



Funding Public Education in Ohio: the Problem Revisited

LWVCA last examined the problems surrounding the way Ohio funds its public schools in April 2000. At that time, we emphasized that the subject is extremely complex, as the State and its localities are responsible for financing 614 school districts, 3,900 school buildings, and 1.7 million public school students. Unfortunately, the complexities have not been made any easier. Ohio's Governor Ted Strickland, elected in November 2006, has promised to introduce a plan in 2009 that would reform Ohio's funding mechanism. He presented his plan in his "State of the State" address in late January. Because of his firm stance, there has been a flurry of activity in the area of school funding. In our March unit meetings, we'll take a look at what's being proposed both in funding and in what the expectations should be for our public schools.

BACKGROUND

Ohio's Constitution states simply that the Legislature shall provide a "thorough and efficient system of common schools throughout the state." It is silent both on the definition of what constitutes a "thorough and efficient system of common schools..." and on how they are to be financed. Traditionally Ohio has shared the burden with local school districts through a combination of state subsidies and local property taxes.

In December 1991 a complaint was filed in Perry County Court of Common Pleas. The plaintiffs, Nathan DeRolph and five school districts, sued the State claiming that Ohio's method of funding public education was unconstitutional. In July, 1994, Judge Linton Lewis ruled for the plaintiffs (who numbered about 500 school districts by this time). He determined that Ohio's system of funding public education violated Section 2, Article VI of the Ohio Constitution, which requires the state to provide a "thorough and efficient system of common schools throughout the state." Judge Lewis's decision was overturned by the Fifth District Court of Appeals, forcing the plaintiffs to the Ohio Supreme Court. On March 24, 1997, in a 4-3 decision, the Ohio Supreme Court declared that Ohio's funding system was indeed unconstitutional. The court gave the Legislature one year to

remedy the situation. There were four major findings:

The Foundation Program (State Basic Aid): The General Assembly determined a funding level based on how much money was available for education. The Court said that they should determine how much is needed for this purpose and then should fund it.

Local Property Tax: Emphasis on local property taxes to fund schools creates inequities among the districts. As a result, some districts have much more money to spend than others do.

Borrowing: The state cannot force school districts to borrow money to stay open.

School Facilities: The state does not provide sufficient assistance to school districts for construction and maintenance of school buildings. DeRolph et al., Appellees, v. The State of Ohio et al., Appellants. [Cite as *DeRolph v. State* (2000) 88 Ohio St.3d__.]

The State did meet some of the challenges of the Ohio Supreme Court with new legislation. Funds for facilities came from several sources:

1. the "Tobacco" settlement,
2. a constitutional amendment that allowed the state to issue bonds for the purpose of public school and university building projects,
3. and a temporary increase in the state Sales Tax. These funds were set aside to enable districts that provided some matching funds to renovate or replace their aging buildings.

To address the financial problems of local districts, Substitute HB 412 (Cates) was passed; it increased the role of the state in monitoring the fiscal operation of school districts. HB 412 established a school District Solvency Assistance Fund to provide state advancements to financially troubled school districts enabling them to remain solvent. This act also required every school district to set aside a portion of their annual revenue in a Budget Reserve Fund (5%), a Capital and Maintenance Fund (4%), and a Textbook and Instructional Materials Fund (4%).

However, funding reform advocates insist that two of the findings of the Court still have not been addressed adequately. First, Ohio still has not developed an accountable method of determining how much it costs to provide each student with a good education. After the Court handed down its mandate, the State hired Dr. John Augenblick, an expert in school finance, to determine the cost of a basic education. He did develop a system and came up with a range of figures. However, the General Assembly made three changes to his approach which resulted in lower base cost figures. Second, many argue that the State still has not assumed its proper burden in the funding of its public schools. As a result, the local districts, through property tax levies, must provide a significant percentage of the total cost of educating their students.

