Members Brief

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# State Share Index and Opportunity Grant

The state share index takes into account a district's property value and, in some circumstances, income to measure a district's capacity to raise local revenue. The foundation formula uses the state share index to direct more funding to districts with lower property values. It is used in the calculation of the opportunity grant and seven other components of the foundation aid formula. The opportunity grant, the largest component of the foundation formula, is based on a per-pupil amount of $6,020. This amount is multiplied by the sum of a district's formula average daily membership (ADM) and preschool autism ADM, and then multiplied by the state share index. The total opportunity grant calculated by the formula for FY 2019 was just over $5 billion.

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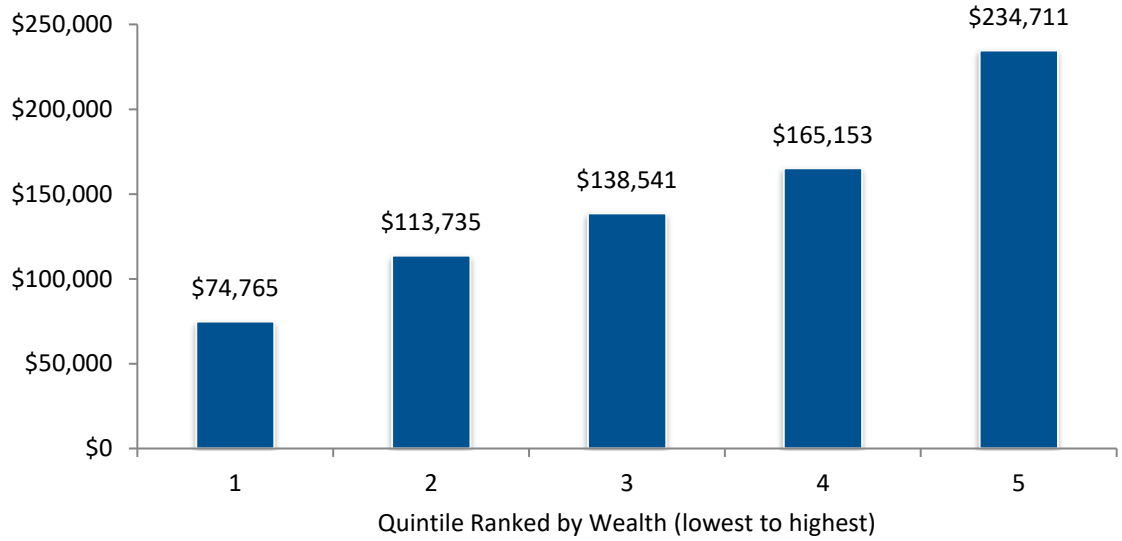
## State share index

The operating costs of public schools in Ohio are shared between the state and its school districts. The state source component is funded primarily with general fund revenues and lottery profits, while the local component is funded at the school district level, primarily through property taxes. As such, the amount of local revenue a district raises is largely dependent on the property value of the district. As can be seen from the following chart, property values vary widely across school districts.[1] To create the quintiles used on the chart, school districts are first

[1] The chart shows values for FY 2018 because H.B. 166, the operating budget for the 133rd General Assembly, suspended the main foundation aid and pupil transportation formulas for FY 2020 and FY 2021 and, instead, provided each district with the same allocations received in FY 2019. So, a new state share

ranked from lowest to highest in property valuation per pupil. They are then divided into five groups, each of which includes approximately 20% of total students statewide. As can be seen in the chart, districts in quintile 1 have the lowest property wealth and districts in quintile 5 have the highest property wealth.

**Chart 1: Average Per-Pupil Valuation by Wealth Quintile, FY 2018**




In FY 2018, approximately 20% of Ohio's students resided in school districts with per-pupil property valuations that averaged about $75,000 while another 20% resided in school districts with per-pupil property valuations that averaged about $235,000. The statewide average valuation was $145,000 per pupil. Districts with higher property value per pupil will receive higher revenue per pupil with the same tax effort. For example, a 20-mill (2%) property tax levy generates about $1,500 per pupil for a district with a valuation per pupil of $75,000 and about $4,700 per pupil for a district with a valuation per pupil of $235,000.

The foundation formula uses the state share index to account for this capacity to raise local revenue when distributing state funds. The state share index is calculated using a wealth index that seeks to capture the variations in local revenue generating capacity of each school district. The wealth index consists of a property value component and an income component. The rest of this section details the calculation of the state share index.

