

ETPI

Education Tax Policy Institute

PART II

Reforming Education Funding in Ohio:

Analysis of Proposals
For Funding an Adequate Education
And Reducing Overreliance
On the Local Property Tax

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ETPI is comprised of organizations across the state interested in how Ohio's tax policies affect school districts and other public entities. The Ohio School Boards Association and the Buckeye Association of School Administrators realized the need for an independent data-driven entity to analyze these issues and originally formed ETPI in 1997.

ETPI's mission is to educate state policymakers and the public about the implications of proposed changes to state and local tax policies on Ohio's public school districts. Membership now includes some 100 Ohio school districts. Warren Russell of OSBA serves as ETPI's President and Dick Maxwell of BASA as Vice President. State level organizations represented on the ETPI Advisory Council include:

- Alliance for Adequate School Funding
- Buckeye Association of School Administrators
- County Commissioners Association of Ohio
- Ohio Association of School Business Officials
- Ohio Education Association
- Ohio School Boards Association
- Ohio Association of Community Colleges
- Ohio Department of Education
- Ohio Library Council
- Ohio Municipal League
- Ohio Coalition for Adequacy and Equity of School Funding

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EXECUTIVE SUMMARY

The Education Tax Policy Institute reviewed four plans for implementing adequate funding in Ohio schools. The four plans divide into two pairs: 1) the *Report of the Joint Committee to Re-Examine the Cost of an Adequate Education* and its legislative counterpart, S.B. 2; and 2) recommendations of the State Board of Education and the Governor's slightly modified version of those recommendations included in the Administration's Budget recommendations.

While none of the four plans appear to resolve all of the problems identified by the Ohio Supreme Court in *DeRolph v. State*, the Adequacy Committee Report/S.B. 2 plan at least makes an attempt to address most of the important issues.

The State Board of Education/Governor's Budget approach does not address the overreliance on the property tax issue in any credible way.

Strong features of the Adequacy Committee Report/S.B. 2 plan include: improvement in gap aid provisions; 3 mill ceiling on local expenditures for special education, vocational education, and transportation; and an initial commitment to a Tier 2 aid program. Weak features include: the use of FY96 data to set the basic subsidy; failure to address special education weights; gap aid provisions that create a disincentive for local education funding efforts; and inadequate funding for the Tier 2 initiative to substantively reduce overreliance on the local property tax.

Strong features of the State Board of Education/Governor's Budget approach include: use of current data and updated performance measures; more help for school districts with catastrophic special education costs; and a shift of 5% of special education costs to the State. Weak features include: failure to address special education weights in the current biennium; a long phase-in of adequate per pupil subsidies; and no effort to restructure funding to eliminate overreliance on the property tax.

Both approaches have some attractive features, but the legislative effort has more innovations. It offers the better framework for proceeding, but a reform package satisfactory to the Ohio Supreme Court will require much more work.

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INTRODUCTION

In November 2000, the Education Tax Policy Institute (ETPI) published *Reforming Education Funding in Ohio: Analysis of Proposed Responses to DeRolph*. That report analyzed six plans for restructuring Ohio's education funding as required by the Ohio Supreme Court in *DeRolph v. State*.

In the *DeRolph* decision, the Ohio Supreme Court identified four constitutional deficiencies in Ohio's school funding system. These four deficiencies included:

- 1) A failure of the school foundation formulas to fund an "adequate" education;
- 2) Overreliance on the local property tax;
- 3) Insufficient resources for funding school facilities;
- 4) Compulsory borrowing required of school districts in fiscal difficulty.

For the most part, the plans reviewed in *Reforming Education in Ohio* in November made no attempt to address the methods by which the State should determine the cost of an adequate education. Instead, the plans focused on changes in the structural arrangements for funding an adequate education once the quantification of adequacy occurred. In this respect, they emphasized that aspect of the *DeRolph* decision in which the Ohio Supreme Court determined that the current school funding system relies too much on the local property tax. The plans also did not address funding for facilities or borrowing issues in a comprehensive way.

The November analysis of the six plans identified positive features and problems in each proposal. The report did not identify as a serious problem the failure of the plans to address the question of how to determine the cost of an adequate education. Without minimizing the importance of the quantification of adequacy, the report assumed that other plans would address the process for computing the cost of an adequate education. It further assumed that eventually changes in the methods for defining the cost of an adequate education would combine with changes in the structural system for funding an adequate education. The combination of these two kinds of changes would provide for a comprehensive reform of education funding.

Reforming Education in Ohio also did not fault the six plans for failing to address facilities or borrowing because the General Assembly already has addressed the facilities issue in other legislation, and because the borrowing issue seems to derive from the other constitutional deficiencies identified in the *DeRolph* case. Thus, the review of the six plans focused on the structural framework for school funding.

Now, four new plans have become available for analysis. The first plan takes the form of recommendations submitted in the *Report of the Joint Committee to Re-Examine the Cost of an Adequate Education*. The report appeared in draft form on December 19, 2000, and this analysis is based on that draft version. (For ease of description, the Joint Committee's report will be referred to in this paper as the Adequacy Committee Report or the Adequacy Plan.) The second plan takes the form of legislation introduced in January 2001 under the title of S.B. 2. This bill has transformed the recommendations of the *Report of the Joint Committee to Re-Examine the Cost of an Adequate Education* into a formal legislative proposal.

The third plan consists of recommendations concerning the cost of an adequate education adopted by the State Board of Education along with other budget recommendations for FY02 and FY03. Together, these recommendations make up a third plan for meeting the constitutional deficiencies of the current system. Finally, the fourth plan appears in the Governor's budget recommendations for the FY02-FY03 biennium. To a great extent, these budget proposals incorporate the State Board of Education's recommendations.

As a result, the first two plans reviewed in this report make up a related pair in which the joint committee recommendations become part of a legislative proposal. Similarly, the other two plans separate into a second pair in which the State Board of Education's recommendations become part of the Governor's formal Budget agenda.

The analysis provided in this report considers the four plans in the context of the decisions in *DeRolph v. State*. Not every education policy or education funding policy relates directly back to a comment or finding of the Court in that case. Therefore, this report does not attempt to analyze every policy or budget initiative that might affect education in Ohio. It focuses on the relationship between the *DeRolph* case and the responses to that case included within the four plans.

All of these plans make some attempt to address the deficiencies of the current system in funding an "adequate" education. The Adequacy Committee Report and S.B. 2 also attempt to address the structural issues related to overreliance on the property tax to some extent. None of the plans proposes a major restructuring of the current framework for distributing responsibility for school funding between the State and local school districts.

FIRST PLAN – ADEQUACY COMMITTEE REPORT

The Adequacy Committee divided State aid into three “tiers.” Tier IA consists of the basic per pupil funding amount constant for all districts. Tier IB consists of the variable amounts necessary to provide funding for an “adequate” education based upon the specific characteristics of each school district. The most important components of this tier include the cost of doing business adjustment, special education, vocational education, aid for disadvantaged pupils (DPIA), and transportation aid. Tier II describes any State aid designed to go beyond the most basic requirements of an adequate education. The Adequacy Plan targets its recommendations based on this three tier model of the school funding system.

Tier IA – Basic Formula

The plan would use the original model for computing the basic cost of an adequate education developed by Dr. John Augenblick and referred to as the Augenblick method with two changes. The Augenblick method is a system for estimating the basic cost of educating a pupil with no special needs based on the actual costs incurred in “successful” school districts. The Augenblick method defines successful school districts as those districts whose performance merits an acceptable rating on 17 of 18 indicators. These indicators include a variety of proficiency test passing rates, attendance rate, and graduation rate.

Of the schools rated as “successful,” a series of screens eliminate unrepresentative districts. Those successful districts within the top 5% of all school districts in terms of income and taxable property wealth were excluded in this way. Similarly, the successful districts within the bottom 5% of all districts in those same categories were excluded also. A further screen applied the Expenditure Flow Model (EFM) as means for eliminating districts with unusual expenditure patterns. The result left a group of representative successful districts. The ADM-weighted average of the basic per pupil expenditure of these districts yielded the amount that represents the basic cost of an adequate education.

In 1997, the General Assembly adopted the Augenblick method with three changes. First, it changed the 5% income screen to a 10% income screen. Thus, under current law, successful districts within the top or bottom 10% of all districts are excluded from the adequacy computation. Second, the law removed entirely the screen based on the Expenditure Flow Model. Finally, the legislative adaptation of the Augenblick method used an unweighted average of the basic per pupil expenditure in the successful districts rather than an ADM-weighted average.

The Supreme Court in its second *DeRolph* opinion demanded an explanation for the legislative modifications to the Augenblick computation. The Adequacy Committee Report responds to the Court’s demand by recommending a return to the Augenblick method as it employed a 5% income screen. The Report reaffirms the legislative decision to discard the Expenditure Flow Model screen. It justifies the exclusion of that screen on

the grounds that the EFM mixes categories of expenditures in a manner inconsistent with the costs included within the base cost amount. The Report also justifies the use of an unweighted average of per pupil costs because the use of a per pupil amount in itself defines the school district as the appropriate measure for comparison, and the use of weighted average makes the experience of smaller school districts underrepresented.