Because of the enormous differences in property wealth throughout Ohio, this system leads to inequitable treatment of students, as some districts' wealth permits them to raise more money for education than other districts can raise at the identical millage level. The following chart, excerpted from *The Cincinnati Enquirer*, December 19, 2008 edition, highlights the differences in millage yields in some Hamilton County districts:

“What 1 Mill Gets You”

<u>District</u>	<u>County</u>	<u>One student's share of 1 mill</u>
Indian Hill	Hamilton	\$585.49
Princeton	Hamilton	\$359.30
Sycamore	Hamilton	\$318.22
Three Rivers	Hamilton	\$218.18
Mariemont	Hamilton	\$204.01
Cincinnati	Hamilton	\$168.56
Northwest	Hamilton	\$165.75

It is discrepancies such as those listed above that led to the verdict that the State's system of relying on local property taxes leads to inequitable results that are inherently unfair to children in public schools.

Adding to the problem is HB 920, which was passed in 1976. Its premise is to curtail the automatic rise of property taxes as the assessed value of real property increases. At that particular time, property values were increasing at an extremely

rapid pace, and the Legislature took the position that the automatic increases in the tax rates that came with the rising assessed values constituted an unvoted tax. The solution was to restrict the income school districts would receive from a levy to the exact dollar amount approved by the voters. As property values rose, millage would be rolled back to ensure that the dollar amount collected from property taxes did not rise. This worked well for property owners, but it stymied the flow of income to school districts as their costs continued to increase. Districts resorted to requesting new and renewed levies with increasing frequency in order to meet their rising costs.

WHAT DO WE WANT FROM OUR PUBLIC SCHOOLS?

The Ohio Constitution's charge to the Legislature to provide for a “thorough and efficient system of common schools” left the task of determining what should be taught and learned in those schools to the Legislature, which in turn created a State Board of Education to address that issue. Additionally, each school district has its own Board of Education to do the same for its district. Moreover, there are professional organizations, parent groups, various advocacy groups, etc., all of which have ideas of what needs to be taught in our public schools.

The Supreme Court's decision was easily (albeit expensively) met on the facilities side. The justices stated that “An *efficient* system means one in which each and every school district in the state has an ample number of teachers, sound buildings that are in compliance with state building and fire codes, and equipment sufficient for all students to be afforded an educational opportunity.”

But what about “thorough”? The Court said simply, “A *thorough* system means that each and every school district has enough funds to operate.” Because of the Court's charge that the State should make a legitimate effort to determine what the actual cost of educating a student might be, educators and legislators alike have turned their attention to the problem of what should comprise a “basic” (thorough) education in the 21st century and how we can measure our success or need for improvement. If agreement can be reached on that curriculum, perhaps a basic cost to provide it could be ascertained.

Much discussion has gone into the question of what our schools should provide in the way of

education/preparation/training. One group, the State Board's Subcommittee for Education in the Global Economy (EDGE), developed a list of skills, knowledge, and behavior that students will need in the 21st Century world: (1)

- Critical thinking, problem-solving skills, and applied knowledge for practical results.
- Mastery of rigorous academic content, especially in literacy, mathematics, and information technologies
- Innovative and creative thinking, including entrepreneurial skills.
- Communication skills, both oral and written.
- Team learning and work, relationship building, and interpersonal social skills.
- Alignment of education with the needs of economic development, including better communications and cooperation between educators and business people
- Personal responsibility, including good work habits, work ethic, knowing how to be flexible and continue learning, and financial literacy
- Global awareness, languages, and understanding other cultures (including history, economics and geography)
- Communications and better interfaces between K-12 public education and post-secondary/higher education to make high school graduates better prepared for the next stages of their education and lives.
- Teacher education, preparation, and professional development to support content mastery and skill development, including applied learning (or problem-based learning) across disciplines in a global context.

In June 2008, Governor and Mrs. Strickland hosted the Institute on Creativity and Innovation in Columbus. Participants were asked "What is the purpose of Public Education in our democratic society for the 21st Century?"(2) Some of the participants' responses were as follows:

— Rooms with walls. Educators without fear. Children without limits.

— Provide an equal opportunity for students to become global citizen-learners who are flexible, adaptive, and have a desire to make regenerative contributions.

— Prepare students to be lifelong learners, who are compassionate and lead fulfilling lives.

— Develop and prepare the "whole person" to think, create, and contribute.

— Develop the whole brain of every student. This includes academics, the arts, character education, technology, and as many experiences as possible.

