

Ohio School Boards Association

School Funding Study

Interim Progress Report

Presentation to the Blue Ribbon Task Force on Funding Student Success

October 27, 2003

**John M. Brandt
Executive Director
Ohio School Boards Association**

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Governor's Blue Ribbon Task Force on Funding Student Success October 27, 2003

Pursuant to a resolution passed by the Ohio School Boards Association (OSBA) Board of Trustees on September 21, 2002, OSBA has been developing a proposal to reform and improve school funding in Ohio. A steering committee was appointed, consisting of school board members, administrators, treasurers, school attorneys, employee organization representatives, the Alliance for Adequate School Funding, the E&A Coalition, the League of Women Voters and the Ohio Department of Education.

The work of the Steering Committee is not yet complete. However, sufficient progress has been made to allow preparation of this description of new funding ideas. Many issues and details remain to be settled, but this paper provides sufficient information to begin consideration of the ideas.

Funding an Adequate Education

- The proposal is based on the clear requirement in the Ohio Constitution (Article VI, Section II) that the General Assembly shall provide for a thorough and efficient system of common schools.
- The entire cost of an adequate education for every student in every district shall be fully funded by the state.
- Full funding of adequacy includes 100% funding of the needs of all students, including special education, career/technical, gifted education and the education of disadvantaged students.
- We believe that the needs of special education students and disadvantaged students must be thoroughly analyzed and new funding formulas devised to meet those needs.
- The full cost of pupil transportation will be paid by the state according to a state formula.
- An absolutely critical element of the plan is an objective methodology for determining the cost of an adequate education that gives every student an opportunity to succeed.
- The adequacy methodology must be data-based and replicable on a regular schedule. It must be free of politically motivated modification.
- The determination of the cost of adequacy should use a state-administered formula using both output and input factors in school districts.

The OSBA School Funding Study Steering Committee strongly encourages the Blue Ribbon Task Force to commission a professional study to develop a process to determine the cost of an adequate education. The process must be data based and focused on the educational needs of students. Such a study would be implemented by the General Assembly.

- Full state funding of the cost of an adequate education resolves many problems associated with the combination of state and local funding that currently exists:
 - Eliminates the local "charge-off"
 - Eliminates reappraisal phantom revenue
 - Eliminates the need for charge off supplement (gap aid)
 - Eliminates the need for excess cost aid
 - Eliminates the need for parity aid

- Full state funding of the cost of adequacy would accomplish three highly desirable policy goals:
 - In no case will the adequacy of any student's education be determined by the value of property in a district or the willingness of voters to pass levies.
 - Any new local levies would be for the purpose of adding or maintaining programs beyond those deemed adequate by the state formula. There would be far fewer levies on the ballot and educators could concentrate on improving academic results, not fundraising.
 - The school funding system would be greatly simplified. Educators, policy makers and voters would make more effective decisions because the system would be understandable and predictable.

Paying for the Cost of Adequacy

- State funding of the full cost of funding an adequate education will be an increased expense to the state beyond current education funding. However, it also means that local school districts will require less local revenue.
- Under current law, every school district is required to levy at least 20 mills for school funding purposes. This proposal would replace 20 local property tax mills in every district with a statewide property tax of 20 mills. This change will not result in net changes in property taxes owed by any voter.
- All local mills passed by voters in each district above 20 mills would remain in the district. The intent of this proposal is that no school district should lose revenue because of it. Depending on the level at which the adequacy figure is set, a small number of districts could lose revenue. If that should happen, it would be relatively inexpensive for the state to hold those districts harmless.
- The 20 mills assigned to the state would not be subject to the HB 920 tax reduction factors. More than 300 districts are currently at the 20-mill floor required by current law. Exempting 20 mills from the effect of HB 920 would not be a change for taxpayers in those districts.
- The mills above 20 that remain in the school districts would continue to be subject to the HB 920 reduction factors, thus providing taxpayers some continued protection against inflation. School districts would be allowed to propose levies to voters that are not subject to tax reduction factors.
- The transfer of 20 mills to the state will give the state \$4.4 billion in new revenue. When this is added to current education spending, there will still be a need for added state spending. The amount necessary will be determined by the adequacy figure determined by the formula. This cost can be simulated.
- Full implementation of this proposal can be phased in over a period of years. This would allow the state to accommodate the change, and local districts would have time to plan to use the funding effectively.
- In funding the cost of adequacy, the state should conduct a thorough review of taxes in Ohio to ensure that all sectors of the economy pay a fair share of the cost of paying for education and state government.
- In particular, this proposal calls for a thorough analysis of the personal tangible property tax. This tax should be reduced or eliminated provided replacement revenue is raised to hold taxing entities harmless. Since the state would now be collecting property tax, it should have a high interest in resolving this problem.
- The tax changes contained in this proposal will require changes in certain provisions of the Ohio Constitution. The proposal calls for the General Assembly to submit the constitutional changes to the voters as part of the implementation of this plan.