The recommended adjustment in the Augenblick method as enacted in current law would add \$67 per pupil to the basic per pupil cost of an adequate education in FY02.

Tier IA – Mandate Relief

The Ohio Supreme Court in *DeRolph II* ordered the General Assembly to address several mandated costs included in legislation enacted after the first *DeRolph* opinion. The Adequacy Committee Report concluded that the original basic cost of an adequate education incorporated set-aside mandates for textbooks, instructional materials, and capital improvements. The Committee reasoned that the State did not need to provide an additional subsidy for mandate relief for these set asides because districts already expended amounts sufficient to meet the set aside requirements as shown in the FY96 expenditure data upon which the State computed the basic per pupil adequacy amount.

The Adequacy Committee Report concluded that another mandate did require an addition to the basic per pupil cost of an adequate education. The increase in credits required for high school graduation from 18 to 21 increased expenditure requirements beyond those incorporated in the FY96 data. The Committee estimated that by FY02 the additional high school credit requirement would add \$85 per pupil to the basic cost of an adequate education.

Summary of Tier IA Recommendations

The Adequacy Committee Report recommended an increase in the base cost of an adequate education from \$4,414 (the amount scheduled under current law) to \$4,566 in FY02. (The amount of \$4,566 includes the \$85 per pupil increase that the Joint Committee attributed to the mandated increase in high school graduation requirements.) The application of a 2.8% increase yielded a recommendation for \$4,694 for FY03. The Committee recommended that the distribution of funds for FY02 occur without the percentage limitations or “caps” currently in place. Finally, the recommendations included a continuation of the existing 23 mill chargeoff along with gap aid for those districts in which local revenues do not achieve an effective tax rate of 23 mills. This recommendation also included a change in the computation of the chargeoff by which the taxable value of each school district would no longer receive an adjustment based on the income of the residents of the school district. Under current law, the income factor has the effect of lowering the chargeoff in school districts with relatively low income compared to property wealth.

Tier IB

Tier IB consists of all the variable costs incurred by a school district based on the characteristics of the district's student body. It includes special education costs, vocational education costs, transportation costs, differences associated with the cost of doing business in the various counties of the state, and costs incurred in educating economically disadvantaged pupils. The Adequacy Committee Report affirmed the provisions of existing law for computing and paying for these variable costs with three exceptions.

1) The Committee concluded that the existing measurement of disadvantaged pupil populations for purposes of computing DPIA amounts will require further review because changes have occurred in other programs for low income populations upon which the DPIA computations depend.

2) Current law requires local contributions to special education, vocational education, and transportation costs beyond the contribution required in the 23 mill chargeoff toward the basic cost of an adequate education. The Report estimated that the additional impact of these variable costs required a local effort from one to seven mills above the 23 mill chargeoff. The Adequacy Report recommended that this additional effort should not exceed three mills. Therefore, the Committee recommended a cap on local effort for variable costs at three mills. This limit results in an overall limit on local effort equal to 26 mills. The State would pay any amount over that local limit. These payments would be called "excess cost supplement aid."

3) In addition to paying any local requirement above 26 mills, the Committee also recommended that the State's gap aid would fill in any shortfall in the local contribution between 23 mills and 26 mills.

The Adequacy Committee Report asserted that, together, its recommendations would eliminate all phantom revenue associated with the cost of an adequate education as defined by the 26 mill local requirement. The Committee concluded that its recommendations would not eliminate reappraisal-type phantom revenue. It argued that the full elimination of reappraisal type phantom revenue would aid relatively wealthy school districts more than poor ones.

Tier II

"Tier II" refers to education expenditures that exceed the amount necessary to fund an adequate education. Under current law, school districts can raise Tier II funds by obtaining voter approval for taxes in excess of those taxes necessary to pay for the school district's share of the cost of an adequate education. Also, current law provides some State matching aid for taxes levied between 23 and 25 mills. This aid is called "power equalizing aid." Some of the power equalizing aid may qualify as available for Tier II expenditures. While the concept of Tier II money in the current system provides a way to think about education funding policy, it has no statutory status or significance.

The Adequacy Committee Report included a recommendation to spend between \$200 million and \$400 million in State Tier II aid. The existing power equalization provisions would be repealed as part of this recommendation. For FY01, power equalization costs the State about \$32 million. The new Tier II aid would not require any local contribution or local matching amount. Every school district would receive some Tier II revenues from the State, but the per pupil amount of these revenues would increase as district wealth declined.

The formulas for distributing Tier II aid are addressed in some detail in the Committee’s recommendations, although some additional detail will be required before this aspect of the plan could be enacted. The distribution formula would work as follows.

1) Measure each school district’s wealth using residents’ average income and taxable property wealth to create a combined index of wealth. Income would count for one-third of the wealth measure, and property value would count for the other two-thirds. The wealth measure for each district would be compared to a statewide average measurement to obtain a ratio. School districts with a ratio less than 1.00 would be poorer than average. School districts with a ratio greater than 1.00 would be wealthier than average. A school district with a ratio of 1.00 would be an average wealth district.

2) Based on each school district’s ratio, assign the number of “units” of Tier II funds for which the district would qualify. The Adequacy Report contained a sample assignment as follows:

Ratio of School District Wealth	Number of Tier II Units
0.50	7.50
0.75	6.25
1.00	5.00
1.25	3.75
1.50	2.50
1.80 or above	1.00

Thus the average district would receive 5 units of Tier II funding. The poorest district would receive 7.5 units, and so on. It is not clear from the example how many units the formula would assign to ratios that fall between the benchmarks listed on the table.

3) Assign a dollar amount to each unit of Tier II funding. The Adequacy Committee Report suggests a value per unit between $_ \%$ and 1% of the base cost per pupil. For example, if the value per unit of Tier II funding were set at $_ \%$, then in FY02 a school district would receive \$22.83 ($_ \%$ x \$4,566 = \$22.83) multiplied by the number of units assigned to that district multiplied by the number of pupils in the district multiplied by the cost of doing business factor. Based on these assumptions, a poor school district with 1,000 pupils that qualified for 7.5 units (the maximum) of aid would

receive about \$171,000 in Tier II aid prior to any adjustment for the cost of doing business. In contrast, a very wealthy district of the same size would receive the minimum of 1 unit for a total of \$22,830 before application of the cost adjustment. Obviously, if each unit equaled 1% of the base cost per pupil, the amounts of Tier II aid computed assuming a % unit would double.

Analysis of the Adequacy Committee Report

Generally, the Adequacy Committee Report presents a well-organized and clear discussion of the issues. While the concept of Tier I and Tier II funding did not originate with this Report, the Adequacy Committee's division of funding into Tier IA, Tier IB, and Tier II offers a very useful model for thinking about school funding policy.

While the Adequacy Committee Report offers a good model in general, the specifics of its plan do raise some concerns. This section of the paper examines some of these concerns.

Tier IA Concerns

The following aspects of the Tier IA recommendations and discussion deserve a second look because they raise concerns about whether the Adequacy Committee correctly computed the base cost of an adequate education.

A. Augenblick Model

The Committee based its recommendations for a basic per pupil cost of an adequate education on the method used by Dr. Augenblick with two adjustments. The recommendations discard the EFM screen, and they replace the ADM-weighted average of district expenditures with a simple average to obtain a base cost average. After making these adjustments, the Committee computed its recommended base cost amount with FY96 expenditure and performance data. These recommendations raise the following concerns.

1) Timeliness of Data – In H.B. 650, the General Assembly based FY99 per pupil costs on an estimated basic cost amount derived from the application of the Augenblick method to FY96 data. The time required to collect and publish data plus the necessity of adopting a budget before the fiscal year begins makes the three year time lag unavoidable. Thus, in 1998, when the General Assembly enacted H.B. 650, it used the best, *i.e.*, most timely, data available. Three more years worth of data have become available since that time. The use of old data when current data is readily available has no justification.

In a lengthy footnote on page 25, the Adequacy Committee Report attempts to justify the use of old data anyway. The justification takes the form of two arguments. First, since the General Assembly will change the standards used to define success, the

computation will be based on different standards at some point in the near future so that it makes no sense to recompute the Augenblick number using different data. Second,

...the proper way to update is to consider whether the resources today cost the same or more than they did when originally modeled. If the goal is to provide a certain level of goods and services to students, then the main question is how much more does it cost to provide those same goods and services today. Barring a drastic increase or decrease in the cost of a major component, the same opportunities should be available by funding the inflationary increases to the base cost amount.

Both arguments are seriously flawed.

The argument that no recomputation should occur because the standards of success will change fails because it confuses the fact that the method may change with the quality of data used by the current method. In effect, this argument prefers old data from disputed standards to new data under the same standards. This sounds like a person who says, "Someday I will replace my VCR with a DVD player, and in the meantime I won't rent any VHS tapes of new movies because they will look better when I watch them on the DVD player if and when I buy it." If the current method is good enough to use at all, then it deserves the use of the best available data.

