



March 2017

Budget

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# **Kasich budget underfunds education**

Some schools lose  
substantially



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# Introduction

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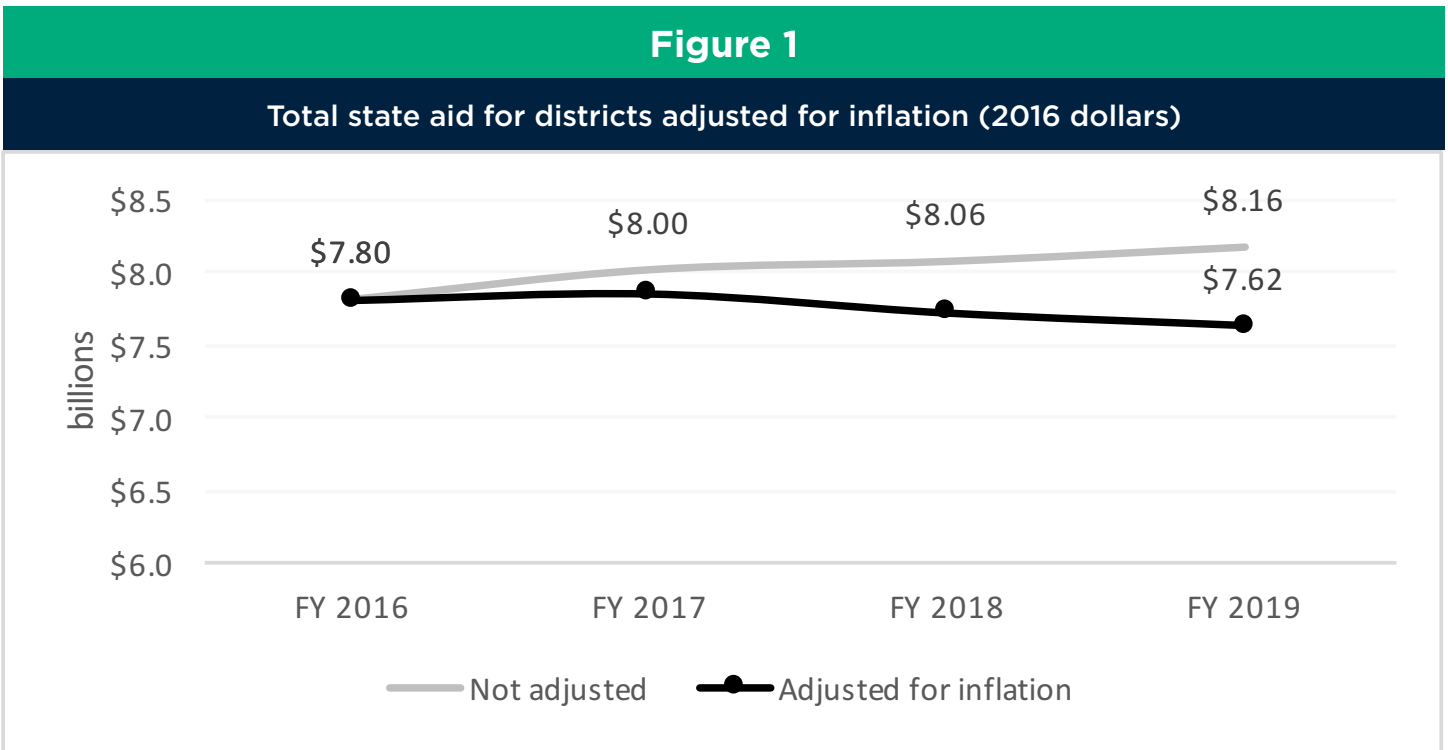
Ohio schools will go backward under Governor Kasich's funding proposal, which does not keep up with inflation. Funding for the Ohio Department of Education from all state sources, including the General Revenue Fund, casino revenues and tax reimbursements, increases by just 3.2 percent in the governor's proposal for fiscal years (FYs) 2018 and 2019 compared with the current, two-year budget, below the level of inflation projected by the Ohio Legislative Service Commission.<sup>1</sup> This means Ohio's schools will not be able to maintain even current levels of service, let alone restore services lost over the past decade. Further, many schools face an actual loss of funding due to other policy changes.