School Funding Reform = Economic Development

An adequately funded school system will:

- Develop students into successful members of society
- Develop students into lifelong learners and productive workers
- Develop students into intelligent consumers
- Develop the economy by building a smart, flexible work force
- Develop a high-tech economy that is agile and able to adapt quickly to changes, challenges and opportunities
- Develop a tax climate for business that is fair, profitable, and competitive
- Develop an Ohio that all Ohioans can take pride in

A sound education system is an investment in Ohio's economy and its future.

What About Equity?

This proposal concentrates on the fact that the Ohio Constitution and Supreme Court clearly provide that the state is responsible for providing every child with an adequate education. There will be questions about equalizing spending across school districts. The following points should be considered in that regard:

1. The Supreme Court has ruled that, once adequacy has been achieved by the state system, it is permissible for local voters to tax themselves and provide educational programming beyond what has been determined to be adequate. There is no legal requirement to equalize school district spending beyond what has been determined by the state to be adequate.
2. Over the long term, the funding system contained in this presentation will have an equalizing impact in three ways:
 - Spending beyond the adequacy level is made possible by local millage beyond 20 mills. That millage will be subject to HB 920 and will produce level, not increasing, revenue.
 - The state-funded adequacy figure will grow over time, bringing spending in lower spending districts closer to higher spending districts.
 - When voters understand that the state is fully funding an adequate education, it will be more difficult to pass or renew local levies to fund spending beyond adequacy.

Summary Points

1. Educational adequacy will be fully funded by the state. Every student will have the resources to be successful.
2. The school funding system will be constitutional. All of the objections raised by the Supreme Court are answered.
3. The school funding system will be greatly simplified. Simplicity will increase understanding, and understanding will increase acceptance and support.
4. School districts would focus on planning, managing and using funds effectively rather than raising funds. Educators could concentrate on educating.
5. Economic and social development would be greatly enhanced. Ohio would again be a place where individuals, families and businesses would want to live.
6. This proposal can be phased in over a period of years. A smooth transition can be developed that would achieve the goals of the Task Force and manage the impact on the state.

Caveat

This proposal is intended to be considered and discussed in its entirety. All components of the proposal must be enacted together. It is not a menu from which individual items can be selected.

For more information:

John M. Brandt
Executive Director
Ohio School Boards Association
(614) 540-4000
j_brandt@osba-ohio.org

How the OSBA School Funding Study Draft Proposal Responds to the Questions Raised in Governor Taft's Charge to the Blue Ribbon Task Force

Question #1: What are the major factors that contribute to student academic success and that explain the difference between effective and ineffective school buildings and districts? How should these factors be considered in designing a new financing system?

Response: A fundamental concept in this proposal is the computation of an adequacy figure upon which to base the funding system. The mechanism for the computation must be based on the needs of students and be insulated from politically motivated influence. The mechanism will identify input factors that are present in and contribute to the success of districts in meeting state standards.

Question #2: What should be the mechanism for determining base cost and supplements to base cost sufficient to support academic success for every child? What is the amount and how should it be recomputed over time?

Response: The adequacy mechanism will use successful districts as determined by state standards. These districts will be examined for the presence of specific input factors determined by the use of professional judgment, deleting successful districts that do not have the input factors at certain levels. The adequacy number would be the average per pupil spending of the successful districts that meet the input criteria. Supplements to the adequacy number would be computed for special education, career/technical, disadvantaged and gifted students. Pupil transportation would be funded at 100% of the amount specified in the current state formula.

The adequacy number would be recomputed periodically according to the same mechanism, possibly every four years. The adequacy number for years in between computations would be created by increasing the preceding year by the Bureau of Labor Statistics "Education Consumer Price Index."

Question #3: Should data on student academic achievement be used in designing a funding system? If so, how?