The second argument is even weaker. Here, the Report maintains that inflation adjusted data from six years ago provides a better indicator of cost than actual data from three years ago. This sounds like a person who wants to know what the weather is like outside on today, a Tuesday, and figures the best way to find out is to read the long term forecast from the preceding Wednesday, rather than stepping out the front door to see what the actual weather conditions are. One of the fundamental rationales of the outcomes-based approach for determining the cost of an adequate education is that school districts know best how to provide education in their localities. As district circumstances change and best-practice knowledge evolves, districts will appropriately alter their decision-making and presumably their spending. Consequently, it is important to periodically re-examine district expenditures, rather than merely updating initial expenditures for inflation in perpetuity, as is implied in the footnote on page of the Committee's report.

The Committee's argument for using FY96 data would describe a defensible position if the computation of the modified Augenblick method would cost extraordinary amounts of money or would require many months of additional work. In fact, a generous estimate would project that existing staff in the Department of Education could apply the Augenblick method to FY99 and produce a revised base cost using current data within one week.

All of the data required to compute the base cost using the Augenblick method qualifies as public records. The plaintiffs in the *DeRolph* case could run the formula with ease before the next briefs are filed in June. If the base cost computed from FY99 data adjusted for inflation through FY02 and FY03 exceeds by a significant amount the cost

computed from FY96 data and adjusted for inflation through those same years, the plaintiffs undoubtedly will argue that the failure to use the current data represents the same kind of tinkering with the Augenblick method that the Court questioned in *DeRolph II*. From a scientific standpoint, the use of old data, when new data is readily available, undermines the credibility of the results. For this reason, the Adequacy Committee runs a serious risk that the Court would reject its arguments on the timeliness of data issue.

2) Appropriateness of standards – The modified Augenblick method was enacted in H.B. 650. It defines successful districts for purposes of computing the basic per pupil cost of an adequate education as districts which meet 17 of 18 indicators of success. Since that time, the State Board of Education has promulgated new standards for defining a successful district based on satisfactory performance on 26 of 27 indicators. The State Board’s standards incorporate the 6th Grade proficiency tests as well as science proficiency test results from other grades. On policy grounds, at least, a reasonable argument would support an amendment to the existing indicators of success to employ the newer standards adopted by the State Board of Education. However, this argument is not as compelling as the argument for using more current data. An important difference exists between updating the model computations to reflect new data and updating the model computations to reflect new standards. The argument for using more recent data is stronger than the argument for using newer standards, but both arguments deserve consideration.

3) Frequently Changing Standards – The Adequacy Committee’s statement on page 25 in footnote 26 that the General Assembly will adopt new indicators of success in current legislative session should cause concern for another reason. The validity of the Augenblick method as a basis for estimating the cost of an adequate education becomes less convincing when the standards of success undergo frequent redefinition.

Each time the State changes its standards of success, the number of “successful” school districts derived from the Augenblick model changes. Changes in the number of successful districts can lead to significant changes in the basic per pupil subsidy that result when the combination of successful districts under one set of standards differs from that determined under another set of standards. Volatility in the standards means frequent changes in the set of successful districts. These differences can cause instability in the funding amounts derived by the Augenblick method and its cousins. These considerations make the best argument for holding the standards constant.

4) Time-lag in implementing new standards – Changes in standards take time to implement. Even if the General Assembly enacted new standards by June 2001, the new standards could not take effect until FY02. Given the limitations of data collection and the need to enact budgets in advance of the fiscal year for which they apply, the new standards may not become a basis for computing base cost funding until FY05. If inflation adjustments substitute for actual recomputation of the base amount for the intervening years, the result would be that FY04 adequate costs depend on eight year old data from FY96.

Of course, it is possible to enact new standards for FY02 and apply them retroactively to earlier years for purposes of recomputing adequate funding costs. Such a retroactive use of standards has the questionable feature that it would measure schools on one set of standards for a time when the law required them to target a different set of standards, i.e., the current standards that emphasize the proficiency tests. Under such circumstances, the credibility of the new standards as a source of the funding computation would remain suspect for several years until schools could adjust their behavior to accommodate them.

Whatever future decision is made regarding the nature and content of the performance measures used to evaluate the quality of education provided by Ohio's school districts, appropriate implementation of an outcomes-based method for determining the cost of an adequate education will require periodic updating of the data that is used.

B. Unfunded Mandates

H.B. 412 required school districts to set aside amounts for textbooks and instructional materials and for capital improvements and maintenance. The Adequacy Committee reported that it reviewed data from FY96 for the districts judged successful in that year. These data showed that the successful districts met the set aside requirements with sufficient levels of expenditure in that year to satisfy the requirements of H.B. 412. For this reason, the Committee concluded that the base cost amount computed from FY96 data incorporated the set aside requirements. As a result, the set asides did not amount to an unfunded mandate because the base cost amount provided funding for them.

The Committee's argument appears valid with respect to textbooks and instructional materials. Concerning the maintenance and capital improvement set aside, whether the Committee has drawn the correct conclusion depends on the facts. From the details in the Committee's Report, it is not possible to know whether the relevant facts have been considered. Specifically, the derivation of the base cost amount resulted from computations based entirely on the *operating* revenues of school districts. Expenditures for maintenance and capital improvements can come from operating funds or from permanent improvement levies. If some of the expenditures used to determine that the model school districts had met the set aside requirements for maintenance and capital improvements came from the permanent improvement funds of those districts, then the base cost computation would not have included those expenditures. As a result, the amount obtained from the Augenblick method would not have included some or all of the expenditures for those purposes.

The question of fact presented by this issue comes down to: what expenditure data did the Committee use? Did it look only at expenditures from operating funds? If so, it came to the correct conclusion in determining that the mandate for maintenance and capital improvements was met. Alternatively, did it look at total expenditures? In that case, school districts may have met the set aside with permanent improvement fund money so that the base cost amount would not have included the maintenance and capital

expenditures. The mandate would deserve the characterization of “unfunded” under those circumstances.

Finally, the Committee concluded that the increased credit requirement for high school graduation did impose an unfunded mandate. It estimated the additional cost of the mandate and incorporated an additional \$85 per pupil in the base cost amount. The method adopted by the Committee to estimate the additional cost of this mandate appeared very reasonable. As the Committee noted, a large (but not quantifiable in reasonably efficient manner) number of pupils already graduated from high school with the new 21 credit requirement. The mandate would not have increased costs with respect to these students. Therefore, the additional amount added to the base cost to pay for this mandate may provide extra compensation to some districts beyond the additional costs imposed by the mandate.

Tier IB Concerns

The following concerns and comments arise out of a review of the Adequacy Committee Report recommendations concerning Tier IB. Tier IB funds those variable costs of a school district associated with the special needs of students in the district.

A. DPIA

The Committee recommended a review of the standards used to count economically disadvantaged pupils for purposes of the State’s disadvantaged pupil impact aid program (DPIA). Such a review is needed because many changes have occurred in the State’s human services system. This recommendation, however, appears to be limited to consideration of the measurement of the disadvantaged pupil population.

The Committee should have gone further by recommending additional research to better determine the costs imposed on school districts in serving economically disadvantaged pupils. Perhaps the most widely accepted finding from education research over the past 30 years is that socioeconomic characteristics are a primary determinant of student academic achievement. Research has shown that high concentrations of poverty inhibit student achievement in three fundamental ways. First, economically disadvantaged students are more costly to educate because they tend to have higher service needs (i.e. higher incidence of special education and frequent need for academic remediation). Second, economically disadvantaged students tend to have less stable education experiences and less support for education at home than do students from more affluent backgrounds. These two factors tend to undermine the extent to which positive educational intervention translates into higher student achievement. Third, it is both more difficult and more expensive for districts with high concentrations of economically disadvantaged students to hire and retain high quality teachers and administrators.

Additional research to examine whether current DPIA funding levels are adequate to address the problems outlined above is essential to ensure that all students in Ohio receive a quality education.

B. Transportation

For the first time, the Adequacy Committee Report shows some State recognition that the current funding system imposes a local contribution to transportation costs outside of the chargeoff. This recognition is an important step in identifying how much school districts must contribute to the total cost of an adequate education.

C. 3 Mill Tier IB Limit

The Adequacy Committee Report recommended a limit on the local contribution to the cost of an adequate education. The local share of special education, vocational education, and transportation costs could not exceed three mills under this recommendation. This approach shows promise as a method for eliminating unequal burdens associated with these variable costs.

D. Gap Aid

“Gap aid” fills in the difference between the revenue raised by a school district locally and the amount required of the district by the 23 mill chargeoff and the Tier IB chargeoff. The problem with gap aid under current law and under the Committee’s recommendation is the same. A school district must contribute all local operating tax revenues from whatever source until the 23 mill-plus-3 mill chargeoff is satisfied if the district does not levy 23 plus 3 mills as an effective rate on real property. The combination of this provision with H.B. 920 continues to lead to unequal results.

For example, assume that two school districts have the same chargeoff totaling 26 mills for Tiers IA and IB. Assume further that the districts have the same authorized tax rate of 40 mills. In one district, H.B. 920 has pushed the effective tax rate down to 23 mills. In the other, the effective tax rate on real property is exactly 26 mills. The first district must use some (maybe even all) of its 14 mills above the chargeoff charged against personal property. The second district gets the full benefit of the 14 mills on personal property as local Tier II revenue. A similar result affects school district income taxes. If the first district levied an income tax, it would apply some or all of the income tax revenue to satisfy the 26 mill chargeoff. The second district would enjoy the entire amount of its income tax revenue as local Tier II resources. In this way, the failure of the first district to keep its real property tax effective rate at or above 26 mills prevents its use of income tax revenues as a local Tier II resource.

