



**Senate Finance Education Subcommittee  
House Bill 64 Testimony  
Ohio School Boards Association  
Buckeye Association of School Administrators  
Ohio Association of School Business Officials  
May 6, 2015**

Good afternoon, Chairman Hite, Vice Chairman Sawyer and members of the Senate Finance Education Subcommittee. Thank you for the opportunity to speak to you today regarding House Bill (HB) 64. My name is Barbara Shaner, Associate Executive Director for the Ohio Association of School Business Officials (OASBO). Joining me today for this testimony and in answering your questions are Damon Asbury, Director of Legislative Services for the Ohio School Boards Association (OSBA) and Thomas Ash, Director of Government Relations for the Buckeye Association of School Administrators (BASA).

Our organizations represent public school district boards of education, superintendents, treasurers/ CFOs, business managers and other school business officials from around the state. Our members of course have a keen interest in the provisions proposed in Amended Substitute House Bill (HB) 64. We are here today to offer our thoughts on the bill.

As you are well aware, the issues surrounding funding for public education have generated a complicated, high profile, and even controversial policy debate for many years. Those who have been around long enough to remember know the funding debate pre-dates the *DeRolph* lawsuit filed in the early '90s and first decided by the Ohio Supreme Court in 1997. Further, it would not be an exaggeration to say we have experienced at least five different school funding formulas since that first court decision.

These various formulas have all generally represented improvements in funding for the education of students. While budget restraints have sometimes hampered the full implementation of the formulas, attempts have been made to address the many diverse needs of students across the state as the Supreme Court directed. Additionally, many Ohio school districts have enjoyed the benefit of the expansive Ohio School Facilities Commission (OFSC) program, largely based on the evidence offered in that *DeRolph* court case.

However, it is our position that the current school funding formula established in HB 59 still falls short in meeting the needs of all students. With the help of Dr. Howard Fleeter, consultant for the Ohio Education Policy Institute (OEPI), we have identified wide gaps in available resources for some districts. If the current formula was to be completely phased in, those gaps among districts would increase.

We believe the House version of HB 64 makes structural changes to Ohio's school funding formula that are critically needed. In his testimony, Dr. Fleeter will highlight the technical details

of these changes and the benefits they offer school districts. Our comments today are focused on the need for making such public policy changes.

To begin the discussion, we would point out that the purpose of a foundation funding formula is to distribute state resources to districts and their students in a way that ensures a certain amount of equity across the state. Every formula adopted since *DeRolph* has been designed to drive more funding to districts whose residents have a lower capacity to fund their own schools locally. In fact, it is safe to say that states across the country utilizing a foundation funding formula are doing so to address this issue. If this were not the purpose for utilizing a formula, the state could simply distribute funds on an equal per-pupil basis.

The bottom line is this — does a district have the necessary resources to serve its students? What programs and courses can be offered to students? Currently, there is a wide range of education opportunities available among the districts across the state. Ohio's school funding formula should be calibrated in such a way that allows every district to prepare its students for college or a successful career. We believe the current funding formula (adopted in HB 59) and the Governor's original proposal in HB 64, have made progress but fall short of this objective.

As the Governor correctly stated at the beginning of the budget process, the principle that our school funding formula be based on districts' capacity to raise funds locally is an extremely important principle. The House proposal improves on the current school funding framework in very significant ways, thereby helping more low capacity and rural districts than the current school funding formula and the proposal under the Governor's plan.

Many of the districts helped by the House changes do not have the resources necessary to offer the variety of education opportunities their students need since their per-pupil, total state and local resources fall well below the statewide average. The change for the determination of a district's local contribution found in the House proposal helps address this issue. Additionally, the added per-pupil, per-mill component aimed at addressing districts' inability to raise funds for local education options will help students in lower capacity districts.

Again, we strongly believe the structural changes in the House version of the budget take a significant step toward closing the funding gap for the state's lowest capacity districts. Over 446 districts would receive increases in state funding under the current version of HB 64, and no district would receive less money than in FY 2015.

