House Finance Primary and Secondary Education Subcommittee
House Bill 64 Testimony

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A. Overview

Chairman Cupp, members of the Subcommittee, thank you for the opportunity to testify here this morning. My name is Howard Fleeter and I am an economist and consultant for the Ohio Education Policy Institute (formerly ETPI). 2015 marks my 25th year researching school funding in Ohio. Over this time frame I have seen Ohio's system for funding K-12 public education evolve and improve in many ways. The state has invested over $10.6 billion in school facility construction through the Ohio School Facilities Commission's various programs. State funding for operating purposes though the school funding foundation formula has also increased significantly over this period of time. However, many problems continue to persist, including heavy reliance on local school levies and lingering questions about the overall adequacy and equity of funding across Ohio's 611 school districts.

From my perspective, the current time frame is as challenging as any period I have seen in the past 25 years in terms of school funding. In the past four bienniums we have had four different school funding formulas. At the same time, property values — which are normally very stable — have changed in highly unusual ways, and in different directions in different types of school districts. Furthermore, in the four years from 2010 through 2013 state funding was not based on the typical parameters — district property wealth, number and type of students, and additional factors such as poverty and transportation needs — but according to a series of caps and guarantees that were linked to Fiscal Year (FY)11 and in many cases, FY09 funding levels.

As a result, the period of time when large and in some cases unprecedented changes in district property wealth was occurring, there was little to no stability in the funding formula compounded by a four year period where district characteristics were virtually unlinked to state funding levels. The ramifications of this combination of circumstances is that current and proposed funding levels seem to many of Ohio's school districts to be disconnected from either past funding levels and/or current circumstances.

B. Brief Summary of Recent Ohio School Funding Formulas

Mid-1980s through FY09: The Foundation Formula and Chargeoff — While modifications to the parameters and the mechanics of the school funding formula typically occur every biennium, from the mid-1980s though FY09 Ohio's school funding system was a Foundation Formula system with the following elements:

1) Per Pupil Base Cost Amount (which ranged from $2,530 in 1990 to $5,732 in 2009)

2) Local Share of Base Funding Determined by a Millage "Chargeoff" multiplied by each district's total property valuation (the chargeoff millage was initially 20 mills and subsequently increased to 23 mills)

3) Additional funding of "categorical" programs for additional costs relating to special education, career technical education, economically disadvantaged students, gifted and talented students, and transportation.

4) In 2002 an additional funding element known as "Parity Aid" was added to provide additional state funding to school districts in inverse proportion to their local wealth.

FY10 and FY11: The EBM — For the FY10 and FY11 school years the Foundation Formula approach was replaced by Governor Strickland's Evidence-Based Model (EBM) for school funding. The EBM provided funding for all of the components listed above but in a different manner. Rather than revolving around a per pupil base cost figure, the EBM was an input-based model driven by student enrollment, "organizational units" reflecting different grade levels, and staffing ratios. The local share was still determined by a "chargeoff" against district property valuation and the chargeoff millage was lowered from 23 mills to 22 mills. Parity Aid and Economically Disadvantaged Aid were replaced by the Education Challenge Factor.

While the EBM was in concept very different from the foundation formula, the dramatic decrease in state tax revenue caused by the 2009 recession meant that only about 20 districts each year actually received the funding determined by the EBM. The other 590+ districts were either on a guarantee or a cap linked to FY09 funding levels.

FY12 and FY13: the Bridge Formula — The EBM was replaced by the Bridge Formula in FY12 and FY13 after Governor Kasich was elected. Without sufficient time between the election and the presentation of the Executive Budget to develop a new school funding formula, the Bridge Formula was not a funding formula in the traditional sense. Instead of basing funding on district property wealth and student needs, districts received funding in FY12 and FY13 based on their amount of funding in FY11.