As an alternative, the computation of gap aid should allow districts to exclude some portion of any school district income taxes or personal property taxes over its chargeoff rate from the required local contribution to the cost of an adequate education. Such an allowance would encourage the use of some local Tier II money.

E. Special Education

One topic was particularly notable for its absence from the Adequacy Committee Report. The Report failed to recommend any changes in the computation of the cost of special education as a component of adequacy. Findings by the Ohio Department of Education and by the Ohio Coalition for the Education of Children with Disabilities agree that the current weights used to estimate the cost of providing an adequate education to pupils with handicaps understate actual experience. Both of these reports rely upon a standards-based approach to computing special education costs and represent significantly more detailed analysis of special education than did the 1997 statistical analysis which was referred to in footnote 21 on page 16 of the Committee's report. The Adequacy Committee need not have recommended new special education weights, but, at a minimum, it should have recommended a further review of the special education cost computations as it did in the case of the DPIA measurements.

Tier II

The analysis of the Tier II recommendations divides into two parts. The first part considers Tier II funding as a policy option. The second part addresses technical details required to make the Tier II proposal work.

A. Tier II as a Policy Option

The Tier II funding proposal in the Adequacy Committee Report would provide State funds in addition to the amounts required to pay for an adequate education. Theoretically, the State could provide enough Tier II revenue to eliminate most disparities in local wealth. (See "Tier 2 School Funds," *On The Money*, a Rotunda Publication presented by Hannah Online, September 22, 2000.) Increases in the basic per pupil cost of an adequate education attack the school funding dilemma from the bottom up by building piece by piece a funding program based on the identification of needs. Tier II funds address the situation from the opposite direction. They take a "top down" approach by using the high spending districts as a standard and then by filling in the gap between the adequacy amount and the amount of expenditures in those high spending districts.

The Tier II funding approach has the advantage of expanding local options. Since districts arguably do not need the Tier II funds to provide the minimum requirements of an adequate education, they can use the funds to enhance programs and to provide opportunities otherwise restricted only to wealthy school districts. For example, Tier II funds could allow a school district to increase AP course offerings in high school or to decrease class sizes in the first year or two of elementary school.

Indirectly, Tier II State funds address the overreliance on local property taxes, because districts would receive these funds without any additional local tax effort. Moreover, the distribution of the funds in inverse proportion to wealth tends to minimize

the effect of disparities in the local tax base. For all of these reasons, a Tier II funding program could satisfy many of the requirements for a thorough and efficient public school system as articulated by the Ohio Supreme Court in the two *DeRolph* opinions.

Therefore, a school finance system in which the State funds a robust Tier II component could meet the constitutional standard imposed by Article VI, Section 2, Ohio Constitution. In a constitutional system designed along this model, Tiers IA and IB would fund an adequate education and thereby provide a kind minimum base system. Tier II funds would eliminate the effects of differences in district wealth to the extent of allowing poor school districts to offer the kind of enhancements offered in wealthy districts. Such enhancements could mean expanded programs or more attractive salaries for teachers in poor districts. In any case, the constitutionality of such a system would depend on the combination of the two parts.

A danger would exist that the Tier II part of the system would become the new locus for “residual budgeting.” The State would determine first how much Tiers IA and IB would cost. The amount of Tier II funds would equal whatever the State could afford after funding Tier I. Because Tier II funding is not *necessary* to pay for the cost of an *adequate* education, its could play the role of poor step-child in the budget process.

School districts should embrace the Tier II funding concept only if it is accompanied by an explicit understanding that Tier II funds are *necessary* to satisfy constitutional standards in the absence of any fundamental reform of the local tax structure. In other words, Tier II funds cannot be viewed merely as icing on the cake. Rather, they represent an essential component of a constitutional funding system in which overreliance on local property taxes does not occur.

To prevent Tier II funds from disappearing when the State budget becomes tight, as they would if they become a residual item, the computation of the Tier II subsidy should be tied to funding in the wealthiest districts. For example, instead of defining a “unit” of Tier II funding arbitrarily as $_%$ or 1% of the base per pupil amount, a formula could relate the value of the Tier II unit to the average local Tier II funds available in the wealthiest tenth of all districts.

The table shows the state’s school districts divided into 10 equal groups of 61 districts based on tax year 1999 taxable values. The highest district in per pupil value (Kelley’s Island) was excluded to obtain a list equally divisible by 10. The first row on the table shows the poorest 61 districts in terms of per pupil wealth. The second row shows the next poorest 61 districts and so on. The first column of data shows the cumulative Formula ADM (using the greater of current formula ADM or the average of formula ADM over three years) for all of the school districts within the group. Thus, the poorest 61 districts have among them ADM of 107,359. The next column shows the cumulative taxable valuation in each group of districts. Thus, the poorest districts together have about \$5.3 billion in taxable value compared to about \$39.5 billion in the wealthiest districts. The third column shows the result obtained by dividing the cumulative ADM in the first column into the cumulative valuation in the second column.

Therefore, in the poorest districts, the property tax base equals about \$49,000 per pupil compared to about \$208,000 per pupil in the wealthiest districts. The final column shows the amount of taxes per pupil raised by a two mill levy on all classes of property in each group of districts. A two mill levy in the poorest districts yields an average of about \$99 per pupil. A two mill levy in the wealthiest districts raises about four times as much per pupil or \$416 per pupil.

The table demonstrates the inadequacy of the Tier II recommendation in dollars. A one mill tax in the wealthiest districts produces an average of \$208 per pupil, *i.e.*, one half of the two mill yield shown in the last column. The poorest districts under the Adequacy Committee recommendations would receive about \$171 per pupil in Tier II State aid. This amount represents less than the one mill yield in the wealthiest school districts. In other words, the recommended amount would give the poorest districts less than the average yield of one mill in the wealthiest districts. The argument that this additional amount sufficiently addresses the disparities in the local fiscal capacity of school districts would strain the credulity of the Court.

Average Per Pupil Tax Yield from Two Mills in Ohio School Districts Ranked by Deciles from Poorest to Wealthiest in Per Pupil Taxable Value – Tax Year 1999

Rank From Poorest To Wealthiest	Cumulative ADM	Cumulative Taxable Value	Average Value Per Pupil	Taxes Per Pupil From 2 Mills
1st 61 Districts	107,359	5,307,417,582	49,436	98.87
2nd 61 Districts	143,477	9,291,616,292	64,760	129.52
3rd 61 Districts	180,421	13,359,793,751	74,048	148.10
4th 61 Districts	158,840	13,030,251,481	82,034	164.07
5th 61 Districts	108,273	9,525,771,584	87,979	175.96
6th 61 Districts	132,555	13,200,752,692	99,587	199.17
7th 61 Districts	195,777	21,864,031,252	111,678	223.36
8th 61 Districts	314,779	39,979,456,694	127,008	254.02
9th 61 Districts	194,061	28,802,571,801	148,420	296.84
10th 61 Districts	189,940	39,552,568,207	208,237	416.47

A better method for computing Tier II funds would connect differences in local funding ability to the amount of aid provided. Such an approach could take the form of a system in which the Tier II funding unit equals the difference between the average yield from two mills in each district and the average yield from two mills in the wealthiest 61 districts. Under this formula, the Tier II unit would average about \$317 per pupil ($\$416.47 - 98.87 = \317.60) in the poorest 61 districts. This formula would compute a zero value for units paid to some districts in the wealthiest group, but a minimum unit value could enable even this group to receive some Tier II funds. This system would incorporate wealth differences in the value of each unit rather than in the number of units. Over time the State could increase the number of units funded. The example used taxable value, but a relatively simple adjustment could incorporate an income factor into the computation. Under this system, one unit of funding assuming two mills per unit would

have cost about \$340 million in FY01. This cost assumes a \$50 per pupil minimum in the wealthiest districts.

The Tier II funding recommendation in the Adequacy Committee Report makes theoretical sense, but the execution of the recommendation appears inadequate in three respects. It is connected inadequately to differences in local capacity. The initial subsidy is too small. No plan exists for expanding the role of Tier II funds to eliminate the effects of disparities in local fiscal capacity.

Finally, the enhancement of State Tier II funds is inconsistent with other provisions of the Adequacy Committee Report that discourage local Tier II revenues. Under the recommendations for Tiers IA and IB, school districts with property taxes insufficient to meet the local contribution to adequacy from the first 26 authorized mills would need to draw upon income taxes or personal property taxes in excess of 26 mills before they would qualify for gap aid. This provision destroys any incentive for taxing business property in the district at a rate higher than 26 mills, and it discourages local income taxes as well. Instead, the system should encourage local Tier II effort by excluding some or all of these taxes from the local contribution required before gap aid becomes available.