## Base average value

Real property values in Ohio are reappraised every six years and updated in the third year following each reappraisal. As a result, in the reappraisal and update years, school districts generally experience large changes in real property value. Two components of the foundation formula are generally used to make property values appear more stable and prevent large fluctuations in foundation aid: (1) a three-year average is used to smooth these property value changes, and (2) the state share index is calculated once for both years of the biennium. That is,

index was not calculated for FY 2020 and FY 2021. The state share index for FY 2019 uses property values from fiscal years 2016 through 2018.

for most districts, the index for FY 2018 and FY 2019 is based on the average property value for tax year (TY) 2014, TY 2015, and TY 2016 (FY 2016, FY 2017, and FY 2018).[2]

## Exception for certain districts affected by power plant devaluation

However, for school districts whose local property tax base has deteriorated due to a reduction in the public utility tangible personal property (PUTPP) value of local power plants, the base average value may take into account only the value for the most recent tax year available. A school district is eligible for this condition if: (1) their PUTPP values comprised more than 10% of total taxable value in the tax year preceding the most recent year for which data is available, and (2) their PUTPP and power plant total taxable values fell by 10% or more from the preceding tax year. For these districts, the base value equals the lesser of the district's total taxable value for the most recent tax year or the district's three-year average value. For example, an eligible district qualifies for its TY 2016 value to be used in place of its three-year average value for TYs 2014, 2015, and 2016 to compute its state share index for FY 2018. Likewise, an eligible district in FY 2019 would qualify for its TY 2017 value to be used in place of the three-year average value for TYs 2014, 2015, and 2016, meaning that an eligible district's state share index may be recomputed in the second year of the biennium. For districts such as these whose values are declining, using only the most recent year's value makes the district look less wealthy and results in a higher state share index.

The determination of eligible districts is made for each fiscal year, but only for the purpose of adding eligible districts. Therefore, if a district is eligible for the value adjustment in FY 2018 but not in FY 2019, the formula specifies that the district's state share index for FY 2019 must be the same as the district's state share index for FY 2018. In FY 2019, seven districts were eligible for their TY 2017 value to replace their three-year average value, however one of these districts has a three-year average valuation less than the value for TY 2017. Of the six that benefited from the PUTPP eligibility provision, their combined TY 2017 values are $366.8 million (14.5%) lower than their combined three-year average values. This provision increased the initial calculation of FY 2019 state funding by about $5.3 million statewide. However, the subsequent application of the formula's guarantee and gain cap provisions limited the net increase to about $3.4 million.

## Adjusted base average value

Another provision of the formula is an adjustment of the base average value for districts that have a relatively large amount of state property exempt from property taxation. If a district's tax-exempt property value (not counting property owned by the federal government) is at least 30% of its potential property value, its value is reduced for the purposes of the formula. Since

[2] Tax years are generally from January 1 to December 31, whereas state and school fiscal years are from July 1 to June 30. Most property taxes for a given tax year are paid in the following tax year. Taxes paid for TY 2016, therefore, are mostly received in FY 2018. For purposes of the school funding formula, property values in a given tax year correspond to the fiscal year two years later.

the adjusted value is lower for these districts, their state share index values, and thus the state's share of the formula cost, ultimately increase. In FY 2018 and FY 2019, 15 districts received this adjustment. These districts' values were reduced by a total of $2.5 billion. While this adjustment increased the initial calculation of FY 2019 state funding by about $84.3 million statewide, the subsequent application of the formula's guarantee and gain cap provisions limited the net increase to about $16.3 million.

**Potential value** = base average value + tax exempt value.

**Adjustment amount** is the greater of $0 or the tax exempt value minus 30% of the potential value.

**Adjusted base average value** = base average value - adjustment.

## Property value index

Using adjusted values when applicable, the formula computes a property value index for each district. This index is calculated by dividing a district's base average value per pupil or adjusted base average value per pupil (both using total average daily membership, or ADM, for FY 2017)[3] by the statewide unadjusted three-year average value per pupil. Thus, a district with an adjusted three-year average value per pupil the same as the state average will have a property value index of 1.0. Wealthier districts will have an index greater than 1.0 and less wealthy districts will have an index less than 1.0. For FY 2019, the statewide three-year average value per pupil was $145,559,[4] while the property value index ranged from about 0.33 to 5.82, excluding a few outlier districts.