FY14 and FY15: Return to the Foundation Formula (minus the Chargeoff) — Finally, in FY14 and FY15 the current funding formula was implemented. It largely resembles the foundation formula approach and begins with a base cost amount ($5,700 per pupil in FY15) and includes the traditional categorical funding components (Parity Aid is now known as "Targeted Assistance"). The major difference between the current funding formula and the foundation formula from FY09 and before is that the local share is determined not by a millage chargeoff against total district property valuation, but according to an index based on each district's relative wealth as determined by property value per pupil and in some cases relative median income. The local share, now known as the State Share Index (SSI) is the same in both FY14 and FY15. FY14 marked the based on a prior year amount.

C. Recent Changes in Property Values

In addition, to having had four different funding formulas, the past eight years have also been characterized by a very unusual pattern of property valuation changes. The advantage of using property taxes for school districts and other local governments is that property values are historically very stable, tending to increase over time with only rare instances of decrease. This stability is important to small units of government that find it difficult to withstand revenue fluctuations from year to year.

However, in the aftermath of the recession, property values fell in many Ohio school districts, in some cases by significant amounts. While property values were decreasing many districts were insulted from a corresponding decrease in revenues by House Bill (HB) 920 which can reverse

millage rate reductions due to inflationary increases in property values in the unlikely event that property values decline (as they did after the recession).

At the same time as the recession was decreasing residential and business real property values, agricultural property values began to rise. This is because of a program dating back to 1975 known as Current Agricultural Use Valuation (CAUV). The premise of CAUV is that agricultural property should be valued according to its in farm production as opposed to its "best and highest" market value (i.e. what a developer might pay to turn farmland into a strip mall, office park, outlet mall or residential subdivision). CAUV values qualify agricultural property according to a complex formula that includes factors for capital costs, soil types, crop prices and crop yields. Increased crop prices (in some cases to record levels) and historically low interest rates have been two of the primary drivers of recent increases in CAUV over the past several years, along with recent updates made to the formula by the Ohio Department of Taxation.

Table 1 shows statewide totals of CAUV taxable value compared to "Best and Highest Use" values that provide an approximation of the market value of farmland.

Table 1: CAUV vs. "Best and highest Use" Property Values, 2005-2013

Tax Year	Avg. CAUV Value Per Acre	State Total CAUV Taxable Value	State Total Highest & Best Use Value	CAUV % of H&B Use Value
TY05	$113.60	$1,817,459,950	$12,863,218,938	14.1%
TY06	$116.46	$1,862,224,624	$13,567,040,800	13.7%
TY07	$124.59	$2,000,934,434	$14,088,846,920	14.2%
TY08	$166.23	$2,671,876,240	$15,174,386,360	17.6%
TY09	$191.16	$3,082,737,365	$15,422,091,180	20.0%
TY10	$224.42	$3,621,292,584	$15,789,157,320	22.9%
TY11	$322.91	$5,220,439,230	$16,862,869,980	31.0%
TY12	$348.01	$5,629,159,220	$17,242,302,370	32.6%
TY13	$420.53	$6,803,976,520	$18,100,946,150	37.6%
TY13/TY05	**3.70**	**3.74**	**1.41**	

Source: Ohio Department of Taxation PD32 data files, 2005-2013

Table 1 shows that CAUV values have increased by nearly 4 times from 2005 to 2013, both in per acre and total value terms. Table 1 also shows that the gap between CAUV and market value for the state's farmland has narrowed considerably since 2005, particularly in the past five years. Note that the figures in Table 1 are statewide aggregate figures and that CAUV varies considerably across the sate, and in some areas CAUV values are now very close to market values. Also note that while not shown on the table, CAUV values in Tax Year (TY) 14 continued to increase in counties which underwent reappraisal last year.

Table 2 below provides some insight into the rapid increase in CAUV values by showing the change in the prices of Ohio's two leading crops (corn and soybeans) over a similar time period. The price of corn was nearly four times higher in 2012 than it was in 2004, while the price of soybeans is 2.8 times higher. The table also shows that in 2013 prices began to decrease.

