



## **H.B. 2**

124th General Assembly  
(As Introduced)

**Rep. Calvert**

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### **BILL SUMMARY**

- Specifies which components of the state education financing system the General Assembly is to re-examine and revise during its deliberations to secure a thorough and efficient system of common schools.

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### **CONTENT AND OPERATION**

The bill requires the General Assembly to do all of the following in its deliberations to reformulate the state education financing system to secure a thorough and efficient system of common schools throughout the state:

(1)(a) Re-examine the methodology for determining the **base cost** per pupil of an adequate education and (b) increase the amount of state base cost payments to school districts over current levels while responding to the concerns outlined by the Ohio Supreme Court in *DeRolph v. State*;<sup>1</sup>

(2)(a) Re-examine the actual cost of providing **special education** and related services and (b) increase the amount of state funding to school districts for special education and related services over current levels;

(3)(a) Re-examine the model used to calculate **transportation** funding and (b) increase the amount of state funding to school districts for transportation over current levels;

(4) Ensure that current state funding of **vocational education** is sufficient;

(5) Examine the manner of distributing and calculating **disadvantaged pupil impact aid (DPIA)** payments to school districts; and

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<sup>1</sup> 89 Ohio St.3d 1 (2000).

(6) Examine methods for reducing **reliance on property taxes** to finance school districts.

### **Background on current state education financing**

In *DeRolph I*, in 1997, the Supreme Court of Ohio ordered the General Assembly to create a new school funding system.<sup>2</sup> In that decision, the Court held that the state's then-current school funding system did not provide a "thorough and efficient system of common schools" as required under Article VI, Section 2 of the Ohio Constitution. Responding to that order, in 1997 and 1998, the 122nd General Assembly enacted several bills dealing with the financing and performance management of public schools.<sup>3</sup>

On May 11, 2000, the Court held the new system unconstitutional on essentially the same grounds.<sup>4</sup> In *DeRolph II*, the Court praised the effort made by the legislature but said that more had to be done in order to comply with its order. The General Assembly now has until June 15, 2001 to come up with a new system.<sup>5</sup>

### **Key concepts of the current school funding system**

State per pupil payments to school districts for operating expenses have always varied according to (1) the wealth of the district and (2) the special circumstances experienced by some districts. Under both the school funding system in place prior to *DeRolph I* and the one in place since then, state operating

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<sup>2</sup> *DeRolph v. State* (1997), 78 Ohio St.3d 193.

<sup>3</sup> Among these bills were: Am. Sub. H.B. 215, which was the general operating budget for the 1997-1999 biennium; Am. Sub. S.B. 102, which substantially amended the Classroom Facilities Assistance Program and created the Ohio School Facilities Commission; Am. Sub. S.B. 55, which added new academic accountability requirements; Sub. H.B. 412, which changed school district fiscal accountability requirements; and Am. Sub. H.B. 650 and Am. Sub. H.B. 770, which together created a new school funding system. In addition, in 1999, the 123rd General Assembly passed Am. Sub. H.B. 282, which enacted the state's first separate education budget and made some changes to the previous accountability and funding legislation.

<sup>4</sup> *DeRolph v. State* (2000), 89 Ohio St.3d 1.

<sup>5</sup> In 2000, the legislature enacted two other bills also directed at some of the concerns expressed by the Court in its *DeRolph II* order. Am. Sub. S.B. 272 of the 123rd General Assembly made substantial changes in the school facilities assistance programs. Am. Sub. S.B. 345 of the 123rd General Assembly amended the school district solvency assistance program and modified requirements of some school district mandates.

funding for school districts is divided primarily into two types: base-cost funding and categorical funding.

**Base-cost funding**

Base-cost funding can be viewed as the minimum amount of money required per pupil for those expenses experienced by all school districts in the state on a somewhat even basis. The primary costs would be for such things as teachers of basic curriculum courses; textbooks; janitorial and clerical services; administrative functions; and student support employees such as school librarians and guidance counselors.

**Equalization.** Both before and after the *DeRolph* case, state funds have been used to "equalize" school district revenues. Equalization means using state money to ensure that all districts, regardless of their property wealth, have an equal amount of combined state and local revenues to spend for something. In an equalized system, poor districts receive more state money than wealthy districts in order to guarantee the established minimum amount for all districts.