— Foster the individual potential of children while empowering them as critical thinkers within a global society.

In the summer and fall of 2008, the Governor hosted eleven "Conversations on Education" at various locations throughout Ohio. The format included a discussion at a TV station with an invited live audience to iterate what we want our public schools to accomplish. Citizens were urged to watch this segment and then participate afterward in formal discussion of the issues that were raised. Comments from the discussion groups were then forwarded to the Governor's Office. About 3,000 comments were collected, and from these, approximately ten themes emerged: (3)

- Quality teaching – professional development, teacher preparation, tenure and promotion, etc.
- Structural issues – class size, school year, school day, etc.
- Standards and assessments – testing reform, multiple assessments, district report cards, etc.
- Business and community involvement – mentorships, internships, and opportunities for collaboration, etc.
- Individualized Learning
- Curriculum – arts, music, PE, foreign languages, senior projects, service learning, etc.
- Whole child
- Parental involvement
- Interdisciplinary learning
- Support staff – librarians, nurses, social workers, etc.

Many professional education groups, citizens' groups, and business groups have outlined what a "quality" (thorough) education should include, and in most cases, the groups tend to echo each other. If ever there is consensus on the issue of what our public schools should be doing, the next question becomes...

HOW SHOULD WE FUND OHIO'S PUBLIC SCHOOLS?

Because Governor Ted Strickland has been so forthright in asserting his "platform" of improving Ohio's public education system and the methods by which it is funded, hopes for systemic reform have become quite high throughout the state in recent months. However, those hopes are shadowed by the unpleasant knowledge that the whole country is in a deep economic recession at present. Ohio's economic outlook is bleak as well, as unemployment rises and general tax revenue — both actual and projected — continues to decline.

Governor Strickland thus far has said that education funding will not suffer the cuts that other State services have had to shoulder. However, many think that this position will have to yield, and that funds for public education will shrink as have funds for other services provided by the State.

In addition to the Governor's eleven "Conversations" that were held in the summer and early fall of 2008 to get feedback on what Ohio's schools should provide, additional "Conversations" were held in the late fall to garner ideas on funding the schools. In Cincinnati, the TV "Conversation" was held on December 19; invited audience members were asked to respond to the following questions:

- ▷ Should innovations be part of our funding system? Examples of innovations are making teacher quality an emphasis of funding, increasing learning times, and all day kindergarten.
- ▷ How should we balance our desire for a simple school finance system with the flexibility that would help meet every child's needs? How can we create a system that is understandable and provides fiscal accountability?
- ▷ How do we make this funding system easy to understand?
- ▷ Since local residents are the backbone of local funding, how can the state create a fair system for funding schools when the resources available to our schools vary tremendously?
- ▷ If a child lives in a community where there are clear barriers to learning, should the state increase its support for his/her school even more than it already has?
- ▷ Should we reward successful school districts with additional funds, or should we provide additional resources to districts that need help catching up?
- ▷ How can Ohio create a more fair system of school funding?
- ▷ Should we change our funding system to make revenue more stable and predictable?
- ▷ What do our schools need to develop a sustainable budget?

Presumably responses to these questions will be woven into the Governor's proposal. Stay tuned for more information.

Meanwhile, other groups and some Legislators have put forth their ideas. Last April, at the LWVO Statehouse Day, Representatives Stephen Dyer and Representative Mark Okey each presented school funding legislation that he is developing.

Rep. Dyer. His plan includes elements from the school funding systems of New Mexico, Iowa and Indiana. Mr. Dyer thinks we should examine the diversity of Ohio's districts (student demographics, geography, level of poverty, etc.) and use that information to develop a system that reflects the needs of the individual students and their districts. New Mexico's plan is considered to have a high level of equity and allows a fair amount of autonomy for local districts; Iowa provides a high level of state support; Indiana controls the rate of property taxes through a State Board of Tax Commissioners, and sets a maximum local tax level for school districts. Local school budgets are approved by local school boards in Indiana and are not subject to local voter approval. Individual school districts should be allowed to seek additional funding through local property tax ballot initiatives.