Table 2: Ohio Corn and Soybean Crop Prices, 2004-2012

Year	Corn Price Per Bushel	% Increase	Soybean Price Per Bushel	% Increase
2004	$1.85		$5.15	
2005	$1.98	7.0%	$5.74	11.5%
2006	$3.08	55.6%	$6.46	12.5%
2007	$4.29	39.3%	$9.93	53.7%
2008	$4.21	-1.9%	$10.30	3.7%
2009	$3.55	-15.7%	$9.78	-5.0%
2010	$5.45	53.5%	$11.50	17.6%
2011	$6.44	18.2%	$13.00	13.0%
2012	$7.09	10.1%	$14.60	12.3%
2012/2004	**3.8**		**2.8**	
2013	$4.30	-39.4%	$12.60	-13.7%

Source: Ohio Department of Agriculture Annual Reports

Finally, the CAUV formula is based on averaging the various factors over a five to seven year time period. This is because crop prices typically fluctuate up and down from year to year. However, when crop prices increase over an extended period of time, the averaging aspect of the CAUV formula will introduce a lag in the impact of the increase in CAUV value. This lag is then compounded by Ohio's reappraisal process which calls for a full reappraisal every six years and interim update after three years. This means while the CAUV formula is computed by the Ohio Department of Taxation on annual basis, CAUV values are only reset at reappraisal and update and then are kept in place for three years. Thus for farmers who have undergone reappraisal in 2014 and experienced a large increase in CAUV the new values will be in place for three years, even as crop prices decline.

D. The FY16-17 Funding Formula Proposed in the Executive Budget

This committee has already heard extensive testimony relating to the Administration's FY16-17 proposed funding formula. The main changes in this proposal as compared to the current system are summarized below:

1) Increases in Funding Formula Parameters — The proposed FY16-17 funding formula retains the basic structure of the current funding formula, including Core Opportunity Aid and the categorical components including Targeted Assistance, Special Education, Career Technical Education, Economically Disadvantaged Aid, K-3 Literacy Aid, Transportation, Gifted Funding and LEP Funding. Several changes are made to the parameters of the funding components:

i) The core opportunity aid base amount is increased from $5,800 per pupil in FY15 to $5,900 per pupil in FY16 and $6,000 per pupil in FY17.

ii) Special education weighted amounts are increased 2% annually from current FY15 levels.

iii) Career technical education weighted amounts are increased 4% annually from current FY15 levels.

iv) K-3 literacy funding amounts are increased 5% annually from current FY15 levels.

Parameters for the other funding components, including Targeted Assistance and Economically Disadvantaged Aid, appear to be unchanged from FY15 levels.

2) Transportation — Three changes will be made to the transportation funding formula:

i) Funding will be increased so that transportation funding formula is fully funded (which it has not been for many years).

ii) The current 60% minimum state share of transportation funding will be reduced to 50%.

iii) Supplemental funding for low-density, low mileage districts will be eliminated. The Administration explains that the combination of the first two changes make this component no longer necessary.

3) State Share Percentage — The current State Share Index will be modified to include income as a factor in a different manner than was the case in the FY14-15 funding formula. The State Share Index will also be renamed the "State Share Percentage" and the current "wealth index" component of the SSI will be referred to as the "capacity measure" in the State Share Percentage.

The current SSI includes income as a factor only when a district's ratio of median income to state median income is lower than the district's valuation index. The SSI of 186 districts currently includes an income adjustment. However, 175 of these districts are districts whose valuation index is greater than one (i.e. wealthier than average) while only 11 of the districts have lower property wealth per pupil than average.

