Jim Kelly *Legislative Service Commission*

Proposed Sub. H.B. 718

123rd General Assembly
(LSC 123 1025-5)

Reps. Krebs, Widener, Austria, Hoops, Peterson, Redfern

BILL SUMMARY

Overview of the bill

- This bill addresses state and local funding of city, local, and exempted village school districts. With a few minor exceptions, it leaves funding of joint vocational school districts (JVSDs) unchanged.

- Effective July 1, 2001, the bill begins a four-year phase in of a new method of paying state funds to school districts for their base costs, special education weighted costs, and vocational education weighted costs. Two new formulas apportion districts' calculated base costs into classroom and nonclassroom portions. The special education and vocational education "weights" are folded into the two new formulas.

- There is no local share for the classroom portion of base-cost funding. All districts are eligible for a 100% state payment regardless of property wealth. The local share for nonclassroom costs is calculated based on a district's ranking among all districts in property wealth per pupil, rather than its actual taxable property valuation.

Eight-year phase-out of the 20-mill "floor" and the 20-mill "qualifier"

- The bill phases out both of the following over an eight-year period:

  (1) The requirement that a school district levy 20 mills to qualify for state funding (sec. 3317.01(A)); and

  (2) The 20-mill "floor" below which the H.B. 920 tax reduction factor cannot reduce school district real property taxes levied for current expenses (sec. 319.301(E)(2)).

- The bill explicitly states that nothing in current law or in the bill's provisions "prevents the board of education of a city, local, exempted village, or joint vocational school district from exercising its authority to levy taxes in accordance with any other provision of the Revised Code." (Sec. 3317.33.)

Apportionment of base cost per pupil between classroom and nonclassroom costs

- The bill maintains the base cost per pupil amounts prescribed by current law through FY 2004, and specifies a base cost per pupil for FY 2005, which is 2.8% higher than the amount currently prescribed for FY 2004. (Sec. 3317.012(A)(1).)

- For fiscal years 2002 through 2005, the bill apportions the base cost per pupil between "classroom" base costs and "nonclassroom" base costs, as follows (sec. 3317.015(A)(2)):

FISCAL YEAR	SUB. H.B. 718 CLASSROOM BASE COST PER PUPIL	SUB. H.B. 718 NONCLASSROOM BASE COST PER PUPIL	SUB. H.B. 718 TOTAL BASE COST PER PUPIL	CURRENT LAW TOTAL BASE COST PER PUPIL
2002	$2,829	$1,585	$4,414	Same
2003	$2,909	$1,629	$4,538	Same
2004	$2,990	$1,675	$4,665	Same
2005	$3,074	$1,722	$4,796	Not Specified

- As under the current base-cost formula, classroom base costs are adjusted by each district's cost-of-doing-business factor to reflect relative differences across the state in business costs. The bill does not alter the currently prescribed values or the schedule for increasing the range of the cost-of-doing-business factors. (Secs. 3317.02(N) and 3317.022(A)(1)(a).)

- The bill's new method of calculating state base-cost payments to school districts, phased in over four fiscal years, eventually pays all school districts (a) 100% of their calculated classroom base cost per pupil, and (b) a percentage of their *non*classroom base costs depending on their *relative* property wealth. The wealthiest 25% of school districts,

however, will receive no payment for *non*classroom base costs. During the phase-in period, the current method of calculating state base cost payments by equalizing the yield of the 23-mill charge-off is phased out. (Secs. 3317.02(B), 3317.022(A), and 3317.31.)

District uses of state classroom base cost payments

- The bill stipulates that each district's payment of classroom base costs is "for classroom instructional costs only." The bill does not define "classroom instructional costs" except to clarify that they include employer payments to the State Teachers Retirement System. (Sec. 3317.32(A).) The bill does specify that each district must use its payment in accordance with all of the following standards:

  (1) 3% of the payment must be deposited into its textbook and instructional materials fund (see "***School district textbook and instructional material fund***," below);

  (2) 4% must be used for professional development of the district's employee classroom teachers;

  (3) At least 10% must be used for compensation paid to classroom teachers that is based on achievement, merit, performance, or inducement; and

  (4) The remainder must be used solely for "other classroom instructional costs."