## Income index

The formula also takes into account the ability of a district's residents to pay property taxes by including two measures of income in the determination of the state share index: median income and federal adjusted gross income (FAGI). To do so, the formula calculates the median income index for each district by dividing a district's median Ohio adjusted gross income by the statewide median. Under the formula, the statewide median income is $33,782.[5] This amount is calculated once per biennium and, due to a lag in the availability of income tax return data, uses the data for the tax year three years preceding the first fiscal year of a biennium (so for the FY 2018 and FY 2019 formula, TY 2015 median incomes were used).

Next, the formula requires a similar calculation for FAGI, by dividing a district's three-year average FAGI per pupil by the statewide three-year average FAGI per pupil. Under the formula,

[3] ADM is the student count used in the formula. See the Student Count for School Funding *Members Brief* for more information. Using total ADM for the fiscal year preceding a new biennium provides additional stability to a district's funding by preventing its state share index from changing continually throughout the first fiscal year of the biennium as changes occur to district total ADM.

[4] If the formula were not suspended, the unadjusted statewide three-year average value per pupil would be $156,064 for FY 2020.

[5] If the formula were not suspended, the statewide median income would be $34,090 for FY 2020.

the statewide three-year average FAGI per pupil is $184,657.[6] The formula calculates a district's income index by averaging its median income index and the similar FAGI calculation. Income index values range from 0.43 to 4.02, excluding an outlier district.

## Wealth index

The formula then compares a district's income index with its property value index in order to determine the district's wealth index. For a district with relatively low income (in general, an income index less than its property value index), the income index is taken into account to make a qualifying district look less wealthy to the formula, which increases its state share index and thus state foundation aid. However, the formula limits the effect of the income index to districts with median incomes at or below 150% of the statewide median. For qualifying districts, the wealth index is based on 60% of the district's property value index and 40% of the district's income index. For a district not meeting the income criteria, the wealth index is equal to the property value index. As a result, the use of the income index can never result in a wealth index higher than the property value index. In FY 2018 and FY 2019, the income adjustment applied to 301 school districts (49.3%). While this adjustment increased the initial calculation of FY 2019 foundation funding by about $131.6 million statewide, the subsequent application of the formula's guarantee and gain cap provisions limited the net increase to about $8.2 million.

## Final calculation

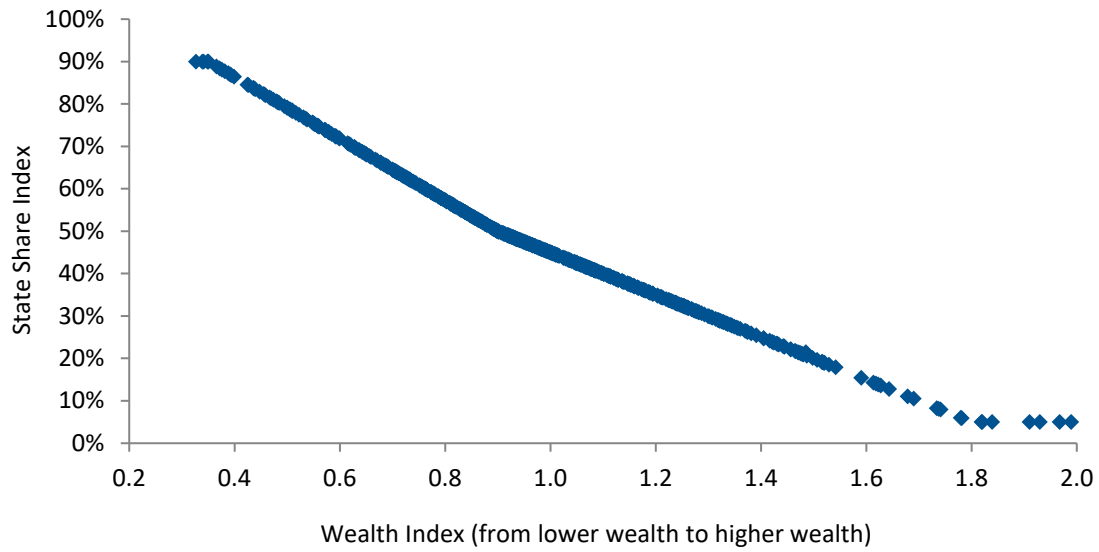
Using a district's computed wealth index, the formula then determines a district's state share index per the calculations shown below. As the table indicates, no district has a state share index greater than 90% or less than 5%.

| State Share Index |
| --- |
| If wealth index ≤ 0.35:<br>state share index = 0.90; |
| If wealth index > 0.35 but ≤ 0.90:<br>state share index = {0.40 x [(0.90 - wealth index) / 0.55]} + 0.50; |
| If wealth index > 0.90 but < 1.8:<br>state share index = {0.45 x [(1.8 - wealth index) / 0.9]} + 0.05; |
| If wealth index ≥ 1.8:<br>state share index = 0.05. |

This formula may appear complicated, but it merely results in two lines meeting at a wealth index of 0.9 and a state share index of 50%, as illustrated in Chart 2. The state share index directs more state funds to districts with lower wealth indexes.