Rep. Okey. 1. Make public education funding a separate line item in the state budget; all money in that line item shall be used exclusively for funding public education in Ohio. Charter schools and vouchers would not be included in this line item. 2. Maintain current public education funding levels. 3. Create a state income tax for public schools. 4. The state shall collect all revenue from the income tax for public education and allocate it entirely to the public education line item in the budget. 5. The state shall identify all revenue from the income tax for public education attributable to individual school districts and shall report same to the appropriate county auditor. The auditor shall convert same to millage, and roll back real property taxes collected for education accordingly. 6. Eliminate the estate tax. 7. Establish an income threshold, below which no income tax for public education would be applicable. Exempt all person 65 years of age or older and/or disabled from this income tax. 8. Equitably distribute money in the public education line to individual school districts based on a formula reflecting the per pupil cost of an adequate and efficient public education Ohio.

The School Funding Subcommittee of the Ohio State School Board devoted numerous committee meetings and hours to developing a funding system proposal that meets Ohio's public education funding needs. In their initial draft report (released in early 2008), they divided their work into six component pieces:

COMPONENT 1: How much is needed? For what? By whom?

The subcommittee determined that answers to these questions should be examined in four sub parts:

Base cost: The per pupil funding defined as the amount to support the educational needs of a typical student under typical circumstances.

Supplemental funding based on meeting student needs beyond regular classroom (students with disabilities, economically disadvantaged, limited English, gifted, etc.)

Equity funding: mechanisms that provide additional money to compensate for a district's relative inability to generate its own resources to achieve both financial equity and equity of access to high quality educational opportunity.

Guarantees and protection mechanisms: provide additional funds to buffer districts from the impact of significant changes in circumstances of policy that require some period of adjustment (ideally a short period).

COMPONENT 2: What tools should local districts have available to them to raise the local share of funding and what rules apply? Replacing local property tax revenue would necessitate raising \$8.5 billion at the state level for distribution to local districts. This idea is not popular with the public nor with legislators. Thus, it would appear that Ohio will always have to rely on some amount of local revenue for schools. The Subcommittee suggests making adjustments on the millage process for raising revenue.

COMPONENT 3: How should the fiscal responsibilities be divided? The Subcommittee points out that greater state involvement can result in greater equity, since the state can play a substantial distributive role. Moreover, greater state involvement can lead to more resources being targeted to students with the greatest needs. However, as long as the local districts are expected to provide some local revenue, a mechanism is needed to define for each district the amount of money expected to be contributed from local sources.

COMPONENT 4: What are the tools and rules to generate the state contribution? This is not a simple issue. What specifically will be "purchased" with additional dollars? What will be better if funding is increased? What will the return on investment be? What is the capacity for those receiving the dollars to use them effectively and efficiently? How can waste be eliminated? What happens if results do not materialize? One proposal would designate a percentage of several of the largest taxes of the state (income, sales, corporate activities) to a special fund dedicated to education. This would allow the funding amounts available for education to grow at the rate of growth of the various earmarked tax sources.

COMPONENT 5: How do we ensure that all money is being used to achieve the best results? Ohio needs to take a three-pronged approach to ensuring the effective use of financial resources:

1. the state needs a better system for measuring the efficient and effective use of resources;
2. the state needs mechanisms to better assist districts in identifying the causes of inefficient or ineffective use of resources;
3. the state needs to improve the technical assistance provided to districts in the interest of making improvements in these areas. Every district should have a commitment to continuous improvement, regardless of its academic standing. Districts need to have greater certainty about how much money they will have available to them during the fiscal year. Perhaps funds should be distributed incrementally based on demonstrated capacity for improvement.

COMPONENT 6: What incentives, rewards and consequences should there be? Currently, state funding flows to good and bad school districts alike. While the state does have some measures in place to identify places that are not performing well, there are few financial consequences. Moreover, there are not financial rewards for districts that are performing well. Would financial penalties to poor-performing districts hurt the children more than anyone? Is that what we want? How can a district improve if it's given fewer dollars?

Other Ideas. Other "fixes" to our funding system also have proponents.

— One group advocates that the Legislature adopt some method of "costing out" what is necessary financially to provide an adequate education for Ohio's public school students. There are several methods for doing this, but basically they

all lead to one conclusion: a significant increase in state funding is required. Beyond that, the suggested remedies vary widely.