The proposed FY16-17 formula would apply the income ratio in a different manner. 321 districts whose median income ratio is within ½ standard deviation of the state median income would not have an income factor applied. 176 lower property wealth districts would see the income factor applied to their benefit (i.e. make them appear even lower wealth), while 114 wealthier districts would see the income factor applied to their detriment (i.e. make them appear even wealthier). The adjustment for the lower wealth districts would occur immediately while the adjustment for the higher wealth districts would be phased in over five years.

The State Share Percentage will be recomputed every year, unlike the SSI that was the same in FY14 and FY15.

4) Transitional Aid (aka the Guarantee) — The FY16-17 proposed funding formula will reduce the guarantee by up to 1% of a districts total (state + local) resources in FY16 and again in FY17.

5) Gain Cap – The current (FY15) gain cap is 10.5%. Under the Administration proposal, the gain cap will be 10% in both FY16 and FY17.

6) Change in Three-Year Averaging of Property Valuation — It has been common for many years to average property values over three years in order to smooth out the effect of reappraisal. In the past there has been a two-year lag between the most recent Tax Year of valuations used and the school year in which they are applied. For example, in the FY14 funding formula, property values would be averaged from TY10, 11 and 12 data. This lag is partly due to data availability and partly due to the fact that property taxes are paid in arrears. The first half payment of TY14 property taxes was due in January 2015. The second payment is not due until June 2015 and will not be distributed to school districts until July which is the beginning of the 2016 school year.

However, the Executive proposal "skips ahead" a year in the three year averaging process. Under the Administration's proposed funding formula FY16 property values are averaged over Tax Years 13, 14 and 15. There are three implications of this change:

i) The Tax Department is currently in the process of finalizing TY14 valuation figures and 2015 values are estimated and will not be finalized until the FY16 school year is nearly over. Thus, this approach will always use a year of estimated values to determine the state share of funding. This also impacts the computation of Targeted Assistance.

ii) Because the SSI is the same in FY14 and FY15, the state share for each school district in FY15 is based on the three-year average of TY10, 11 and 12 figures (i.e. the traditional way of computing the three-year average valuation in FY14). Under the Administration's proposal, TY16 values will be based on a three-year average of TY13, 14 and 15 values. Thus, FY15 and FY16 state aid will be distributed based on two three-year periods with absolutely no overlap. This undermines the original intention of three-year averaging which was to smooth over changes in valuation from year to year. This is especially problematic considering the abnormal pattern of property value changes that has occurred in recent years.

iii) Skipping ahead a year in the three-year averaging process particularly disadvantages rural districts where the CAUV increase have been the highest. By adding in an extra year of growth rural districts receive less state aid than they would otherwise.

Table 3 below provides a summary of FY17 funding under the Administration's proposal as compared to FY15 funding. This comparison uses the Ohio Department of Education school district typology categories.

Table 3: Comparison of Foundation Formula Aid (After Cap & Guarantee), FY15 vs. Governor's Proposed FY17, by Typology Group

Typology Grouping	FY15 Estimated Formula Aid (ODE Sept #1)	FY15 Aid Per Pupil	FY17 Estimated Formula Aid	FY17 Aid Per Pupil	FY17 – FY15 Formula Aid Change	FY17-FY15 % Change	FY17-FY15 Diff Per Pupil
1. Poor Rural Districts	$878,846,684	$5,515	$899,783,365	$5,646	$20,936,681	2.4%	$131
2. Rural Districts	$574,756,025	$5,658	$566,969,518	$5,581	($7,786,507)	-1.4%	($77)
3. Small Towns	$654,767,733	$3,807	$676,399,076	$3,933	$21,631,343	3.3%	$126
4. Poor Small Towns	$898,459,439	$4,577	$1,008,805,576	$5,139	$110,346,137	12.3%	$562
5. Suburban Districts	$794,689,377	$2,494	$904,596,416	$2,839	$109,907,039	13.8%	$345
6. Wealthy Suburban	$450,909,259	$1,871	$473,891,682	$1,966	$22,982,423	5.1%	$95
7. Urban Districts	$1,365,231,149	$5,387	$1,586,752,537	$6,261	$221,521,388	16.2%	$874
8. Major Urban Districts	$1,410,466,637	$5,659	$1,605,789,619	$6,442	$195,322,982	13.8%	$784
Totals	**$7,028,733,633**	**$4,155**	**$7,723,581,898**	**$4,566**	**$694,848,265**	**9.9%**	**$411**

