vary from district to district depending on property values.

For the school year 2007-08, these sources of revenue provided a total of \$16.2 billion for Ohio schools

- \$7.9 billion local
- \$7.7 billion in state
- \$1.3 billion in federal.

EXAMPLE

For a school district with 6,000 pupils, the foundation amount for FY2009 would be \$34.39 million. (6,000 x \$5,732 = \$34,392,000)

The state uses an official method known as Average Daily Membership or ADM to count the number of students enrolled in the district.

Assume the school district has a local property valuation of \$897,182,610. The required local share would be \$20.64 million. ($\$897,182,610 \times 2.3\% = \$20,635,200$)

The state share of the basic foundation amount would be \$13.76 million. ($\$34,392,000 - \$20,635,200 = \$13,756,800$)

Beyond Basic Aid

The state also provides funds for costs outside a basic education such as:

- *Supplemental funds* for special education, vocational education, and transportation costs
- *Poverty Based Assistance* to help schools with additional costs they may incur for educating economically disadvantaged students
- *Parity aid* to offset differences in school districts' ability to obtain local dollars from property taxes (beyond the required local share)
- Finally, a guarantee provision (known as *transitional aid*) provides that each school district should receive no less state revenue in the current year than it received in the preceding year.

The district in our example would have a maximum share of \$2.96 million for special education, transportation and career technical (Local property valuation x 3.3 mills, or \$897,182,610 x .33% = \$2,960,726)

Its total required contribution for basic and supplemental aid would be \$23.6 million, or \$3,932.65 per pupil.

Poverty Based Assistance, parity aid and the guarantee provision do not require a local share match. But the state requires an additional local contribution toward costs above a basic education such as special education, vocational education, and transportation costs

The amount of this additional local contribution cannot exceed the amount a district could raise with an additional 3.3 mill property tax. So the local share of education costs for basic and supplemental costs combined can reach a maximum of 26.3 mills. Districts whose actual property taxes are less than 26.3 mills receive additional revenue from the state to bridge the gap. (Districts are required to collect at least 20 mills.)

Funding Increases

The Ohio Supreme Court ruled the state's funding system unconstitutional four times. Since the final ruling in 2002, funding increases for education have just kept up with inflation – with state and local contributions increasing 15.7%, compared to a 16% percent rise in the Consumer Price Index. This came at a time when costs increased due to state and federal mandates (including No Child Left Behind) and increases in energy and health care costs.

Issues with the Funding Formula

“Phantom Revenue”

Although property reappraisals by tax assessors historically have resulted in districts' having increased property valuations, districts do not collect more tax revenue as a result. Since 1976, Ohio law has required districts to adjust tax rates to offset increases in property values caused by reappraisal. The Ohio Constitution prohibits districts from collecting taxes on the “growth” in property value.

That means that the tax may be collected at a lower rate than the state foundation formula uses to determine the local share. In other words, the state charges districts for the “growth” in property values when computing their local share even when they don't collect “growth” in local tax revenue. This phenomenon, known as “phantom revenue,” varies with growth in values varies among districts.

The Foundation Level

The method for determining the foundation amount (currently \$5,732 per pupil) has been a source of controversy. The current formula relies on a sample of districts who are able to meet state report card standards while spending a relatively low amount per pupil, which has been viewed as an indication of efficient spending. Opponents contend these districts display mediocre results on broader performance measures and were selected on the basis of spending at the state-determined minimum level.

Other Areas

- The state no longer adjusts for differences in costs in different geographical regions.
- The state share of special education is funded at only 90%.
- Funding for the needs of pupils in poverty is addressed through multiple computations with numerous restrictions.