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<sup>1</sup> Ohio Legislative Service Commission House Bill 49 Budget in Detail. <http://www.lsc.ohio.gov/budget/mainbudget.htm>

# State aid to school districts falls

Not all of the Ohio Department of Education’s budget goes directly to schools for basic education. There are special purpose funds, grant funds and administrative funds that support the statewide system. Funds that go directly to districts for basic education include foundation funding and the Tangible Personal Property (TPP) tax reimbursement and supplement, which are state reimbursements for a local property tax the state abolished in the past decade. These funds increase even less than overall General Revenue funding for K-12. The Governor’s 2-year budget for fiscal year 2018-19 increases by just 2.6 percent over the current 2-year budget for 2016-17.<sup>2</sup> Adjusted for inflation, Ohio’s schools actually lose \$180 million dollars by fiscal year 2019 compared to funding in fiscal year 2016. All future references to years are for fiscal years.



<sup>2</sup> Ohio Legislative Service Commission Spreadsheet, “Governor’s Proposal School District Total Funding with FY16”. All years reported are fiscal years.



Total state aid for districts rises by just 0.71 percent from fiscal year 2017 to 2018, and just 1.2 percent from 2018 to 2019. Not only does inflation erode purchasing power, but almost two-thirds of all school districts (390 districts) lose actual funding, even before considering inflation.<sup>3</sup> This is because of new policies that affect foundation funding as well as continued phase-out of tax reimbursements.

### **Foundation funding**

The majority of state funding for school districts comes from foundation funding, which is based on a formula that considers a district's ability to raise revenue for education and student demographics. Foundation funding (net of the tangible personal property tax reimbursement) goes up by 1.8 percent from 2017 to 2018 and 1.6 percent from 2018 to 2019. The governor's budget cuts foundation funding for 346 out of 610 districts.<sup>5</sup>

### **State aid to school districts**

The Ohio Constitution requires the state to provide a thorough and efficient system of common schools throughout the state. A quality education requires robust funding. The state has never determined the true cost of educating students and then allocated that amount. Funding determinations and the formula are arbitrary. When funding is low and district budgets are tight, districts cut back on teachers, non-teaching staff, extracurricular activities and courses. Ohio has already been losing educators even with declines in student enrollment taken into account. A recent Policy Matters report found Ohio lost 3,200 music, art and gym teachers, librarians, and school counselors between 2005 and 2015.<sup>6</sup>

### **Changes in this proposal**

Ohio schools are underfunded in this budget proposal for several reasons. The main cause is per pupil funding amounts in the foundation formula. The Governor's budget proposal makes several changes to the formula that harm districts. It hurts districts with enrollment declines, further caps funding increases, freezes per pupil funding and decreases state aid for transportation.<sup>7</sup>

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<sup>3</sup> Ohio Legislative Service Commission (LSC) Spreadsheet "Governor's Proposal School District Total Funding with FY16"

<sup>4</sup> *ibid.*

<sup>5</sup> Ohio LSC Spreadsheet "Governor's Proposal School District Foundation Funding with FY2016"

<sup>6</sup> Victoria Jackson, "Number of Ohio's Vital School Professionals Dwindling" (Policy Matters Ohio, December 2016), <http://www.policymattersohio.org/k-12-report-dec16>

<sup>7</sup> "Primary & Secondary Education FY2018-19 Ohio School Foundation Funding Formula Simulation" (Office of Budget and Management, January 2017.), [http://www.obm.ohio.gov/Budget/operating/doc/fy-18-19/SchoolFunding/FY18-19\\_Foundation\\_Formula.pdf](http://www.obm.ohio.gov/Budget/operating/doc/fy-18-19/SchoolFunding/FY18-19_Foundation_Formula.pdf)



Additionally, districts are harmed by reductions in the Tangible Personal Property (TPP) tax reimbursement and supplement. The TPP supplement was implemented with House Bill 64 for 2016, so districts would not lose TPP reimbursement funding.<sup>8</sup> When factored in, this causes 390 districts to lose funding, even before inflation is considered.<sup>9</sup> In 2005, the state abolished the TPP tax on capital equipment, machinery, furniture and fixtures. Lawmakers replaced the loss of local funding with the TPP reimbursement. Initially, the General Assembly committed to reimburse districts for this loss of local funding permanently but they've since gone back on that promise. House Bill 153 removed the guarantee of funding and began the phase-out of reimbursements. This hurts districts in areas with heavy industry. The TPP supplement is eliminated in 2018.<sup>10</sup>