Table 3 shows that urban, suburban and poor small town districts receive the largest percentage increases under the Governor's plan, averaging double digit percentage increases. Poor rural districts and small towns and wealthy suburban districts all receive average increases of less than 5%, while rural districts actually receive a decrease in funding on average.

Examining the pattern of property value changes over the past several years sheds some light on why the funding pattern shown in Table 3 occurs. Table 4 provides a summary of how property values have changed over the past several years by school district typology group.

Table 4 shows that the Type 2 rural school districts show a 10.8% average increase in property values from FY14 (also used in FY15) to FY17. These districts also fare the worst under the Governor's proposed plan. Rural districts experience the second highest increase in values and receive the next smallest increase in state aid. At the other end of the spectrum, the urban districts that receive the largest increases in funding actually see their values decline over this time period as did the suburban districts. The lack of clear correlation between the values and funding changes in the small town and wealthy suburban districts is likely due to the implementation of the income factor in the State Share Percentage calculation.

Table 4: FY14/15, FY16 and FY17 3 Year Average Total Property Valuation <u>As Computed By OBM and LSC</u>, by Typology Group

Typology Grouping	3 Yr Avg. Total Value FY14&15 (TY10, 11, 12)	3 Yr Avg. Total Valuation FY16 (TY13, 14, 15)	3 Yr Avg. Total Valuation FY17 (TY14, 15, 16)	% Change FY14-16	% Change FY16-17	% Change FY14-17
1. Poor Rural Districts	$19,081,969,041	$20,332,687,495	$20,717,978,212	6.6%	1.9%	8.6%
2. Rural Districts	$11,951,038,161	$12,954,105,403	$13,244,727,051	8.4%	2.2%	10.8%
3. Small Towns	$26,177,121,222	$26,987,372,125	$27,449,867,906	3.1%	1.7%	4.9%
4. Poor Small Towns	$24,069,105,467	$23,978,279,887	$24,222,105,662	-0.4%	1.0%	0.6%
5. Suburban Districts	$57,653,035,012	$56,268,154,904	$56,732,213,055	-2.4%	0.8%	-1.6%
6. Wealthy Suburban	$48,871,511,513	$49,388,753,308	$50,145,154,301	1.1%	1.5%	2.6%
7. Urban Districts	$26,339,520,095	$24,994,132,417	$25,039,094,224	-5.1%	0.2%	-4.9%
8. Major Urban Districts	$27,721,740,907	$26,092,236,322	$26,032,179,282	-5.9%	-0.2%	-6.1%
Totals	**$241,996,684,882**	**$241,137,469,557**	**$243,734,173,990**	**-0.4%**	**1.1%**	**0.7%**

Table 5 shows the same data as Table 4 with three-year averaging done the traditional way.

Table 5: FY14/15, FY16 and FY17 3 Year Average Total Property Valuation <u>Computed as Has Been Done in the Past</u>, by Typology Group