B. Technical Issues

The Adequacy Committee Report describes a method for Tier II funding in general terms. It does not describe the formula itself. For example, district with an income adjusted tax base of 75% of the average base would receive 6.25 units of Tier II funds. A district at the average would receive 5.00 units. What happens to the districts between 75% and 100% of the average? The Report shows a bracket system as an example of how the plan would work, but many districts would fall between the brackets. Perhaps the plan envisioned by the Committee would assign units proportionally within the brackets. This issue does not reflect in a negative way on the Tier II policy. Rather, it represents the omission of a technical detail from the Committee Report. Actual legislation would need to fill in this detail.

Conclusion

The Adequacy Committee Report contains many useful ideas.

- 1) Its organization of school funds into Tier IA – Base Cost, Tier IB – Variable Costs, and Tier II – Enhancement makes a lot of sense.
- 2) The three mill limit on the local share of Tier IB improves the position of districts with unusually high variable costs.
- 3) The recommendation to investigate DPIA measures deserves credit.

4) The proposal to begin State funding for Tier II without requiring matching local effort shows real promise.

5) Recognition that transportation costs are a component of the total local contribution to the cost of an adequate education (Tier IB) marks an important advance.

6) Removal of the caps on State aid eliminates an unfavorable aspect of the current system.

On the negative side, the Adequacy Committee Report raises the following concerns:

1) The use of old data undermines the credibility of the base cost recommendations.

2) The failure to identify problems in the existing special education funding formula is puzzling.

3) While a review of the methods for counting disadvantaged pupils deserves much credit, a much more extensive inquiry into the connection between poverty and academic achievement is warranted.

4) The Tier II formula lacks a commitment to expanding these enhancement funds with the ultimate goal of eliminating the effect of disparities in local fiscal capacity.

5) The Tier II formula appears to provide insufficient initial funding to create a credible argument that the State has begun a serious effort to address such disparities.

6) The recommendations fail to connect the amount of Tier II funds with these differences in capacity. As a result, the Adequacy Committee Report treats Tier II more as an attractive appendage than as an essential feature of a constitutional system. Tier II *is* the State's response to the disparities in local funding capacity. As it appears in the Report, it provides a totally inadequate substitute for the fundamental reform in school funding structures called for by the Ohio Supreme Court.

As its name implies, the Adequacy Committee Report is about adequacy. In guaranteeing funds up to a maximum local effort of 26 mills, the Report would reduce overreliance on local property taxes to the extent that they fund the cost of an adequate education. To the extent that the Report introduces the Tier II funding initiative, it goes beyond the adequacy issue and begins to address the overreliance on the property tax issue, especially as that issue relates to disparities in school districts' taxable property wealth. While Tier II funding can offer a substitute for fundamental restructuring of a school funding system based on property wealth, it will not succeed in fully addressing overreliance on the property tax without a more significant commitment of resources.

SECOND PLAN – S.B. 2

S.B. 2 presents the recommendations contained in the Adequacy Committee Report in the form of legislation. The bill differs in detail from the Committee Report on a few points, but it follows the conceptual recommendations of the report in every way.

Tier I Funding

The bill provides for a review committee to be appointed in 2003 and every six years thereafter. The committee consisting of members of both houses of the General Assembly would review the methodology for computing the base cost per pupil. The proposal would require the committee to finish its work within one year. As drafted, the first review committee would meet in 2003 and complete its work by early 2004. The recommendations of that committee would be incorporated in the next budget which would be enacted in 2005 for FY06 and FY07. Therefore, the computation of base cost per pupil as included in S.B. 2 would apply for four years with an annual inflation adjustment of 2.8% - FY02 through FY06.

However, the sponsor's intention may differ from the language of the bill. Some indication exists that the bill is intended to obtain a review of the base per pupil cost in time for the FY04 and FY05 budget. Such a schedule is not consistent with the appointment of a committee in calendar year 2003.

Tier II Funding

The bill would use the following formula to compute Tier II funding:

$$\mathbf{0.25\% \times 5 \times (2 - \text{District Capacity Ratio}) \times \text{Basic Per Pupil Amount} \times \text{Cost of Doing Business Adjustment} \times \text{District Enrollment.}}$$

The "District Capacity Ratio" is a measure of each district's per pupil wealth relative to the State average per pupil wealth. In this context, a school district's per pupil wealth is computed based one-third on income of the district's residents and two-thirds on taxable property in the district.

For example, if a district had exactly average Capacity, its District Capacity Ratio would equal "1." As a result, the district's Tier II per pupil aid in FY02 would equal:

$$0.25\% \times 5 \times (2 - 1) \times 4,566 = \$57.08 \text{ per pupil (exclusive of the cost of doing business adjustment).}$$

A wealthier district with a Capacity 50% greater than the average would receive Tier II aid computed as follows:

$$0.25\% \times 5 \times (1 - 1.5) \times 4,566 = \$28.54 \text{ per pupil (exclusive of the cost of doing business adjustment).}$$

Finally a poor district with a Capacity Ratio of one-half the State average would receive Tier II aid computed as follows:

$0.25\% \times 5 \times (1 - \frac{1}{2}) \times 4,566 = \85.61 per pupil (exclusive of the cost of doing business adjustment).

In FY03, the 0.25% factor would double to 0.5%. As a result, the per pupil amounts shown in the examples would increase by slightly more than double for that year also. Based on these formulas, every district would receive at least \$11.42 per pupil in FY02 and \$23.47 per pupil in FY03.

In the poorest tenth of all school districts, the Tier II aid proposed in S.B. 2 would substitute State revenue for an approximate average of two mills of locally imposed taxes in those districts.

Analysis of S.B. 2

The comments and analysis presented in the discussion of the Adequacy Committee Report apply with equal relevance to S.B. 2. The use of FY96 data as the basis for the computation of the basic per pupil subsidy continues to cause concern.

Concern about the timeliness of the underlying data intensifies if the review committee contemplated in S.B. 2 does not report in time to affect the FY04 and FY05 budget.

The ceiling on the local share of special education, vocational education, and transportation costs (Tier IB) takes a step in the right direction by reducing reliance on local property taxes. However, the effectiveness of the ceiling in protecting districts from excess costs depends on the correct identification of costs for those specific purposes. The ceiling only applies to the costs as specified in the formula. For example, if the application of special education weights in a school district yields an amount of \$100,000, and the district's local share percentage equals 50%, then the district's special education amount for purposes of computing the ceiling equals \$50,000. If the district's actual special education costs are \$150,000 because the weights do not reflect special education costs accurately, then the district will have \$50,000 of unaccounted for special education costs. These costs would not count toward the three mill ceiling. Thus, the correct calibration of special education weights becomes even more important in a system with a ceiling on local costs for special purposes. The bill's failure to address concerns about existing special education weights appears especially important in this context.

The requirement that all local revenue contribute to the chargeoff before any gap aid becomes available for either Tier IA or Tier IB will have the unintended consequence that many districts will lose any incentive to tax themselves above 20 mills. This outcome will polarize the State's school districts between many for whom local optional

revenue has become practically impossible and another group of districts which continue to use local wealth as the source of substantial amounts of local option revenue.

The introduction of Tier II funding could eliminate the unequal opportunities implied by the preceding paragraph, but the levels of Tier II subsidies prescribed in S.B. 2 fall far short of the amounts needed. The Adequacy Committee Report suggested that the basic unit for Tier II funding would equal between 0.5% and 1% multiplied by the basic per pupil subsidy. S.B. 2 uses 0.25% in FY02 as the comparable factor for computing the basic Tier II unit. That percentage factor would increase to 0.5% in FY03. Therefore, the S.B. 2 commitment to Tier II is less than the recommendation of the Adequacy Committee, at least in FY02.

THIRD PLAN – STATE BOARD OF EDUCATION RECOMMENDATIONS

The State Board of Education adopted a budget request and endorsed 39 policy recommendations. Since many of the policy recommendations only have an indirect impact on funding an adequate education, this paper will focus on the budget and policy recommendations of the State Board with a direct impact on funding adequacy.

Base Cost Computation

The State Board used a computation called the “Resource and Accountability Model” to determine a base cost per pupil. The model resembles the Augenblick method, but it makes some adjustments to the original computations under that method. The new model attempts to identify successful school districts as the basis for estimating how much those districts must spend to provide an adequate and successful education. As in the Augenblick method, the Resource and Accountability Model removes extra costs like those associated with special education, transportation, vocational education, and disadvantaged pupils to focus on the costs necessary to educate pupils without special needs. The model sorts districts into “successful districts” and all other districts. Then, it averages the per pupil basic costs in those successful districts.

The selection of districts in the Resource and Accountability Model applies the following criteria to data about school district performance in FY99:

- 1) The district meets 20 of 27 performance standards;
- 2) The district falls between the 5th and 95th percentile of all districts in per pupil property wealth;
- 3) The district falls between the 5th and 95th percentile in terms of per pupil personal income;
- 4) At least 80% of the district’s teachers have 5 years or more of teaching experience;
- 5) The district-wide K-12 regular classroom pupil/teacher ratio is 21 pupils per teacher or less;
- 6) The district offers at least one Advanced Placement (AP) course.

