



# Members Brief

An informational brief prepared by the LSC staff for members and staff of the Ohio General Assembly

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## Changes to the School Funding Formula Following the End of the *DeRolph* Litigation

*DeRolph v. State*, originally filed in 1991, challenged the constitutionality of Ohio’s school funding system. The Ohio Supreme Court issued four decisions in the case between 1997 and 2002, holding that the system that was the subject of the original lawsuit, and the versions of the system enacted by the General Assembly in response to the Court’s orders in those decisions, were unconstitutional. These decisions and the General Assembly’s responses to them are summarized in the Members Brief entitled “[DeRolph v. State School Funding Case](#).”

In 2003, the Court declared an end to the *DeRolph* litigation. Since then, the General Assembly has changed the school funding system several times. This brief summarizes those revisions. For fiscal years 2020 and 2021, use of the existing statutory funding system for school districts has been suspended.

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### ***DeRolph v. State***

A coalition of school districts filed suit against the state in the Perry County Court of Common Pleas in 1991. The plaintiffs in that case, known as *DeRolph v. State*, claimed that the state’s school funding system was unfair to low-wealth districts and failed to produce adequate public schools. The Ohio Supreme Court issued four decisions in the case between 1997 and 2002, holding that the system that was the subject of the original lawsuit, and the versions of the system enacted by the General Assembly in response to the court’s orders in those decisions,

were unconstitutional. The *DeRolph* decisions and the funding systems enacted by the General Assembly in response to those decisions are summarized in the Members Brief entitled "[DeRolph v. State School Funding Case.](#)"

## Initial changes following *DeRolph*

In 2003, the Court declared an end to the *DeRolph* litigation. Subsequently, H.B. 95 of the 125<sup>th</sup> General Assembly (the budget act for fiscal years 2004 and 2005) largely retained the structure of the school funding system enacted and refined during the *DeRolph* litigation, but it did change some of the variables used to calculate school district payments. For example, it reduced the inflation rate applied to the statutory per pupil base-cost amount, reduced the parity aid phase-in rate, and raised the threshold for the excess cost supplement for combined special education, vocational education, and transportation funding. It also eliminated funding provisions for fiscal years 2006 and 2007 in anticipation of a new system to be proposed by a new task force recommended and appointed by the Governor.

## Building blocks methodology

In 2003, the Governor established the "Blue Ribbon Task Force on Financing Student Success," made up of representatives from the education and business communities, government agencies, and the General Assembly. The Task Force met throughout 2003 and 2004 to develop recommendations for reforming school finance. Among its recommendations were proposals to (1) base funding levels on "inputs" (the cost of goods and services),<sup>1</sup> rather than "outputs" (the cost of providing certain outcomes), (2) improve the academic performance of economically disadvantaged children through enhanced funding, and (3) add base funding supplements for data-based decision making, professional development, and student intervention.

Subsequent to the work of the Governor's Blue Ribbon Task Force, the 126<sup>th</sup> General Assembly enacted H.B. 66 (the budget act for fiscal years 2006 and 2007), which incorporated many of the ideas articulated by the Task Force. As enacted, that bill established a "building blocks" methodology reflecting determinations that the base cost of providing an adequate education comprises the costs of base classroom teachers, other personnel support, and nonpersonnel support. It also paid additional base funding supplements similar to those recommended by the Task Force. While that act reduced the maximum "cost-of-doing-business factor" to 5% in fiscal year 2006 and 2.5% in fiscal year 2007,<sup>2</sup> it also guaranteed that each district's state base-cost payment would be no lower than fiscal year 2005 state aggregate or per pupil base-cost payment, whichever was less. Moreover, the act made substantial changes to the state subsidy for "poverty-based assistance" by changing the formula for intervention payments

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<sup>1</sup> The task force report called these inputs "evidence-based" strategies, services, and programs that are proven effective in enhancing student success.

<sup>2</sup> The cost-of-doing-business factor was a multiple intended to reflect differences in labor costs across Ohio's 88 counties. Each county was assigned a factor by statute. The base-cost formula amount was multiplied by the cost-of-doing-business factor for the appropriate county to obtain the specific amount for each school district.

and adding payments for services to limited-English proficient students, teacher professional development, dropout prevention, and community outreach programs.<sup>3</sup>

H.B. 119 (the budget act for fiscal years 2008 and 2009) retained the “building blocks” methodology, but it eliminated the “cost-of-doing-business factor” from the base-cost formula. It also eliminated the base-cost funding guarantee, but it provided additional state transitional aid in fiscal years 2008 and 2009 to prevent any school district’s state funding for the current fiscal year from being less than it was in the previous fiscal year. Additionally, the act added a closing-the-achievement-gap payment to the “poverty-based assistance” program.