### **The cost of charters and vouchers**

Funding loss from charter schools and vouchers also strains school districts. The governor's budget would give charter schools nearly \$2 billion in funding that otherwise would have gone to school districts which educate the vast majority of school children.<sup>11</sup> The poor performance of charter schools – especially e-schools<sup>12</sup> – makes it clear this money would be better spent in public school districts.<sup>13</sup> The charter industry has been plagued by mismanagement and poor academic outcomes.<sup>14</sup> Vouchers give students public money to attend private schools. Students who use vouchers have worse academic outcomes than their peers who continue with public school.<sup>15</sup> Despite worse academic outcomes, vouchers have been allocated even more money in this proposal through the EdChoice Expansion program.<sup>16</sup>

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**8** "HB64 TPP Supplement | Ohio Department of Education (ODOE)," accessed March 30, 2017, <http://education.ohio.gov/Topics/Finance-and-Funding/School-Payment-Reports/State-Funding-For-Schools/Traditional-Public-School-Funding/HB64-Tangible-Personal-Properties-Supplement>.

**9** Ohio Legislative Service Commission Spreadsheet Governor's Proposal School District Total Funding with FY16

**10** Ohio Legislative Service Commission, "LSC Analysis of H.B. 153 129th General Assembly (As Passed by the General Assembly)," <http://www.lsc.ohio.gov/analyses129/11-hb153-129.pdf>.

**11** LSC spreadsheet Governor's Proposal – HB 49 as Introduced – Community School Funding FY17-FY18

**12** Patrick O'Donnell. "State Can Try to Make ECOT Online School Return Money, Judge Rules," Cleveland.com, accessed March 29, 2017, [http://www.cleveland.com/metro/index.ssf/2016/09/state\\_can\\_try\\_to\\_make\\_ecot\\_online\\_school\\_return\\_money\\_judge\\_rules.html](http://www.cleveland.com/metro/index.ssf/2016/09/state_can_try_to_make_ecot_online_school_return_money_judge_rules.html).

**13** "Charter School Performance in Ohio" (Center for Research on Education Outcomes, December 18, 2014), [https://credo.stanford.edu/pdfs/OHReport12182014\\_FINAL.pdf](https://credo.stanford.edu/pdfs/OHReport12182014_FINAL.pdf).

**14** "2015-2016 Annual Report Ohio Community Schools" (Ohio Department of Education, December 31, 2016), <http://education.ohio.gov/getattachment/Topics/Community-Schools/Annual-Reports-on-Ohio-Community-Schools/2015-2016-Community-School-Annual-Report.pdf.aspx>.

**15** Martin Carnoy, "School Vouchers Are Not a Proven Strategy for Improving Student Achievement" (Economic Policy Institute), February 28, 2017 <http://www.epi.org/publication/school-vouchers-are-not-a-proven-strategy-for-improving-student-achievement/>

**16** Office of Budget and Management, "The State of Ohio Executive Budget Fiscal Years 2018-2019." [http://obm.ohio.gov/Budget/operating/doc/fy-18-19/FY18\\_19\\_Budget\\_Recommendations.pdf](http://obm.ohio.gov/Budget/operating/doc/fy-18-19/FY18_19_Budget_Recommendations.pdf)

# Districts affected differently

Because funding is based on a formula, districts are affected differently by the budget proposal. Most districts are cut, a few are flat-funded, and some are increased. Ohio’s K-12 system is underfunded. The formula is not based on the actual cost of educating Ohio’s children, so increases in funding rarely meet needs and decreases in funding are especially harsh. In response to the Ohio Supreme Court repeatedly finding that Ohio’s school funding system was unconstitutional, the state created a somewhat more progressive funding formula that provides more funding for poorly resourced districts than well-resourced districts. Although the courts no longer oversee this matter, changes in the formula have not fixed the unconstitutionality of the system built on local property taxes.

We see the progressivity of the formula when we consider the percentage of students in poverty in a district and district typology. The Ohio Department of Education groups all districts into eight typologies, a standardized grouping of districts by geography and poverty rate. The average state aid per pupil columns in Table 1 and Table 2 show that lower poverty districts receive less state funding because they are able to generate more resources locally.<sup>17</sup>

Table 1							
Percent change in state aid to districts for fiscal year 2018-19 budget and average state aid per pupil by percentage of students in poverty							
Percentage of students in poverty	% Change in State Aid FY17 to FY18	% Change in State Aid FY18 to FY19	% Change in State Aid FY16-17 to FY 18-19	Average State Aid Per Pupil FY16	Average State Aid Per Pupil FY17	Average State Aid Per Pupil FY18	Average State Aid Per Pupil FY19
75% - 100%	3.2%	2.0%	6.0%	\$7,589	\$8,049	\$8,177	\$8,302
50% - 74%	1.5%	1.4%	4.2%	\$6,085	\$6,349	\$6,344	\$6,388
25% - 49%	-1.0%	0.6%	0.1%	\$4,782	\$4,928	\$4,830	\$4,839
0% - 24%	-3.0%	0.2%	-2.7%	\$3,236	\$3,307	\$3,182	\$3,176