The 27 performance standards used by the model include the following:

- 1) 75% pass rate on the 5 components of the 4th Grade Proficiency Test;
- 2) 75% pass rate on the 5 components of the 6th Grade Proficiency Test;

3) 75% pass rate on the 5 components of the 9th Grade Proficiency Test by 9th Grade students;

4) 85% pass rate on the 5 components of the 9th Grade Proficiency Test by 10th Grade students;

5) 65% pass rate on the 5 components of the 12th Grade Proficiency Test;

6) 93% Student attendance rate;

7) 90% Graduation rate.

Of the districts that meet these criteria of success, some fall outside the income and wealth parameters. Others fail to pass the “input screens” based on teacher experience, pupil/teacher ratio, or AP course offerings. A total of 43 successful districts remain after making these exclusions. For FY04, the basic per pupil cost of adequacy derived from the model equals \$5163. This amount represents an unweighted average of the per pupil base cost amounts for the 43 districts. This funding level will be reached after a three-year phase-in from FY02 through FY04.

Special Education Recommendations

The State Board recommended three changes in the formula for computing special education funding. The current formula first counts each special education in the basic aid calculation. Special education students are then categorized into three groups, with additional funding for students in each group based upon a weight which is multiplied by the foundation level. While the students are categorized into three groups there are only two weights, as the weights for groups II and III are identical. The weights were derived through a regression analysis of school district expenditures and are intended to include funding for both classroom and related services associated with special education. Since the passage of HB 650, many educators have expressed the opinion that the weights do not adequately reflect the costs associated with special education. The changes now recommended by the State Board are very similar to changes also recommended by the Board in 1998.

The first change recommended is to provide separate additional funding for related services associated with special education. This funding is to be disbursed through a system of weights for different types of related services personnel. The weights were derived through analysis done by the Ohio Department of Education. The analysis was based on case-load guidelines delineated in state standards and the application of average costs throughout the state of hiring the different types of personnel. Because related services personnel often work with large numbers of students for varying lengths of time, the weights are expressed in *per-provider* terms rather than *per student* terms. Funding is determined by multiplying the weights by the foundation level, however, dollars will be allocated only for personnel actually employed in each

school district. The State Board recommends a 2 year phase-in, with the weights at half strength in FY02, and full-strength in FY03. The weights are listed in the Table below.

Special Education Related Services Provider Weights

Category	Related Service Provider Type	Per Provider Foundation Weight
A	Speech Supervisor Psychology Supervisor Low Incidence Supervisor High Incidence Supervisor	18.4117
B	Psychology Services Audiology Services	16.0802
C	Speech Services I and II Occupational Therapy Physical Therapy Orientation and Mobility Behavior Specialist	13.3385
D	VOSE Coordinator Work Study Coordinator	16.0601
E	Adaptive Physical Ed. I and II	11.5816

The second recommendation would restructure the categorization of special education students into five groupings rather than three. In addition to changing the number of groups, different weights are recommended as well. The proposed weights are derived from Ohio Department of Education analysis of instructional cost data and state-prescribed classroom ratio data. This data is more detailed than the data used in the regression analysis that underlies the current weights. The State Board recommends adoption of the proposed 5 weight system in the next biennium.

The State Board recommendations for altering the classroom weights are similar to policy recommendations developed by the Ohio Coalition for the Education of Children with Disabilities (OCECD) in November, 2000. The OCECD recommendations were based on an updated version of the Ohio Department of Education methodology and combine the related services weights with the classroom weights to provide a set of six 'all inclusive' pupil-based weights.

The current, State Board recommended, and OCECD recommended instructional weights are summarized in the following Table.

Current and Recommended Special Education Instructional Weights*

Current Funding Formula		State Board Recommendations		OCECD Recommendations	
Handicap Category	Weight (incl. Related Service)	Handicap Category	Weight	Handicap Category	Weight (incl. Related Service)
DH LD Other Health	0.22	DH (high school) LD (high school) Other Health (h.s.)	0.389	Speech Only	0.3061
SBH Visual Hearing Orthopedic Multi-Handicap	3.01	DH (elem/ jr. high) LD (elem/ jr. high) Other Health (e/ j.h.)	1.083	SBH DH LD	0.9252
		SBH	1.778	Visual Hearing	2.2744
Deaf-Blind TBI Autism	3.01	Visual Hearing Orthopedic	2.125	Orthopedic Other Health	3.6562
		Deaf-Blind Multi-Handicap TBI Autism	2.571	Deaf-Blind Multi-Handicap	4.4711
				TBI Autism	5.5859

Note: DH = Developmentally Handicapped
 LD = Specific Learning Disabled
 SBH = Severe Behavior Handicapped
 TBI = Traumatic Brain Injury
 *Weights represent the additional cost beyond base cost.

Finally, current law permits school districts to obtain additional special education funding for students in Category 3 (most severe disabilities) if those students require specialized services. The State Board recommended extending eligibility for these additional funds for any student with an IEP (any handicap) that requires more than \$25,000 in one year. The proposal would have the State reimburse the district for the full cost of such pupils between \$25,000 and \$75,000 per year without requiring a local contribution. The local contribution to the first \$25,000 would remain the same as under current law. The OCECD proposal makes a similar recommendation, proposing that the

state pay for all legitimate costs beyond \$25,000 for any student in the 8 most costly handicap categories.

All Day Kindergarten

The current DPIA program funds all day kindergarten in certain high poverty school districts. The State Board recommendations would phase-in funding for all day kindergarten in all districts by beginning to count certain kindergarten pupils as a full unit in the average daily membership (ADM) formula rather than as one-half of a unit of ADM as in the current formula.

Overreliance on the Property Tax

The State Board specifically decided not to address the issue of overreliance on the property tax. Staff recommendations from the Department of Education would have included State money to eliminate the Phantom Revenue problem. The Department estimated that the elimination of Phantom Revenue would cost \$600 million. It recommended a phase-in of that amount. Under the gradual approach, the State would commit \$100 million in Phantom Revenue reduction in FY02 and \$200 million in FY03 with additional increments of \$100 million per year. The State Board of Education decided *not* to adopt this recommendation.

Analysis of the State Board Recommendations

The recommendations of the State Board of Education differ from those presented by the Adequacy Committee Report¹. The State Board covered a wide range of education policy issues, while the Adequacy Committee Report focused on a few issues directly related to the determination of an adequate funding amount. The analysis here does not attempt to evaluate the impact of policy recommendations of the State Board such as those intended to improve the performance of new teachers, to recruit math and science teachers, or to provide more pre-school or summer learning opportunities.

As described in the preceding discussion about overreliance on the property tax, the State Board specifically decided not to address that issue when it rejected a staff proposal to eliminate Phantom Revenue over a six year period. While the Adequacy Committee Report did not target overreliance on local property taxes as the principal object of its work, its proposals include elements that attempt to address the overreliance issue. Therefore, in the context defined by the requirements of the DeRolph case, the State Board's recommendations offer a relatively narrow approach (although they cover a broad range of education policies). The recommendations would change variables within the existing methods for defining adequate costs, but they would not make any fundamental change in the allocation of the cost between local and state contributions.

¹ Comparative references in the discussion of the State Board of Education recommendation to the recommendations of the Adequacy Committee Report should be considered as equally applicable to S.B. 2

Base Cost Per Pupil Analysis

When Dr. Augenblick developed his model for estimating the cost of an adequate education based on performance, he used the standards of successful performance under consideration by the State Board of Education in 1997. His model applied these standards to FY96 data. In S.B. 55, effective in 1997, and H.B. 650, effective in 1998, the General Assembly codified the definition of success in terms of successful performance on 17 of 18 criteria. In this way, the standards used by Dr. Augenblick became statutory criteria.

In the meantime, the State Board of Education adopted additional standards for evaluating the performance of school districts. They raised the number of performance standards used to hold school districts accountable from 18 to 27. The Adequacy Committee used the original 18 performance standards as codified in current law as the basis for finding successful districts to compute the cost of an adequate education in a modified Augenblick model. The State Board used 27 standards as the comparable tool for measuring performance in its Resource and Accountability Model. In implementing the model, the State Board applied its formulas to data from FY99.

As a common feature, both the Adequacy Committee and the State Board did not require perfect performance on all performance standards. The Committee agreed with the Augenblick model in defining a successful district as a district that meets 17 of 18 standards. The State Board defined successful districts as those that achieve 20 of 27 standards. These two approaches show that any variation of the Augenblick approach must address two issues. First, how many performance standards will the model consider? Second, how many of the performance standards must a school district achieve to include its per pupil expenditure within the average of “successful” districts? (These issues are also discussed in the context of the Adequacy Committee report on page 9, above).

In addition, the process of revising or updating the computations designed to estimate the cost of an adequate education raises four other issues:

- How often should the State update the computation of the cost of an adequate education?
- Should such updates merely update the base cost figures of the districts already defined as adequate or should a complete recalculation of which districts are adequate occur?
- What effect on the computation of the cost of an adequate education should occur when the standards of academic success change?
- What index or other measure of changing costs should adjust the cost of an adequate education in those years when no full-blown update of the computation occurs?

The Adequacy Committee justified its use of 17 of 18 standards on the basis of consistency with the original formulation of the model and consistency with existing law.