Typology Grouping	3 Yr Avg. Total Valuation FY14 (TY10, 11, 12)	3 Yr Avg. Total Valuation FY16 (TY12, 13, 14)	3 Yr Avg. Total Valuation FY17 (TY13, 14, 15)	% Change FY14-16	% Change FY16-17	% Change FY14-17
1. Poor Rural Districts	$19,081,969,041	$19,857,724,033	$20,332,687,495	4.1%	2.4%	6.6%
2. Rural Districts	$11,951,038,161	$12,626,357,299	$12,954,105,403	5.7%	2.6%	8.4%
3. Small Towns	$26,177,121,222	$26,533,387,187	$26,987,372,125	1.4%	1.7%	3.1%
4. Poor Small Towns	$24,069,105,467	$23,778,831,077	$23,978,279,887	-1.2%	0.8%	-0.4%
5. Suburban Districts	$57,653,035,012	$55,921,329,591	$56,268,154,904	-3.0%	0.6%	-2.4%
6. Wealthy Suburban	$48,871,511,513	$48,684,707,647	$49,388,753,308	-0.4%	1.4%	1.1%
7. Urban Districts	$26,339,520,095	$24,981,319,885	$24,994,132,417	-5.2%	0.1%	-5.1%
8. Major Urban Districts	$27,721,740,907	$26,113,068,023	$26,092,236,322	-5.8%	-0.1%	-5.9%
Totals	**$241,996,684,882**	**$238,629,656,686**	**$241,137,469,557**	**-1.4%**	**1.1%**	**-0.4%**

The data in Table 5 shows that merely returning to the traditional way of doing three-year averaging would lower the increase in rural school district values by about two percentage points. Other types of districts are not affected as much.

Finally, the volatility of agricultural property values discussed above could also be addressed by using a longer time period to average valuation. Table 6 shows the result if values are averaged over a six-year time frame in school districts with more than 20% of real property classified as agricultural. The growth rate in values in these districts is cut nearly in half as a result of this change.

Table 6: FY14-15, FY16 and FY17 <u>Six-Year Valuation Average</u> For Districts with > 20% AG Property, Computed as Has Been Done in the Past, by Typology Group

Typology Grouping	3 Yr Avg. Total Valuation FY14 (TY10, 11, 12)	6 Yr Avg. Total Valuation FY16 (TY09-14)	6 Yr Avg. Total Valuation FY17 (TY10-15)	% Change FY14-16	% Change FY16-17	% Change FY14-17
1. Poor Rural Districts	$19,081,969,041	$19,370,999,136	$19,800,562,720	1.5%	2.2%	3.8%
2. Rural Districts	$11,951,038,161	$12,133,051,174	$12,474,690,202	1.5%	2.8%	4.4%
3. Small Towns	$26,177,121,222	$26,379,501,515	$26,802,226,334	0.8%	1.6%	2.4%

E. Assessment of the Proposed FY16-17 Funding Formula

The administration's proposed school funding formula was designed to work largely within the structure of the current funding formula. Many of the parameters in the funding formula were increased. The two most significant changes to the formula are the modification of the state share calculation to more broadly include income and the phasing down of the guarantee.

The administration has stated its intention in constructing the proposed formula to be to direct state funding to districts based on their capacity to raise local revenue. The inclusion of the income factor in the state share percentage calculation is based on the premise that low income districts have less ability to tap into whatever local property wealth they may have and high income districts have more ability to do so. In this regard, the inclusion of the income factor is consistent with the goal of basing aid on fiscal capacity. Previous versions of the state aid formula have included an income factor but not in the same manner as is being proposed.

The Administration also has explained that the reduction in the guarantee is also consistent with the goal of allocating more resources based on fiscal capacity by directing less money to districts that do not "need" it according to the formula. Most observers of school funding in Ohio would agree that getting as few districts on the formula as possible is a worthy goal. Any disagreement would occur over the method of doing so — should the formula be modified so that districts come off the guarantee "naturally' or should it simply be phased out?

One way to judge the overall efficacy of Ohio's school funding system is to examine the total resources that a school district has available for general purposes. A district's "total resources" includes state funding through the foundation formula, local property taxes and school district income taxes, and local casino tax revenues. Because federal funds and state funds outside the formula are typically for specific uses they are excluded. Table 7 below provides a summary of total resources by typology in FY15 and in FY17 as proposed by the Administration. For the purpose of assessing the functioning of the proposed state aid formula Tangible Personal Property (TPP) replacement payments are also excluded from Table 7 below. (Note also that local resources are assumed to remain the same in FY15 and FY17.)