The current funding system essentially equalizes 23 mills of property tax for base-cost funding. It does this by providing sufficient state money to each school district to ensure that, if all districts in the state levied exactly 23 effective mills, they all would have the same per pupil amount of base-cost money to spend (adjusted partially to reflect the cost-of-doing-business in the district's county).<sup>6</sup> To accomplish this equalization, the base-cost formula uses five variables to compute the amount of state funding each district receives for its base cost:

(1) The stipulated amount of funding that is guaranteed per pupil in combined state and local funds (formally called the "**formula amount**").

(2) An adjustment to the formula amount known as the "**cost-of-doing-business factor.**" This variable is a cost factor intended to reflect differences in the cost of doing business across Ohio's 88 counties. Each county is assigned a factor by statute. The formula amount is multiplied by the cost-of-doing-business factor for the appropriate county to obtain the specific guaranteed per pupil formula amount for each school district.<sup>7</sup>

(3) A number called the "**formula ADM,**" which roughly reflects the full-time-equivalent number of district students.

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<sup>6</sup> *One mill produces \$1 of tax revenue for every \$1,000 of taxable property valuation.*

<sup>7</sup> *An increase in the variance in the cost-of-doing-business factors from 11% to 18% is being phased in under continuing law. The phase-in will be complete in FY 2004.*

(4) The **total taxable dollar value of real and personal property** subject to taxation in the district, adjusted in some cases to reflect lower levels of income wealth and to phase-in increases in valuation resulting from a county auditor's triennial reappraisal or update.

(5) The **local tax rate**, expressed in number of mills, assumed to produce the local share of the guaranteed per pupil funding. The tax rate assumed is 23 mills, although the law only requires districts to actually levy 20 mills to participate in the school funding system.

Each district's state base-cost funding is computed first by calculating the amount of combined state and local funds guaranteed to the district. This is done by adjusting the formula amount for the appropriate cost-of-doing-business factor and multiplying the adjusted amount by the district's formula ADM. Next, the assumed "local share" (commonly called the "charge-off") is calculated by multiplying the district's adjusted total taxable value by the 23 mills attributed as the local tax rate. This local share is then subtracted from the guaranteed amount to produce the district's state base-cost funding.

**Base-cost funding formula.** Expressed as a formula, under continuing law, base-cost funding is calculated as follows:

[the formula amount X cost-of-doing-business factor X (the district's formula ADM)] – (.023 X the district's adjusted total taxable value)<sup>8</sup>

**Sample FY 2001 calculation.** If Hypothetical Local School District were located in a county with a cost-of-doing-business factor of 1.025 (meaning its cost of doing business is assumed to be 2.5% higher than in the lowest cost county), its formula ADM were 1,000 students, and it had an adjusted valuation of \$40 million, its FY 2001 state base-cost funding amount would be \$3,604,000, calculated as follows:

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<sup>8</sup> R.C. 3317.022(A). *In lieu of formula ADM, the Department of Education must use the district's "three-year average" formula ADM if the latter amount is greater than the former one.*

\$4,294	FY 2001 formula amount
x <u>1.025</u>	District's cost-of-doing-business factor
\$4,401	District's adjusted formula amount
x <u>1,000</u>	District's formula ADM (approximate enrollment)
\$4,401,000	District's base-cost amount
- <u>\$920,000</u>	District's charge-off (assumed local share based on 23 mills charged against the district's \$40 million in adjusted property valuation)
<b>\$3,481,000</b>	<b>District's state payment toward base-cost amount</b>
79%	District's state share percentage (per cent of total base cost paid by state)

*How the base-cost formula amount was established.* The primary difference between the old funding system and the current system in calculating base-cost funding is that the state and local amount guaranteed per pupil under the old system was stated in statute without any specific method of selecting the amount. The current system bases the per pupil amount on a study of the actual average base costs of school districts found to meet all but one of the state effectiveness standards (after removing the highest and lowest wealth districts from the computation). Using this calculation, the current system established a formula amount of \$4,063 for FY 1999, which was adjusted for inflation at 2.8% each year and then phased-in over a three-year period.