Response: Data on student academic success are an integral part of this funding proposal. Spending in successful districts that also meet certain input criteria is the crucial number that drives the proposal. A major factor in identifying successful districts is student scores on state tests.

Question #4: Should the funding of education continue to be shared between the state and local districts? How should appropriate shares be determined? What tools should be available to local districts to generate the local share? How should the ideas of tax capacity and tax effort be considered?

Response: This proposal states that the funding of an adequate education for every student is a 100% state responsibility. There is no need to determine state and local shares, and there are no tools needed to generate a local share. Every property owner in the state would pay 20 mills in property tax to the state to fund an adequate education just as they do now. Property taxes beyond 20 mills would only be relevant if voters wanted to provide programs beyond those determined to be adequate by the state mechanism.

Under this proposal, public education would continue to be a partnership between the state and school districts. On the academic side, the General Assembly and State Board of Education set general policies and direction. School districts implement those policies and directions and are held accountable to state standards. On the financial side, under this proposal the state would have 100% responsibility for funding adequacy, but local taxpayers would pay 20 mills toward that funding partnership, plus any millage voters wish to pass locally beyond 20. Public education would clearly be a state-local partnership under this proposal.

Question #5: How can the funding system ensure that any assumptions made about local revenue growth in fact reflect true local revenue growth (i.e., eliminating the phenomenon of phantom revenue)?

Response: By making the state responsible for the full cost of an adequate education, changes in local revenue growth no longer affect the adequacy of school funding. Reappraisal phantom revenue is eliminated because there is no longer a local charge-off.

Question #6: If additional state resources are required, how should those resources be generated?

Response: This proposal will require additional state resources. The exact amount required will depend on where the adequacy level is set and upon other changes. A significant amount of new state revenue (\$4.4 billion) will result from the 20 mills of property tax assigned to the state. Additional funding needed by the state to fully fund adequacy will be the responsibility of the General Assembly. The education community would be expected to strongly support measures to provide those funds.

Question #7: How can the state assure stability, adequacy and predictability in financial resources for schools? Should there be special consideration for districts with rapidly growing or declining enrollment or a declining local tax base?

Response: This proposal assures adequacy by requiring an objective mechanism for determining adequacy and having the state 100% responsible for funding that amount. Having a state mechanism to determine adequacy will keep the system stable and predictable. Adequate funding for every student will not be disrupted by changes in local property tax circumstances.

This proposal does not yet address issues of enrollment changes or counting students for funding purposes. However, these are significant issues that can seriously affect the stability of local district funding. They must be included in any school-funding plan.

Question #8: How can the state ensure affordability and predictability in its education expenditures?

Response: The 20 mills of property tax assigned to the state is a solid and predictable revenue source. This proposal protects those 20 mills from shrinking due to tax reduction factors in HB 920. The adequacy mechanism will provide the state with predictability for the funding needs of education. The state will be responsible for the cost of funding adequacy that exceeds the total of current education spending plus the revenue from the 20 mills of property tax. This proposal will be affordable to the state because it can be phased in over a period of years, such as five years.

The affordability of education funding to the state should be addressed by the General Assembly as part of tax reform plans now being widely discussed. When the state tax structure is adjusted to better match the 21st century economy, Ohio will have the capacity to fund education properly.

Finally, the affordability of an education funding proposal must be evaluated in light of the profound positive impact a sound public education has on the economy. An adequate, stable and predictable education funding system will produce a better prepared, more flexible and productive work force, as well as well-paid and intelligent consumers. These results will clearly mean a stronger state economy.

Question #9: To what extent should disparities in expenditures per pupil be allowed to continue?

Response: If the state does a complete objective job of defining adequacy and fully funds adequacy in every district, disparities in funding are no longer a legal or constitutional issue. This interpretation has been confirmed by the Ohio Supreme Court. There will still be inequities, but they will only exist above the adequacy level and will be funded by decisions made by local voters in each school district. Over time, this proposal can be expected to narrow the gap in spending disparities.

Question #10: What is the best way to transition from the current funding system to a new funding system?

Response: A transition period from the current system to this proposal will be extremely important but is clearly doable. There will need to be a period of communication and education to explain the new system because it is significantly different from current practice. A transition to the new system can then be accomplished using a phase-in period of up to five years. It is possible to simulate such a phase-in period to assess the steps that must be taken and the cost impact on the state.