Table 7: FY15 and Governor's FY17 Total State & Local Resources (without TPP Payments), by Typology Group

Typology Grouping	FY15 Total S&L Resources Excluding TPP	FY15 Gov Total Resources Per Pupil	FY17 Governor Proposal Total S&L Resources Excluding TPP	FY17 Gov Total Resources Per Pupil	FY15 to FY17 % Change
1. Poor Rural Districts	$1,444,203,239	$9,187	$1,465,139,928	$9,321	1.4%
2. Rural Districts	$973,863,725	$9,781	$966,077,208	$9,703	-0.8%
3. Small Towns	$1,521,834,684	$8,991	$1,543,466,028	$9,119	1.4%
4. Poor Small Towns	$1,712,627,520	$8,799	$1,822,973,658	$9,366	6.4%
5. Suburban Districts	$3,078,808,239	$9,799	$3,188,715,276	$10,148	3.6%
6. Wealthy Suburban	$2,666,880,947	$11,184	$2,689,863,374	$11,280	0.9%
7. Urban Districts	$2,484,215,214	$9,826	$2,705,736,603	$10,702	8.9%
8. Major Urbans	$2,673,052,948	$10,713	$2,868,375,927	$11,496	7.3%
Totals	**$16,558,850,856**	**$9,881**	**$17,253,699,120**	**$10,296**	**4.2%**

Table 7 provides a variety of insights. Urban and poor small town districts are shown to receive the largest percentage increases in total resources from FY15 to FY17 under the Governor's proposed formula. Rural, poor rural and small town districts receive the smallest increases (with rural districts actually going down). Suburban districts are in between. The second insight from Table 7 is that rural and small towns have less total resources (often by $1,000 to $2,000 per pupil) than do the suburban and urban districts.

The discrepancy between the rural and suburban districts from FY15 to FY17 is particularly interesting. In FY15, the rural districts are $18 below the suburban districts in total resources. However, in FY17, the rural districts are $445 per pupil below the suburban in total resources. This pattern reveals that despite having the largest increase in property valuation, the rural districts actually lost ground compared to the other typology groups. So even if many rural districts are at the 20 mill floor (meaning that they would in fact get additional local revenue as a result of their increase in property values — even increases from CAUV). Table 7 shows that after the effects of the proposed state aid formula occur they are worse off on average than they are now.

A final consideration from examining Table 7 is that perhaps the state aid formula needs to be further modified. Rural districts clearly have less total resources at their disposal than do the other school districts in Ohio. An OEPI analysis from last year also showed that rural districts offer fewer courses overall and fewer advanced courses than do other school districts. Additional funding would help to close this opportunity gap.

One option would be to provide an additional funding component geared to districts that can raise less revenue from a mill of taxation than can other districts. In some districts in Ohio a mill of property taxation raises less than $40,000. That is not even enough to hire a single teacher when the cost of benefits is included. Such a component could be considered another category of Targeted Assistance.

Another option would be to use an alternate method of computing the state share. There is some evidence that the valuation per pupil method used currently in the SSI and also included in the Governor's proposed formula works to the disadvantage of smaller districts. This is because the SSI and proposed State Share Percentage both rank districts on a value per pupil basis and smaller districts sometimes rank higher than expected in this methodology. Using a local contribution formula that is based on total property valuation adjusted by income avoids the problem of ranking districts against one another and just bases the state/local share calculation on a district's own ability to pay. An additional advantage of this approach is that over time a district's funding is altered only by how its own local revenue capacity changes and not how it changes in comparison to other districts. This is likely to be both more stable and easier for districts to predict for forecasting and planning purposes.

Thank you again for the opportunity to testify this morning. I will be happy to answer any questions that the committee might have.