- The bill states that these spending requirements prevail over any collective bargaining agreements entered into on or after July 1, 2001 (the bill's effective date). (Sec. 3317.32(B).)

Nonclassroom base cost per pupil

- The formula being phased in to pay districts their nonclassroom cost per pupil will base the amount of each district's payment on a measure of its relative property wealth per pupil, as follows:

  (1) Districts whose property wealth per pupil falls in the bottom 25% of all districts are entitled to 100% state payment of nonclassroom costs.

  (2) Districts ranked between the 25th and 75th percentiles in property wealth per pupil will receive a percentage of their calculated

nonclassroom costs, based on a sliding scale that decreases the percentage paid as property wealth per pupil increases.

(3) Districts at or above the 75th percentile in property wealth per pupil will receive no state payment for nonclassroom base costs. (Secs. 3317.022(A)(1)(b) and 3317.31.)

- Each district's property wealth per pupil must be calculated annually by the Department of Education based on information from the Tax Commissioner. It is determined by dividing the district's *average* total taxable property value for the current and previous two years by its formula ADM for the current year. (Formula ADM approximates a district's average daily enrollment.) (Secs. 3317.02(X), 3317.021, and 3317.022(A)(1)(c).)

- As with the classroom base cost formula, nonclassroom base costs are adjusted by each district's cost-of-doing-business factor. (Secs. 3317.02(N) and 3317.022(A)(1)(c).)

Special education and vocational education funding

- The current method of using separate formulas (based on a calculated local share of the base cost formula amount) to calculate state payments for the additional costs of special education and vocational education is phased out over four fiscal years. (Secs. 3317.022(C)(1) and (E)(1) and 3317.31.)

- Under the new system being phased in, the value of the extra "weights" for special and vocational education is included in the two new formulas for classroom and nonclassroom base costs. For example, a special education student whose disability is assigned a weight of 3.01 is weighted as 4.01 students in the two new base-cost formulas (instead of being counted as 1 student in the base-cost formula and then being weighted as 3.01 students in the separate special education formula under current law). (Secs. 3317.022(A)(1) and 3317.31.)

- As the weights are phased into the two formulas for classroom and nonclassroom base costs, the districts' local shares change. There is no local share for any district for the additional money generated by the weights in the classroom cost formula. The local share for the additional money generated by the weights through the nonclassroom cost formula

is based on the percentile of property wealth per pupil in which the district falls, with the bottom 25% receiving a 100% state payment and the top 25% receiving no state payment. (See "***Nonclassroom base cost per pupil***," above.) (Sec. 3317.02(X), 3317.022(A)(1), and 3317.31.)

- Also as a result of this change, the special education and vocational education "weights" will be adjusted by the cost-of-doing-business factor. The cost-of-doing-business factors are not applied to the extra weights under current law. (Secs. 3317.02(N) and 3317.022(A)(1).)

- The bill immediately eliminates the requirement that districts assume a local share of Category 3 "catastrophic" special education costs. Under current law, districts may apply to the state for additional reimbursement when its costs for a student with a Category 3 disability exceeds $25,000. The bill requires the state to reimburse districts 100% of these "catastrophic" costs above $25,000. (Category 3 disabilities are autism, traumatic brain injury, and dual visual and hearing handicaps.) (Secs. 3317.02(F)(3) and 3317.022(C)(3).)

- Local shares for state payments for speech services are likewise eliminated immediately. (Sec. 3317.022(C)(4).)

- The current numerical values of the special education and vocational education weights themselves do not change. (Secs. 3317.013 and 3317.014, not in the bill.)

Elimination of local shares for other state categorical payments

- The bill immediately eliminates local shares for state gifted education units, the GRADS program, and preschool handicapped units. (Secs. 3317.024(P) and (R) and 3317.162.)