— Should the Legislature make some adaptation to HB 920 that would allow property taxes to rise automatically as property values appreciate? This approach would bring in more tax dollars as assessed values rise; how it would be perceived by legislators or property owners isn't known at this time, as the idea has not been introduced in Ohio's Legislature.

— HB 42 (Stewart) was introduced in 2007 and assigned to the House's Finance and Appropriations Committee. The Committee heard testimony on the bill in December 2008, but it has not moved further. HB 42 would establish a bipartisan committee to recommend to the General Assembly a system that provides state funds to pay 100% of the cost of providing a thorough and efficient education to each public school student and requires the Department of Education to report certain school funding information to parents and taxpayers of each school district.

Ohio is not the only state that has had to grapple with this problem. Indiana, Kentucky, and Michigan have also been under pressure to reform their systems. The following is a *very* brief synopsis of how each of these states now funds its schools:

KENTUCKY

(Condensed from a paper by Sheila E. Murray, University of Kentucky)

In 1989, Kentucky's Supreme Court ruled that the state's "entire system of schooling/financing, governance and curriculum was unconstitutional." In response, the Legislature passed the Kentucky Education Reform Act (KERA) of 1990. They put together a revised funding formula, Support Education Excellence in Kentucky (SEEK), increased the state's foundation grant, adjusted other grants and property assessments so that poorer districts receive a larger share of state aid, and changed the formula so that funding is calculated on a per-pupil basis.

Kentucky has 176 local school districts. Each local district must produce 30 cents per \$100 of assessed property valuation in order to participate in SEEK. They may raise those revenues through any combination of property tax, motor vehicle tax, and three optional taxes. They may exceed

the required minimum under a system that limits local support.

Districts must levy a five cent equivalent tax to take part in the School Facilities Construction Commission (SFCC) program. The SFCC provides revenue for debt service for new facilities or major renovation.

Basic Support Program. This is a minimum foundation program that guarantees an amount of revenue per pupil for operating and capital expenditures of local school districts. Districts may exceed that minimum according to a two-tier program. There are three components in the SEEK system:

Adjusted Base Guarantee. This guarantee is adjusted by several factors: transportation needs of the district, number of exceptional children, number of at-risk students, and ADA students served in a home or hospital.

Tier 1. Allows districts to generate additional revenue up to 15% of the adjusted base guarantee. The local effort is equalized at 150% of the state-wide average of pupil assessed property valuation. The local tax is levied by the school board and is not subject to a recall by voters.

Tier 2. Allows districts to generate up to 30% above the adjusted base guarantee and Tier 1 funds. These funds are not equalized by the state and the tax must be approved by the voters.

State Share: The state provides each district the sum of the adjusted base guarantee minus the required local share plus the Tier 1 state equalization.

Local Share: All local districts must levy a minimum equivalent tax rate of 30 cents per \$100 of property assessment to participate in the SEEK program. Property is assessed at 100% of fair cash value. The local Tier 1 effort is share of the equalization level from local assessment per pupil times the total Tier 1 revenue.

There is additional state aid for various categories, e.g., transportation, poverty levels, exceptional children, etc.

INDIANA

(Condensed from a 2005 paper by Robert Toutkoushian and Robert S. Michael)

Indiana, like so many of the states in the U.S. has grappled with how to equitably fund its schools. Dependence on local property taxes placed a large burden on property owners, while other citizens were not taxed as heavily to support local schools. Moreover, like Ohio, Indiana faced the problem of how to equalize the effort between low wealth communities and their wealthier counterparts. Because of ongoing litigation across the country, states have had to increase their financial participation in the funding of their local districts. Indiana is no exception.

Indiana also relies on a Foundation Program to fund its public schools. Their system works as follows:

- A “Target Revenue” is set. This is the amount of money the Foundation Program allocates to a district for funding its regular education programs.
- “Tuition Support” Levy – A determination of the amount of dollars the local district should raise through the local property tax. The Foundation Program determines what this figure should be.
- “Tuition Support” – The amount the state will provide. It’s the difference between the Target Revenue and the Tuition Support and other local taxes for education.
- Categorical grants – Additional dollars of state aid for supplemental educational needs.
- Basic Grant – Sum of Tuition Support and Categorical grants. This is the state portion.