We are also supportive of the new funding provision that ensures all school districts receive at least 20% of the formula's core opportunity aid once it is phased in. This change addresses a basic issue of fairness for those districts.

*I will now turn the testimony over to Tom Ash.*

### **Transitional Aid Guarantee**

House Bill 64 would phase down the transitional aid guarantee for districts. Based on a district's total (i.e. state and local) available resources, the guarantee amount would be reduced by 1%. This policy change assumes the school district is receiving too much money from the state because the formula does not produce as much funding for the district as it received the previous year.

It is our understanding that proponents of the phase-down assert that changes in the districts' circumstance (such as the loss of students or an increase in property values) are the causes for

a district receiving transitional aid funds. Yet no direct correlation can be found between these changes in districts and the fact they qualify for transitional aid. Further, there is no evident connection between the proposed loss of these funds and the extent to which district circumstances have changed.

We believe the rationale for reducing transitional aid funding is flawed. An example which shows that the formula itself plays a role in districts receiving transitional aid can be found in the current budget process (HB 64). The number of districts on the transitional aid guarantee in the original budget proposal was 226 for Fiscal Year (FY) 2016. When the House completed its version of the budget, 118 districts were on the guarantee. **The same student numbers and property valuation data were used for these projections.** The key driver for what changed between the two proposals was the structure of the formula. The total FY 2016 dollar amount funded through the guarantee went from \$153 million for FY 2016 in the original proposal down to \$123 million in House version. This demonstrates the danger in moving to eliminate these transitional aid funds on the basis of lost enrollment or increased property values.

While it is unlikely that any formula will perfectly address the wide range of school district circumstances across the state, the decision to reduce transitional aid funds should be considered carefully. Again, we must determine whether or not these districts have the necessary resources to serve students. Districts across Ohio have already pared back programs in recent years as a result of the state's economic crisis, and further reductions may be devastating. In some cases, the reduction in state aid from phasing down transitional aid as originally proposed, may represent the salaries of multiple numbers of teachers, thereby reducing instructional opportunities for students. **We do not support this policy change.**

#### **Balance Reserves and Forecasting**

According to testimony provided by the administration on HB 64, the level of school district carryover balances projected in five-year forecasts is sufficient to withstand reductions in TPP and PUTPP replacement payments as well as reductions in the transitional aid guarantee proposed in the original bill.

Five-year forecasts are not financial statements, but a tool meant to be used by the school district leadership for planning purposes. The development and maintenance of the forecast is a dynamic process – assumptions and factors affecting the forecast can change. Policies vary from district to district as to the assumptions made in developing the forecast in part because contributing factors like collective bargaining, health care costs, districts' reliance on state and local resources, and regional costs of doing business vary widely. Therefore, the "numbers" in a five-year forecast should be viewed with the assumptions in the "notes" included with the forecast in mind.

It is our position that there are valid reasons for districts' carryover balances, including cash flow protection for future expenditures, levy management, and concerns about future reductions in state and/or local revenues. The most recent nationwide recession reinforced the need for all entities both private and public (including school districts), to be more proactive about building reserves. We believe painting districts' ability to withstand reductions in state funding with a broad brush because of perceived large carryover balances is ill advised.

#### **Tangible Personal Property Tax Reimbursements**

Separate from the funding formula changes found in the Governor's proposed HB 64, is a measure which would re-activate a phase-out of the Tangible Personal Property (TPP) and Public Utility Tangible Personal Property Tax (PUTPP) replacement payments to school

districts. High wealth districts would lose up to 2% of total available resources from their replacement payments, and low wealth districts would lose up to 1% of total resources, prorated by quintile. It should be noted that these losses could occur in addition to losses in transitional aid under the Governor's plan..