Source: Policy Matters Ohio, Legislative Services Commission governor’s proposal with school district total funding with fiscal year 2016; total state aid funding includes foundation funding and TPP reimbursement and supplement

<sup>17</sup> “15 Years - No School-Funding Fix,” The Columbus Dispatch, March 25, 2012, <http://www.dispatch.com/article/20120325/NEWS/303259727>.



Changes in funding vary based on the percentage of students in poverty. Table 2 (on the following page) shows that overall, the lowest poverty districts have had funding cut and the highest poverty districts have the largest percent increase. This makes sense.

Reviewing total state aid by district typology reveals both expected and unexpected outcomes.

- Suburban districts with low and very low poverty get the smallest amount of state aid, and the smallest increases in the proposed budget for 2018-19. This makes sense.
- Small towns with low poverty, as a group, see a decline in aid, although state aid per pupil is much higher than in suburban districts of low poverty. Small towns with high poverty see an increase in funding per pupil, which makes sense.
- State aid declines in rural districts with average poverty and with high poverty. These districts, which often struggle financially, face a nearly 2 percent cut from 2017 to 2018.
- Urban districts with high or very high poverty see increases in state funding.

The outcomes by typologies show averages. In truth, many individual districts lose funding.

Districts with more students in poverty and fewer resources need more funding from the state, and we see movement in that direction in the Governor's budget. At the same time, nearly two-thirds of all districts face actual losses.



**Table 2**

**Percent change in state aid to districts for fiscal year 2018 and 2019 and average state aid per pupil by district typology**

District Typology	% Change in State Aid	% Change in State Aid FY18 to FY19	% Change in State Aid FY16-17 to FY 18-19	Average State Aid Per Pupil FY16	Average State Aid Per Pupil FY17	Average State Aid Per Pupil FY18	Average State Aid Per Pupil FY19
6 - suburban, very low poverty	-2.3%	0.9%	-1.9%	\$2,093	\$2,091	\$1,964	\$1,966
2 - rural, average poverty	-1.9%	0.0%	-0.6%	\$6,246	\$6,549	\$6,400	\$6,401
1 - rural, high poverty	-1.7%	0.1%	-0.6%	\$6,262	\$6,537	\$6,422	\$6,428
3 - small town, low poverty	-1.6%	0.1%	-1.1%	\$4,344	\$4,432	\$4,346	\$4,345
5 - suburban, low poverty	-0.8%	1.1%	0.4%	\$2,912	\$2,935	\$2,869	\$2,889
4 - small town, high poverty	1.1%	1.0%	3.1%	\$5,434	\$5,659	\$5,700	\$5,751
8 - urban, very high poverty	3.3%	1.6%	5.6%	\$6,983	\$7,256	\$7,480	\$7,611
7 - urban, high poverty	3.5%	3.0%	7.7%	\$5,836	\$6,138	\$6,300	\$6,455

Source: Policy Matters Ohio based on Legislative Service Commission governor's proposal with school district total funding w FY16; total state aid funding includes foundation funding and TPP reimbursement and supplement

# Wealthier districts spend more per student

State funding per pupil is not an indication of which districts spend the most per pupil. Local funding, based primarily on property taxes and sometimes income taxes, impacts resources available to communities for education. School district budgets include federal funds as well.

Students in districts with lower funding from the state are not being shortchanged. Affluent districts can provide more funding, and they do. Research shows that schools in higher poverty areas need to spend more per student than wealthier districts to achieve the same outcomes.<sup>18</sup>

Table 3	
Average per pupil spending FY 16 from state and local funding sources by percent poverty of a district	
Percentage of students in poverty	Average expenditure per equivalent pupil FY16 <sup>19</sup>
75% - 100%	\$8,685
50% - 74%	\$8,517
25% - 49%	\$8,681
0% - 24%	\$9,636

Source: Policy Matters Ohio based on Ohio Department of Education School Report Card Financial Expenditures Expanded list (2015-2016); per pupil spending includes state, local and federal funding

As Table 3 shows, districts with the lowest percentage of poor students spend the most per pupil. When per pupil funding is viewed by typology in Table 4, suburban very low poverty districts have the highest per pupil expenditure. The inequity in funding is troubling, but even more so because research shows low-income students need more resources than more affluent students. State aid is helpful in urban districts that are very high poverty, which spend second most. However, high poverty urban districts and high poverty small towns spend the least per pupil.