- The bill also revises the local share of state payments for Categories 1 and 2 transportation (district- or contractor-operated school buses). Under current law, districts are entitled to a state payment of 57.5% of their calculated transportation cost in FY 2002 and 60% thereafter. The bill substitutes the same sliding scale it uses for nonclassroom base costs, so that:

(1) Districts whose property wealth per pupil falls in the bottom 25% of all districts are entitled to 100% state payment of their calculated transportation amount.

(2) Districts ranked between the 25th and 75th percentiles in property wealth per pupil will receive a percentage of their calculated transportation amount, based on a sliding scale that decreases the percentage paid as property wealth per pupil increases.

(3) Districts at or above the 75th percentile in property wealth per pupil will receive no state payment for transportation. (Sec. 3317.022(D)(3).)

Power mills and gap revenue phased out

- During the four-year phase-in of the new base-cost formulas, the bill phases out the state payment of "power mill" equalization and gap revenue. Power mill equalization is a subsidy for districts with below-average property wealth per pupil that levy additional mills above the 23-mill charge-off. It equals the difference between what up to two additional mills actually raise, and the amount they would raise in a district having the state average property wealth per pupil. Gap revenue pays districts any shortfalls between their actual local revenue and their calculated local shares for base-cost funding, special education funding, and vocational education funding. (Secs. 3317.0215, 3317.0216, and 3317.31.)

State aid guarantees

- The current state-aid guarantee is phased out over four fiscal years. This guarantee essentially ensures that no school district will receive a state payment for base costs and most other categorical programs that is less than the amount it received in FY 1998 for comparable items. (Sec. 3317.0212, repealed by Section 2 of the bill; and sec. 3317.31.)

- The bill establishes a one-time guarantee for FY 2002 only. This provision guarantees that districts will receive in FY 2002 at least the same amount they received in FY 2001 (after applying the state aid cap) for base costs and most categorical programs. (Section 5 of the bill.)

State aid caps lifted one year early

- The temporary caps on state aid payments, which currently are imposed through FY 2002, are lifted one year early at the end of FY 2001. (Sections 3 and 6 of the bill.)

- In one of its few provisions addressing joint vocational school districts, the bill likewise lifts the state aid cap for those districts one year early at the end of FY 2001. (Sections 4 and 6 of the bill.)

School district textbook and instructional material fund

- The minimum amount that districts must annually deposit into a textbook and instructional materials fund changes from 3% of certain revenue sources designated by rule of the Auditor of State to 3% of *their annual state classroom base-cost payments*. This change applies to all city, local, and exempted village school districts; it does not affect joint vocational school districts, which must continue to annually deposit 3% of revenues designated in rules of the Auditor of State. (Sec. 3317.15; and sec. 3315.171, repealed by Section 2 of the bill.)

- The bill maintains the current provision allowing districts to use money in their textbook and instructional materials fund for other purposes, if so recommended by the district's superintendent, business advisory council, and teachers' organization and unanimously approved by the board of education. But the bill limits the other purposes for which the money may be used to "classroom instructional purposes," consistent with its requirement that state classroom base-cost payments be used only for "classroom instructional costs." (See "***District uses of state classroom base cost payments***," above.) (Secs. 3315.17(D) and 3317.32(A).)

Monthly calculation of school districts' formula ADM

- Beginning in FY 2006, the bill requires school districts to certify their formula ADM monthly. The Department of Education must adjust state payments to reflect a district's fluctuations from month to month. Formula ADM is a variable used in state funding formulas to approximate a district's average daily enrollment for a period of time. With exceptions for districts experiencing unusual mid-year enrollment growth, it is currently calculated for use during an entire fiscal year based

on attendance during the first full school week of October. (Sec. 3317.03(A), (D), and (F)(1).)

Disadvantaged Pupil Impact Aid (DPIA)

- The bill makes no substantive changes to the current law DPIA provisions that pay school districts additional state money for safety and remediation, all-day kindergarten, and increased instructional opportunities for grades K through third. Payments require no local share and are based on the district's portion of residents receiving state assistance, relative to other districts in the state.

HISTORY

ACTION	DATE	JOURNAL ENTRY
Introduced	05-23-00	p. 2047

H0718-PR.123/jc