#### Base Cost Formula Amounts As Prescribed in Current Law

Fiscal Year	Calculated Base Cost Per Pupil	Actual Formula Amount
<b>FY 1998</b>	-----	\$3,663
<b>FY 1999</b>	\$4,063	\$3,851
<b>FY 2000</b>	\$4,177	\$4,052
<b>FY 2001</b>	\$4,294	\$4,294
<b>FY 2002</b>	\$4,414	\$4,414
<b>FY 2003</b>	\$4,538	\$4,538
<b>FY 2004</b>	\$4,665	\$4,665

### **Categorical funding**

Categorical, or "add-on," funding is a type of funding the state provides school districts in addition to base-cost funding. It can be viewed as money a school district requires because of the special circumstances of some of its students or the special circumstances of the district itself (such as its location in a high-cost area of the state). Some categorical funding, namely the cost-of-doing-business factor and the adjustments to local property value, is actually built into the base-cost formula. But most categorical funding is paid separately from the base cost, including:

(1) Special education additional weighted funding, which pays districts a portion of the additional costs associated with educating children with disabilities;

(2) Vocational education additional weighted funding, which pays districts a portion of the additional costs associated with educating students in job-training, workforce development, and other vocational programs;

(3) Gifted education funding, which provides funds to districts for special programs for gifted children;

(4) Disadvantaged Pupil Impact Aid, or "DPIA," which provides additional state money to districts where the proportion of low-income students receiving public assistance through the Ohio Works First program is a certain percentage of the statewide proportion; and

(5) Transportation funding, which reimburses districts a portion of their costs of transporting children to and from public and private schools.

**Special education and vocational education weights.** The current school funding system pays a per pupil amount for special education and vocational education students on top of the amount generated by the base-cost formula for those students. It does this using an add-on formula assigning weights to those students. Weights are an expression of additional costs attributable to the special circumstances of the students in the weight class, and are expressed as a percentage of the formula amount. For example, a weight of 0.25 indicates that an additional 25% of the formula amount (or, about \$1,074 more dollars for FY 2001) is necessary to provide additional services to a student in that category.

The current weights for special education and vocational education are:

## SPECIAL EDUCATION

- (a) **0.22** for students identified as specific learning disabled, other health handicapped, or developmentally handicapped;
- (b) **3.01** for students identified as hearing handicapped, orthopedically handicapped, vision impaired, multihandicapped, and severe behavior handicapped; and
- (c) **3.01** for students identified as autistic, having traumatic brain injuries, or as both hearing and vision disabled.<sup>‡</sup>

## VOCATIONAL EDUCATION

- (a) **0.60** for students enrolled in job-training and workforce development programs approved by the Department of Education; and
- (b) **0.30** for students enrolled in other types of vocational education classes.

Each school district is paid its state share percentage of the additional weighted amount calculated for special education and vocational education (see "*State and local shares of special and vocational education costs*," below). In addition, school districts may receive an additional "catastrophic cost" subsidy for an individual special education student in the third category if the district's costs to serve the student exceed \$25,000. The amount of the state subsidy is the district's state share percentage (derived from its base-cost funding) of those costs exceeding \$25,000.

The state also pays a subsidy for speech services and for "associated vocational education services" using separate formulas.

### *State and local shares of special and vocational education costs*

The current funding system provides for equalization of special education and vocational education costs by requiring a state and local share for the additional costs. This is determined for each district from the percentage of the base-cost amount supplied by each. For instance, if the state pays 55% of a district's base-cost amount and the district supplies the other 45%, the state and local shares of the additional special education and vocational funding likewise are 55% and 45%, respectively.

*Gifted education funding.* The state uses "unit funding" to pay school districts to serve students identified as gifted. A "unit" is a group of students receiving the same education program. In FY 2001, districts and educational service centers received for each approved unit the sum of:

(1) The annual salary the gifted teacher would receive if he or she were paid under the state's minimum teacher salary schedule for a teacher with his or her training and experience;

(2) An amount (for fringe benefits) equal to 15% of the salary allowance;

(3) A basic unit allowance of \$2,678; and

(4) A supplemental unit allowance, the amount of which partially depended on the district's state share percentage of base-cost funding. In FY 2001, for each gifted unit, a district received a supplemental unit allowance of \$2,625.50 plus the district's state share percentage of \$5,550 per unit.

**Disadvantaged Pupil Impact Aid (DPIA).** An additional, nonequalized state subsidy is paid to school districts with threshold percentages of resident children from families receiving public assistance (Ohio Works First). The amount paid for DPIA depends largely on the district's DPIA index, which is its percentage of Ohio Works First children compared to the statewide percentage of Ohio Works First children. Three separate calculations determine the total amount of a district's DPIA funds:

(1) Any district with a DPIA index greater than or equal to 0.35 (meaning its proportion of children receiving public assistance is at least 35% of the statewide proportion) receives money for safety and remediation. Districts with DPIA indices between 0.35 and 1.00 receive \$230 per pupil in a public assistance family. The per pupil amount increases proportionately for districts whose indices are greater than 1.00 as the DPIA index increases.