<sup>18</sup> USDOE, For Each and Every Child—A Strategy for Education Equity and Excellence, Washington, D.C., 2013. <https://www2.ed.gov/about/bdscomm/list/eec/equity-excellence-commission-report.pdf>

<sup>19</sup> Expenditure per equivalent pupil uses weighted average daily membership used (number of students). The weighted student factors are economic disadvantage, special education, and English language learner. Weighted ADM was used because it takes into account the cost of educating students with additional challenges

Table 4	
Average per pupil spending FY 16 from state and local funding sources by district typology	
District Typology	Expenditure per Equivalent Pupil FY16
6 - suburban, very low poverty	\$10,840
8 - urban, very high poverty	\$9,952
5 - suburban, low poverty	\$9,363
2 - rural, average poverty	\$8,698
1 - rural, high poverty	\$8,586
3 - small town, low poverty	\$8,543
4 - small town, high poverty	\$8,120
7 - urban, high poverty	\$7,756

Source: Policy Matters Ohio based on Ohio Department of Education School Report Card Financial Expenditures Expanded list (2015-2016); per pupil spending includes state, local and federal funding

Disparities in funding can be much greater than what is reflected in Table 3 and 4. For instance, in 2016, Orange City Schools, an affluent, predominantly white but fairly diverse district, spent the most in the state with total funding – local, state and federal - at \$17,571 per pupil; North College Hill City, a high-poverty predominantly black school spent the least, at \$6,317. These disparities can be seen across the state. Indian Hill a suburban, very low poverty district spent \$15,797, while the rural, high poverty district of Wapakoneta spent \$6,618, and Columbus, an urban, very high poverty district spent 9,845.<sup>20</sup>

All children need well-funded schools, and schools in low-income areas need more funding than schools in more affluent areas. Research consistently shows that because of the challenges poverty imposes, students in districts with high poverty rates require more in-school supports.<sup>21</sup> When funding is sufficient to support additional resources, students who experience poverty have outcomes similar to students in wealthier areas.<sup>22</sup> A system that earnestly tried to ensure student and community success would robustly fund public schools and provide more funding for the most vulnerable children.

<sup>20</sup> Ohio Department of Education School Report Card Financial Expenditures Expanded list (2015-2016) <http://reportcard.education.ohio.gov/Pages/Download-Data.aspx>

<sup>21</sup> “Charter School Performance in Ohio” (the Center for Research on Education Outcomes, December 18, 2014), [https://credo.stanford.edu/pdfs/OHReport12182014\\_FINAL.pdf](https://credo.stanford.edu/pdfs/OHReport12182014_FINAL.pdf).

<sup>22</sup> U.S. Department of Education, For Each and Every Child—A Strategy for Education Equity and Excellence, Washington, D.C., 2013.

# Recommendations

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K-12 education is underfunded in the Governor’s budget proposal. All districts, regardless of their ability to fund education locally, rely on state funds to educate children in their community and the state should invest at a level that at least keeps pace with inflation. Inflation erodes the purchasing power of funding. This is complicated by changes in the funding formula and reductions of reimbursements and supplements. School districts cannot provide the education students need when they are receiving less money.

To better fund school districts in this budget, additional funding should be added to the budget. Lawmakers need to fully cover inflation, so school districts do not have to cut services. Enough funding should be allowed to increase investment across the system. Further, a set of changes to the funding formula should be made:

- Increase per pupil funding in the foundation formula
- Modify reductions in funding for districts with greater than 5 percent enrollment declines from 2011-2016
- Restore the funding increase maximum from 5 percent in the current budget to the 7.5 percent maximum in the previous budget
- Increase funding for formula components that help low-income districts

For a more sustainable and equitable funding model, the state should determine the real cost of educating students and provide additional funding for students in low-income communities. School districts cannot do more with less and neither can the state. Ohio needs to boost tax revenue, so K-12 education can be appropriately funded.<sup>23</sup>

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<sup>23</sup> Zach Schiller, “Testimony to the House Ways & Means Committee on House Bill 49 | Policy Matters Ohio,” <http://www.policymattersohio.org/hb49-testimony-march17>.

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