## **Evidence-Based Model**

In H.B. 1 of the 128<sup>th</sup> General Assembly (the budget act for fiscal years 2010 and 2011), the General Assembly replaced the “building blocks” methodology with a new school funding method unofficially known as the “Evidence-Based Model” (or “EBM”). This funding system did not use a per-pupil formula amount but instead computed an aggregate of various personnel and nonpersonnel components, known as the “adequacy amount.” The components of the “adequacy amount” were (1) instructional services support (including special education), (2) additional services support, (3) administrative services support, (4) operations and maintenance support, (5) gifted education and enrichment support, (6) technology resources support, (7) a professional development factor, and (8) an instructional materials factor. Several of the personnel components were multiplied by an “educational challenge factor,” which was a unique multiple assigned to each district based on the college attainment rate of the district’s population, its wealth per pupil, and its concentration of poverty. The EBM then subtracted a 22-mill charge-off from the “adequacy amount” to determine a district’s state share. In addition to the state share, the EBM made separate payments for student transportation and career-technical education.

The act guaranteed that each district’s state payment would be, for fiscal year 2010, at least 99% of its previous year’s funding and, for fiscal year 2011, at least 98% of its previous year’s funding base. It also prohibited districts from receiving, for either fiscal year 2010 or 2011, a gain in state funds over the previous fiscal year that was greater than  $\frac{3}{4}$  of 1% of the previous year’s base.

## **Temporary formula**

H.B. 153 of the 129<sup>th</sup> General Assembly (the budget act for fiscal years 2012 and 2013) repealed the EBM and replaced it with a temporary, two-year provision to provide funding to school districts based on a wealth-adjusted portion of their state operating funds for fiscal year 2011 under the EBM. The act also provided supplemental funding, for each of fiscal years 2012 and 2013, to guarantee each district operating funding that was equal to at least the amount of state operating funding, less federal stimulus funding, the district received for fiscal year 2011

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<sup>3</sup> This subsidy formerly was called Disadvantaged Pupil Impact Aid (DPIA). In addition to the five payments enumerated above, the H.B. 95 subsidy also consisted of separate payments for all-day kindergarten and class-size reduction and a new guarantee payment based on the amount of DPIA a district received in fiscal year 2005.

under the EBM. In addition, it provided a third subsidy of \$17 per student for each district rated as “excellent with distinction” or “excellent” on the then-current annual district and school academic performance report cards.

## **Current statutory funding system**

The temporary formula was created in anticipation of a permanent system to replace the EBM, which was enacted in H.B. 59 of the 130<sup>th</sup> General Assembly (the budget act for fiscal years 2014 and 2015). Similar to school funding models enacted prior to the EBM, the current statutory funding system specifies a per-pupil formula amount. It then uses that amount, along with a district’s “state share index” (which depends on valuation and, for districts with relatively low median income, on median income), to calculate a district’s base payment (called the “opportunity grant”). The system also includes payments for targeted assistance (based on a district’s property value and income) and supplemental targeted assistance (based on a district’s percentage of agricultural property), as well as categorical payments (which include special education funds, kindergarten through third grade literacy funds, economically disadvantaged funds, limited English proficiency funds, gifted funds, career-technical education funds, and student transportation funds).

H.B. 64 of the 131<sup>st</sup> General Assembly (the budget act for fiscal years 2016 and 2017) made a few revisions and updates to this system, including changes to the computation of the state share index, increases in the formula amount and certain other per-pupil amounts, new components that target funding to small, low-density school districts, and new performance bonuses based on graduation and third-grade reading proficiency rates.

H.B. 49 of the 132<sup>nd</sup> General Assembly (the budget act for fiscal years 2018 and 2019) made further changes to the formula, including changes to the computation of the state share index, increases in the formula amount, alterations to the pupil transportation formula, and changes to the computation of capacity aid.

Each of these acts also imposed temporary aggregate funding caps and guarantees for each biennium based on a district’s funding for the previous fiscal year.

## **Suspension of statutory formula; student wellness and success funds**

In H.B. 166 of the 133<sup>rd</sup> General Assembly (the budget act for fiscal years 2020 and 2021), the General Assembly suspended use of the statutory formula for school districts for those fiscal years and, instead, provides for each district’s annual payment to be equal to the district’s funding for fiscal year 2019. It also provides, for each fiscal year, an additional payment to each district, with at least 50 enrolled students, that experienced an average annual percentage change in its enrollment between fiscal years 2016 and 2019 that is greater than zero.

The act also requires the payment of student wellness and success funds and enhancement funds for fiscal years 2020 and 2021. School districts receive student wellness and success funds on a per-pupil basis with payment amounts determined based on quintiles of the percentages of children with family incomes below 185% of the federal poverty guidelines. Those districts that received supplemental targeted assistance for fiscal year 2019 also receive student

wellness and success enhancement funds. Student wellness and success funds and enhancement funds must be spent on specified purposes. These purposes, among others, include mental health services, community liaisons, physical health care services, professional development regarding informed care and cultural competence, and before and after school programs.<sup>4</sup>

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<sup>4</sup> For a detailed discussion of school financing for fiscal years 2020 and 2021, see pages 132-136 of the LSC final analysis for H.B. 166 at: <https://www.lsc.ohio.gov/assets/legislation/133/hb166/en/files/hb166-bill-analysis-as-enrolled-133rd-general-assembly.pdf> or the LSC Greenbook for the Department of Education at: <https://www.lsc.ohio.gov/assets/legislation/133/hb166/en/files/hb166-edu-greenbook-as-enrolled-133rd-general-assembly.pdf>.