The Committee Report included with regard to this and many other issues a statement of the reasons for making the policy choices adopted by the Committee. In contrast, the State Board provided its recommendations in the form of a list of suggestions. It did not justify its use of 20 of 27 standards because its recommendations did not take the form of an integrated policy brief. The strongest justification for using 27 performance standards results from the fact that the State Board of Education policies now hold school districts accountable to those 27 standards rather than to 18 standards. The justification for choosing the achievement of 20 standards relied upon the work of the Panel of Experts in 1995. That Panel consistently used 75% as an acceptable passing rate. By analogy, Department of Education staff reasoned that the achievement of 75% of the standards of success would indicate an overall successful performance by a school district. Seventy-five percent of 27 standards equals 20 standards. In this way, successful performance on 20 of 27 standards became the basis for identifying successful districts for the purpose of computing the base cost of an adequate education.

In addition, the use of a higher number of standards in connection with data from FY99 resulted in a sample of districts judged too small to support a defensible projection of adequate base costs.

The Resource and Accountability Model used FY99 data as the basis for estimating the cost of an adequate education. The use of more recent data offers a better basis for determining actual costs than the application of an inflation factor to older data as employed by the Adequacy Committee Report.

Another distinction separated the Resource and Accountability Model from the modified Augenblick model used by the Adequacy Committee. The Resource and Accountability Model used three input measures to remove some of the districts that met 20 of 27 performance standards. The three input measures included minimum teacher experience, pupil/teacher ratio, and AP course requirements.

Critics of the input measures can argue that the measures inappropriately exclude successful school districts from the adequate cost computation. If a school district can achieve 20 of 27 performance standards with a pupil/teacher ratio of 25 to 1, why is that district's success less meaningful than a district with a ratio of 21 to 1 or less? Similarly, if a district achieves successful performance, what difference does it make that the accomplishment occurs with less experienced teachers or without AP course offerings?

The use of input measures depends on an assumption that output measures provide an incomplete indication of an adequate educational program. This incompleteness can take different forms. In one form, the ability of one district to achieve success with certain inputs may result from unusual factors unique to the district. Under such circumstances, the input screen for pupil/teacher ratio excludes those school districts where an uncharacteristically compliant student body enables the use of fewer teachers per pupil. This input factor depends on the theory that the success of a "bare bones" operation does not translate into a representative result for the purpose of benchmarking expenditures in other districts.

A system based only on output measures also may appear as incompletely reflective of adequacy because some components of an adequate education may go beyond merely satisfying the 27 performance standards. The absence of advanced placement courses places a school district's pupils at a distinct disadvantage. In the current higher education system, the successful completion of AP courses translates directly into dollars saved by the pupils who earn them. With AP credits in English, Social Studies, and a Foreign Language, a high school pupil can earn the equivalent of a full semester of college work in high school. Such a student can begin college at a more advanced level and complete college sooner and more cheaply. Under such circumstances, it seems reasonable to conclude that the failure to offer even one AP course reflects an inadequate program. In this context, inadequate means a program that fails to duplicate opportunities that have become the norm in the education continuum from K through College.

The input screens based on teacher experience and on class size (pupil/teacher ratio) rely on research that shows some connection between class size and performance, especially among economically disadvantaged pupils. It may be possible to argue that the DPIA class size subsidies make this screen unnecessary. However, such an argument would fail if smaller class sizes contribute to better achievement for all students.

Research also may support some connection between teacher experience and student achievement. These connections must be developed to support the State Board's recommendations, if they are available. It is also possible that the connection between teacher experience and the cost of an adequate education relates more to practical considerations than links between teacher experience and teacher effectiveness. For example, a more experienced faculty will cost more than a less experienced staff. The wage scale rewards experience. While unusual circumstances might result in a few school districts with a combination of faculty members with a low experience profile, the inclusion of such unusual and short-lived instances would result in an unrepresentative indication of faculty costs. In other words, the teacher experience screen removed school districts with unrealistically low experience levels and therefore unrealistically low salary requirements.

The Adequacy Committee Report recommended a basic per pupil funding level of \$4,566 for FY02 and \$4,694 for FY03 based on its modified Augenblick model which relies entirely upon output measures. The State Board recommendations equal \$4,583 for FY02 and \$4,873 for FY03 using the Resource and Accountability Model. The funding levels recommended by the various plans are detailed in a summary table provided at the end of this report.

Both the State Board and the Adequacy Committee Report recommend the elimination of any "caps" on funding increases that would result from these base cost changes or other increases in funding.

Analysis of the Special Education Recommendations

1) Special Education Weights

The State Board recommendations about special education weights acknowledge the availability of new data about special education costs. This data was not available when the General Assembly codified the existing weights in H.B. 650. The Adequacy Committee Report failed to consider this new information. The State Board recommendations show that the cost of special education as current law accounts for it requires further study and probably modification.

2) Related Services

The failure to provide funding for related services associated with special education apart from funding for special education classroom services is a serious one. Related services can be costly and often vary widely among students within handicap categories as well as across handicap categories. The State Board of Education addressed this issue directly by recommending the reinstatement of related services funding and the development of weights designed to reflect the cost of related services personnel.

3) High Cost Pupils

The State Board recommendations would allow reimbursements special services for all pupils with an IEP with annual costs exceeding \$25,000. Current law only allows such reimbursement for pupils in the most severe category of disability (Deaf-Blind, TBI, Autism). This recommendation correctly identifies a deficiency in the current system. The coincidental occurrence of very high costs in one school district should not place an unusual burden on that district. The Adequacy Committee Report addresses this problem in a more general manner by recommending a circuit breaker approach by which a school district's contribution to special education, vocational education, and transportation never could exceed three mills. *If* all special education costs incurred by a school district count toward the three mill minimum, the Adequacy Committee Report offers an alternative approach.

For example, suppose that one school district has a few high cost special education pupils and moderate costs in the other categories of Tier IB expenditure. Suppose that another school district has no special education pupils with special high cost requirements, but it has an unusual number of special education pupils with the customary needs implied by the special education weights. Suppose further that the few high cost pupils in the first district and the unusual number of non-high cost pupils in the second district both cause their respective districts to spend more than three mills worth of local revenue on Tier IB. The State Board recommendation would help the first district but not the second. The Adequacy Committee Report would help both districts equally assuming that the excess special education costs incurred in the first district count toward the district's local contribution.

The Adequacy Committee Report places a general limit on all Tier IB expenditures. This approach does not distinguish between the source of excess local costs. It defines an objective standard for the local contribution and funds costs that exceed the standard. With this approach, it does not matter whether a district has excess costs caused by unusual concentrations of severe disabilities, unusual numbers of mild disabilities, or unusual geographical conditions that elevate transportation costs. All excess costs receive the same treatment. This is the more comprehensive method for addressing excess costs deriving from special education, vocational education, and transportation if a choice must be made between the two methods.

Of course, nothing would prevent the use in the same system of a general limit on all excess costs and a specific program to assist school districts with unusually high cost pupils. Therefore, the combination of the three mill limit in the Adequacy Committee Report and the high cost pupil aid in the State Board recommendations deserves consideration.

Analysis of the All Day Kindergarten Recommendation

Many years ago, kindergarten itself was considered an optional part of the education program. Then, half-day kindergarten became the norm. Now, the education system is moving toward a new standard where full day kindergarten becomes the new standard. This evolution provides an excellent example of change in the definition of an adequate education.

The current funding method of counting kindergarten pupils as one-half for ADM purposes reflects the practice in the schools less and less as time passes. If the evolving standards treat all day kindergarten more as the norm than the exception, then the school funding system must acknowledge reality by treating kindergarten pupils as full time students rather than part time students.

The Adequacy Committee Report did not address this issue. The State Board recommendations do address it.

Conclusion

The State Board recommendations cover relatively narrow ground to the extent that they address the measurement of the cost of an adequate education. Education policy does involve more than the issues addressed in the *DeRolph* case, and to some extent the State Board attempted in its recommendations to look at issues that go beyond those in the court case. The recommendations fill in some holes in the Adequacy Committee Report by raising special education and all day kindergarten as adequacy issues. The Board's recommendations offer an alternative computation of the base cost amount dependent on more current standards and data. The use of input screens raises a clear policy choice about whether output measures alone can define the cost of an adequate education.

The Board of Education's decision to confine its recommendations to the Adequacy issue means that its program has little chance of offering a system acceptable to the Ohio Supreme Court because no aspect of the recommendations addresses the overreliance of the system on the local property tax.

FOURTH PLAN – GOVERNOR’S EXECUTIVE BUDGET – EDUCATION FUNDING PROPOSALS

Because the Executive Budget contains recommendations for appropriations for all aspects of education funding, it contains many more details than either the State Board of Education proposals or the Adequacy Committee Report. The comments in the analysis of the State Board’s recommendations noted that those recommendations in instances addressed broader concerns of education policy than those specified by the Court in its opinion. These comments apply to the Budget proposals to some extent as well. However, this analysis will focus on the recommendations that make significant adjustments to current methods of funding as placed in issue in the *DeRolph* case. This analysis does not attempt a line-by-line critique of every appropriation for education purposes.