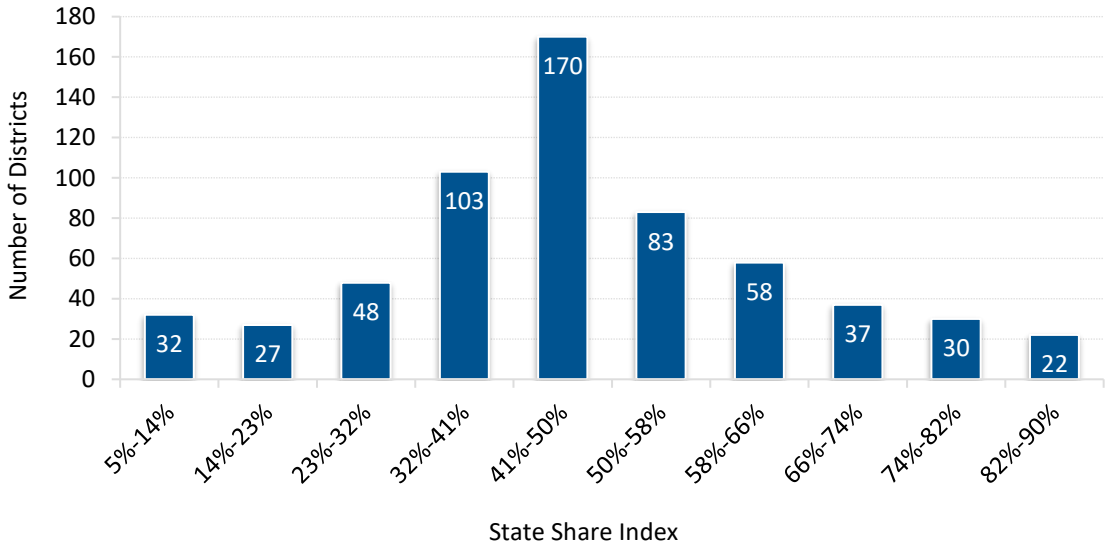
[6] If the formula were not suspended, the statewide three-year average FAGI would be $197,102 for FY 2020.

**Chart 2: State Share Index, FY 2019**




The chart below shows the distribution of the state share index over the 610 school districts for FY 2019. The formula results in districts clustered towards the middle, with more than half of the state's districts (356) having a state share index between 32% and 58%. Looking at the floor and ceiling of the index, 22 high wealth districts have index values at the 5% floor, while four low wealth districts are at the 90% ceiling. The state share index is used in the calculation of the opportunity grant and seven other components of the foundation aid formula.

**Chart 3: Distribution of State Share Index, FY 2019**



## Opportunity grant

As indicated above, the opportunity grant makes up the largest portion of state foundation aid. It is based on a per-pupil formula amount of $6,020 in FY 2019. This amount is multiplied by the sum of each district's formula ADM and preschool autism scholarship ADM, and then by the district's state share index. The latter component ensures a higher per-pupil distribution to lower wealth districts. Preschool autism scholarship students are included in the formula for calculating a district's opportunity grant in order to credit the district with funding for such students prior to the deduction for their scholarships. The opportunity grant totaled approximately $5.00 billion in FY 2019. Note that this amount represents the funding calculated by the formula before the application of the gain cap. After application of the gain cap, the amount of opportunity grant funding distributed to districts totaled $4.62 billion.

The following chart shows the average opportunity grant before the gain cap was applied for the same wealth quintiles displayed in Chart 1 above. In FY 2019, the average per-pupil opportunity grant for wealth quintiles 1 through 5 was $4,826, $3,617, $2,895, $2,377, and $1,379, respectively. As you can see by comparing charts 1 and 4, the average opportunity grant per pupil has an inverse relationship with property value per pupil. This is due to the state share index distributing higher opportunity grants to districts with lower capacities for raising local revenue.

**Chart 4: Per-Pupil Opportunity Grant (Before Gain Cap) by Wealth Quintile, FY 2019**