From here on, the system becomes extremely complicated. Apparently voters in individual districts do not vote on “Tuition Support” Levy amounts; that sum is determined at the state level and is levied on the participating district.

MICHIGAN

(Condensed from *Michigan in Brief, 7th Edition*)

In 1994, after 25 years of wrangling and 12 ballot proposals, Michigan voters approved Proposal A, which overhauled the way Michigan funded its K-12 public education. The Proposal reduced property taxes and leveled some of the funding disparities that existed among districts. The state then moved to replace some of the local property taxes with state education taxes.

- Increased the state’s 4 percent sales tax to 6 percent and earmarked the increase for the School Aid Fund;
- Created several new revenue sources for schools, including a 6-mill state education property tax and a 75-cent per pack cigarette tax;
- Limited annual property tax increases on each parcel of property to the lower of (1) the inflation rate or (2) 5 percent;
- Stipulated that school districts on the low end of the funding spectrum would receive bigger annual funding increases than would the “richer” schools; and
- Eliminated a number of categorical (special) grants and rolled the funds into the foundation allowance.

The Legislature tackled the problem of funding disparities by establishing a “foundation allowance” —a per pupil amount of operating funding— for each district in the state. They also set up a system that would gradually bring low-property wealth districts’ funding up to the same level as that of a high-wealth district.

Proposal A severely limits a district’s ability to levy additional mills in order to increase operating funds. In 1997, the state began requiring that any extra millage requests must come from the group of districts known as an Intermediate School District (ISD. It frequently covers a county.) The levy must be voted on by every voter in the ISD, and if the levy passes, the proceeds must be shared by all schools in the ISD. Needless to say, passage has been rare. There is now pressure on the Legislature to allow individual districts to vote on extra levies for operations. Proponents say it will allow their districts to keep up with rising costs. Opponents say such a move would erode the property tax relief of Proposal A and would also widen the funding gap among districts.

For those who wish to investigate further how individual states fund their schools, we suggest you “Google” the subject, i.e., Michigan School Funding, Indiana School Funding, etc.

WILL THERE BE REFORM IN OHIO?

What are our expectations for our public schools? What comprises a “good,” or an “adequate” education? Can the State of Ohio pay for it now? How? If you were a legislator, what would you support? To what would you object?

We’ll discuss these issues in our unit meetings this

month; it is our hope that you'll want to correspond with your legislator to express your ideas on this subject.

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GLOSSARY

Basic Aid – A basic amount of money guaranteed by the state for the education of a pupil.

Bond Issue – A tax whose proceeds can be used only to retire bonds or notes that were issued by boards of education to raise funds to pay for permanent improvements, generally school construction.

Categorical Aid – Money provided in addition to basic aid that goes to a school district for such items as special and vocational education, transportation, disadvantaged-student programs, and school lunches.

Cost of Doing Business – A factor used to weight the foundation formula to take into account differences in the costs of operating schools in different counties in Ohio.

Equity – The condition or quality of being just, impartial, and fair.

Mill – The basic unit for computing local property taxes. A mill is one tenth of a penny. A mill produces \$1.00 in tax revenue for every \$1,000.00 of assessed value of the property or net worth against which it is levied.

Operating levy – A tax that can be used for any legal expenditure by a school district. An operating levy may be proposed for a continuing period of time or for a limited period of 1 to 5 years.

Outside Mills – Those property taxes above 10 mills that must be approved by the voters. A school district with 25 mills levied for operation may receive, for example, 2 "inside" mills (out of the 10 allocated by the county budget commission) and 23 voted mills.

Tax Base – The taxable value of real and tangible property from which a community can raise money.

Tax Exemption – Specific classes of property that are free from certain tax obligations.

Tax Reduction Factor – Currently known as HB 920, the tax reduction factor is an anti-inflationary measure meant to save taxpayers money. It functions so that the actual amount of taxes paid on a piece of property does not increase when the property is reappraised at a higher value.

Above definitions quoted from *Financing Education in Ohio, A Report of the League of Women Voters of Ohio Education Fund*. 1990

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