Resource & Accountability Model

The Budget accepts the recommendation of the State Board of Education to use the Resource and Accountability Model for identifying the base per pupil cost. In this regard, the assessment of the strengths and weaknesses of this approach described in the preceding analysis of the State Board recommendations applies here as well. However, the Budget phases in the Board’s recommendation over a period of five fiscal years from FY02 through FY06 (as opposed to the State Board's 3-year phase-in from FY02 through FY04). The per pupil base cost amount for FY02 is proposed at \$4,490 in FY02 and \$4,670 in FY03. The increase from FY01 to FY02 equals 5% and the increase from FY03 to FY04 equals 6.4%. The Summary table at the end of this report shows the per pupil base cost amounts implied by the Executive Budget proposal for the entire five year phase-in. The table also shows the per pupil base cost amounts in a comparable format for other plans under consideration.

The Budget recites that the base cost amounts for FY02 include \$32.7 million and \$42.8 million in FY03 for mandated additional high school credits. These totals result from an estimate that the cost of the additional high school credits equals \$24 per pupil in FY02 with subsequent increases of one dollar per year through FY06 (the proposed base cost amounts for each year include this adjustment).

Special Education

The Budget shifts 5% of the local share of the cost of weighted special education and speech related services from school districts to the state (resulting in an additional cost of roughly \$30 million per year for the state). In addition, the Budget recommendations would extend State funding for catastrophic costs (*i.e.*, special education costs in excess of \$25,000 per pupil) to cover all categories of special education pupils. The increase in the number of special education categories from 3 to 5 is not included in the recommendations for FY02 and FY03, nor is any indication given to following the State Board's recommendation to implement this change in the subsequent FY04-05 biennium.

All Day Kindergarten

The Budget recommendations would include funding to expand the all day kindergarten subsidy under DPIA to include 53 more school districts by FY03.

Overreliance on Local Property Taxes

The Executive Budget contains no proposals for restructuring taxes or otherwise reducing reliance on local property taxes as a component of school funding.

Analysis of the Executive Budget Proposals

The Budget reaches the adequate level of funding of \$5,456 per pupil recommended by the State Board of Education in FY06. (The actual per pupil subsidy level for that year would equal \$5,484 based on \$5,456 plus \$28 for the cost of additional high school graduation credits.) While the Budget takes five years to reach the State Board's adequacy level, the State Board recommendations would have achieved full funding of the amount that the Board considered adequate by FY04 after a three-year phase-in.

The Budget recommendations appear in the context of an otherwise tight budget. However, the Ohio Supreme Court has ruled that the Ohio Constitution makes primary and secondary education funding *the* priority in the State's finances. The Court has also indicated that it will not tolerate lengthy phase-ins of adequate funding levels. In direct contradiction to this directive, the Budget recommendations contain such a phase-in of the basic per pupil subsidy.

In addition, the State through the agency of the Department of Education, has concluded that the existing special education weights in the school funding formula do not reflect special education costs, however, the budget recommendations do not address that deficiency. Finally, the recommendations make no attempt to address the overreliance on the property tax issue.

On the basis of these observations, only one conclusion can result from a review of the Executive Budget. It fails in a very substantial way to meet the requirements of the *DeRolph* decision.

CONCLUSION

This analysis has reviewed four plans. Each of the plans appears in a different format. The Adequacy Committee Report reads like a policy brief addressed at specific legal and policy issues. S.B. 2 is a legislative draft. The State Board of Education recommendations appear as list of suggestions that cover many topics. The Budget proposal addresses all of the line items required of the education budget. Any comparison of proposals presented in such different formats must select a point of view for analysis. This paper has analyzed the four plans from the perspective of the requirements imposed by the Ohio Supreme Court that the State provide adequate funding with less reliance on the local property tax.

From the perspective employed in this paper, the Adequacy Committee Report/S.B. 2 proposal offers a more complete attempt to address the Court case. This conclusion does not mean that the State Board of Education recommendations and the Governor's Budget recommendations do not contain essential initiatives. The conclusion also does not mean that S.B. 2 contains all of the elements funded at the level required of a constitutional system.

As a final comment, the four plans show a common tendency to increase the complexity of the entire school funding system. For each issue, piecemeal changes graft another formula based on another ratio onto a system already burdened with some complexity. Complexity has two consequences. First, as the system becomes more complex, parents and taxpayers are less able to understand it. This lack of understanding threatens to undermine the credibility of the system whatever merits it may appear to provide from the perspective of policy experts. Second, at some point, greater complexity overwhelms even the ability of the policy experts to understand and predict the outcome of policy changes. Under such circumstances, unintended consequences become a more frequent result of policy initiatives. While all of the plans contain well-intentioned and meritorious improvements, the process of revising these plans into a final plan should note the need to streamline and simplify the system in the context of providing adequate funding.

SUMMARY OF THE FOUR PLANS

The following pages present two tables as summaries of the four plans. The first table focuses on a comparison of the basic per pupil subsidy under:

- 1) Current law – FY01's \$4,294 adjusted by a 2.8% inflation factor;
- 2) S.B. 2/Adequacy Committee – The amounts implied by the Adequacy Committee Report. These would be subject to revision by the Review Committee meeting in 2003;
- 3) Original Augenblick – the amount implied by Dr. Augenblick's original 1997 computation;
- 4) Gov. Taft (5 Year Phase-in) – the amounts needed to phase-in the State Board of Education recommendation over 5 years;
- 5) State Board of Education – the per pupil amounts implied by a phase-in of the State Board's recommendation of \$5,163 in three years;
- 6) ODE/Supt. Zelman – Superintendent Zelman's plan recommended to the State Board of Education, developed by Department of Education staff (also to be phased-in over three years).

The second table attempts to provide a more comprehensive comparison of the features included in each of the four plans discussed in this report.

**Comparison of Different Proposal's Foundation Formula Base Cost
Per Pupil***

Year	Current Law	S.B. 2/ Adequacy Committee	Original Augenblick	Gov. Taft (5 Year Phase-in)	State Board of Ed. (3 Yr. (Phase-in)	ODE/ Supt. Zelman (3 Yr. Phase-in)
FY '01	\$4294	\$4294	\$4511	\$4294	\$4294	\$4294
FY '02	\$4414	\$4566	\$4638	\$4490	\$4583	\$4635
FY '03	\$4538	\$4694	\$4768	\$4670	\$4873	\$4976
FY '04	\$4665	\$4825#	\$4901	\$4926	\$5163	\$5317
FY '05	\$4795	\$4960#	\$5038	\$5197	\$5308	\$5466
FY '06	\$4929	\$5099#	\$5179	\$5484	\$5456	\$5619

*Both the Adequacy Committee/S.B. 2 and Gov. Taft proposals include cost adjustments for the additional high school credits mandated in S.B. 55. The Adequacy Committee provides an additional \$85/pupil in each year, while Gov. Taft allocates \$24/pupil in FY02, with an increase of \$1 per year to \$28/pupil in FY06.

Numbers in **boldface** type represent the first year where the foundation level reflects the adequate base cost according to each plan. The shaded areas indicate a Foundation Level where the adequate base cost according to the given model has been reached and yearly foundation levels are now computed by making an annual 2.8% Inflation Adjustment.

Review Committee may adjust the computation in FY '04 or one of the following years.

The funding levels of the Taft plan without the 5 year phase-in would be as follows:

$$\begin{aligned}
 \text{FY02} &= \$4885 + \$24 = \$4909 \\
 \text{FY03} &= \$5022 + \$25 = \$5047 \\
 \text{FY04} &= \$5163 + \$26 = \$5189 \\
 \text{FY05} &= \$5308 + \$27 = \$5335 \\
 \text{FY06} &= \$5456 + \$28 = \$5484
 \end{aligned}$$

Major Features of the Four Plans

Component	Adequacy Committee Report and SB 2	State Board Recommendation	Governor Taft Budget
Method for Base Cost Computation	17/18 Outcome Measures	20/27 Outcome Measures	20/27 Outcome Measures
Year of Data used for Computation	1996	1999	1999
Phase-in of Base Cost Amount?	No Phase-in	3-year Phase-in	5-year Phase-in
Provision for Updating Base Cost Computation?	Review Committee in FY03	No provision	No provision
SB 55 Mandate Adjustment	\$85 per pupil	None	\$24/pupil in FY02, \$1 increase per year
Spending Caps?	Removed	Removed	Left to Expire in FY03
Equalization of Categorical Funding	3 mill limit on local contributions for categoricals	None	None
Special Education Weighted Funding	No change from current formula	Recommend move to 5-weight system	State share increased by 5%
Special Education Related Services	No provision	Related Services Weights added	No provision
Special Education Catastrophic Costs	No change from current formula	State pays costs in excess of \$25,000	State pays costs in excess of \$25,000
All-Day Kindergarten	No funding earmarked	Phase-in funding for all districts	Funding for 50 more districts to provide
DPIA	Recommendation to study formula	No mention	No mention
Phantom Millage Provision?	Yes - 6 mills of gap funding	Yes - 3 mills of gap funding	Yes - 3 mills of gap funding
Reappraisal Phantom Revenue Provision?	No	Deleted \$300 mill. funding suggested by Supt. Zelman	No
Over-reliance on Local Property Taxes Provision?	Tier 2 funding (which would be more effective if increased)	No mention	No mention