(2) Districts with a DPIA index greater than 0.60 receive an additional payment for increasing the amount of instructional attention per pupil in grades K to three, the amount of which payment also increases with the DPIA index. This payment is called the "third grade guarantee," but is more popularly known as the "class-size reduction" payment.

(3) Districts that have either a DPIA index equal to or greater than 1.00 (having at least the statewide average percentage of public assistance children) or a three-year average formula ADM exceeding 17,500, and that offer all-day kindergarten receive state funding for the additional half day.

However, all districts (regardless of their DPIA indices) are eligible for at least the amount of DPIA funding they received during FY 1998, the last year of the old school funding system.

**Transportation.** In FY 1998, under the old school funding system, state payments to school districts for transportation averaged 38% of their total

transportation costs. The current system established a new transportation funding formula and commenced a phase-in that, by FY 2003, will result in the state paying districts 60% of the amount calculated by the new formula. These payments are not equalized for district wealth. Every district receives that same percentage of the amount calculated for it under the formula.

The formula itself is based on the statistical method of multivariate regression analysis.<sup>9</sup> Under this formula, each district's payment for transportation of students on school buses is based on (1) the number of daily bus miles traveled per day per student in the previous fiscal year and (2) the percentage of its student body that it transported on school buses in the previous fiscal year (whether the buses were owned by the district board or a contractor).<sup>10</sup> The Department of Education is to update the values for the formula and calculate the payments each year based on analysis of transportation data from the previous fiscal year. The Department must apply a 2.8% inflation factor to the previous year's cost data.

In addition, the current system pays a separate "rough road subsidy" targeted at relatively sparsely populated districts where there are relatively high proportions of rough road surfaces.

### **State funding guarantee**

The current funding system guarantees every school district with a formula ADM over 150 that it will receive a minimum amount of state aid based on its state funds for FY 1998. The state funds guaranteed include the sum of base-cost funding, special education funding, vocational education funding, gifted education funding, DPIA funds, equity aid (a former subsidy for low wealth districts), state subsidies for teachers with high training and experience, and state "extended service" subsidies for teachers working in summer school.

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<sup>9</sup> *Regression analysis is a statistical tool that can explain how much of the variance in one variable (in this case, transportation costs from district to district) can be explained by variance in other variables (here, number of bus miles per student per day and the percentage of students transported on buses).*

<sup>10</sup> *The statute presents the following model of the formula based on an analysis of FY 1998 transportation data:  $51.79027 + (139.62626 \times \text{daily bus miles per student}) + (116.25573 \times \text{transported student percentage})$ . Payments for FY 2000 and FY 2001 were to be calculated with a similar formula updated to reflect analysis of FY 1999 and FY 2000 data, respectively. (R.C. 3317.022(D)(2).)*

### Temporary state funding cap

Most school districts, though, have experienced increases in their state funding from FY 1998. As part of the phase-in to the current system, the law temporarily limits school districts' increases in state funding, including transportation subsidies, through FY 2002. In FY 2001 and FY 2002 the law limits school districts' state aid increases to 12% over their previous year's aggregate state payment or 6% over their previous year's per pupil amount of state funds, whichever is greater. This cap no longer applies after June 30, 2002.

### Subsidies addressing reliance on property taxes

Charge-off supplement ("gap aid revenue"). Certain school districts are not able to achieve 23 effective mills to cover their assumed local share of the base cost. In other cases, districts' effective tax rates will not cover their assumed local shares of special education and vocational education costs. In such cases, current law provides a subsidy to make up the gap between the districts' effective tax rates and their assumed local shares for base-cost funding, special education, and vocational education.

"Power equalization" subsidy. Current law provides another subsidy to school districts that have effective tax rates for operations above the formula charge-off (23 mills) but have below-average property valuations per pupil. The subsidy (referred to as "power equalization") supplements the amount that such a school district is able to raise from two mills of local property tax, so that the amount it raises locally, combined with the subsidy, equals the amount that a district having the statewide average property valuation per pupil will raise by levying two mills. If a school district qualifies for the subsidy and has an effective operating tax rate of less than 25 mills, the subsidy supplements the amount that the district is able to raise from whatever millage the district has in excess of 23 mills, rather than a full two mills.

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## HISTORY

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