As you are aware, a similar phase-out provision was proposed by the Governor and passed in the biennial budget bill 4 years ago (HB 153), but the Legislature saw fit to include a moratorium on further reductions after that two-year budget cycle (FY 2012 – 2013). As a result of the HB 153 phase-out, more than half of Ohio's school districts had their TPP replacements fully eliminated, and the replacement payments frozen at FY 2013 levels for the remaining districts. Prior to HB 153, the total TPP and PUTPP replacement payments for school districts was \$1.129 billion. That number was reduced to \$510 million (a reduction of 55%) under HB 153.

HB 153's phase-out left districts whose TPP and PUTPP replacement funds make up a relatively large percentage of their total budgets still receiving payments but at a reduced level. These districts would have extreme difficulty in raising the lost revenue locally.

TPP and PUTPP replacement funds were originally intended to phase out over time as the state school funding formula accounted for the loss (increased formula aid to replace the TPP loss). It was also assumed that growth in revenues locally would overcome any additional loss not realized through the formula. Because of many changes in the school funding formula over the years, and also the downturn in the economy since the phase-out of these local tax revenues, the districts with such a heavy reliance on the revenue have not been made whole. The assertion that these districts should have been prepared for this loss does not change these realities.

Additionally, when HB 66, the bill that eliminated the local tangible personal property tax and created the state Commercial Activity Tax (CAT), was enacted in 2005, 70% of the CAT was earmarked for distribution to schools with the distribution formula to be determined at a later date. So while some parties have asserted that schools have had 10 years to prepare for the loss of TPP, we believe it can be argued that the state has failed to construct an appropriate distribution method for these funds. Consequently, we believe the reduction in replacement payments as proposed without allocating 70% of the CAT to schools does not honor this intent. Again, we acknowledge and appreciate the moratorium or "freeze" the General Assembly placed on the reduction of these replacement payments in HB 153 for the current biennium. However, that freeze would be lifted under the Governor's proposal.

While it is true that the structural changes to the funding formula made by the House version of HB 64, and the increase in formula funding will help some districts deal with the proposed reduction in TPP and PUTPP replacement payments, there are still districts that rely very heavily on those funds for their total budgets. It would be difficult for any school funding formula to overcome the loss of TPP and PUTPP for those districts.

The House version does not change the Governor's proposal, but adds a supplement to keep districts from losing total state aid – formula aid plus TPP/PUTPP – over FY 2015 levels. This supplement will help districts avoid the chaos the original proposal would have caused. The supplement is added to any increase in state aid through the formula to avoid funding cuts to hold districts harmless at FY 2015 state payment levels. We support this supplement as a way to protect districts over the coming biennium.

*Damon Asbury will continue the testimony.*

## **ESC Funding**

The line item funding for Education Service Centers (ESCs) was flat-funded for FY 2016 and increased somewhat for FY 2017 in the House version of HB 64. The increase in the second year was meant to accommodate the added students in school districts which are newly associated with an ESC. In other words, there are now more eligible students sharing the line-item.

Currently, ESCs receive approximately \$27 per-pupil for the services they provide to their member districts, a figure much lower than the funding levels a decade ago. When ESCs receive fewer dollars from the state, the cost school districts must pay for ESC services increases. We urge you to provide funding for ESCs such that per-pupil funding can be restored to previous levels.

Additionally, the House version would create a new high-performing category for ESCs. Those qualifying for the new designation would receive a higher per-pupil funding level. However, we are concerned that the line-item may not be sufficient to cover this higher level of funding. We urge you to provide sufficient funding for ESCs to keep the per-pupil levels from going down and to cover the additional costs for high-performing ESCs.

## **Pupil Transportation**

Pupil transportation presents a significant challenge for many school districts. In many areas of the state, students would face great challenges in getting to school were it not for the option to ride a school bus. And rural districts often encompass a large geographic area but have low-density populations.

The House version of HB 64 retains the Governor's original proposal for transportation. We believe the changes to the transportation funding formula are an improvement to the current formula, but there is more work to be done in this area. Funding for transportation services should incentivize efficiencies and account for specific circumstances among districts.

For instance, the formula should:

- Provide funding for EVERY child who rides a school bus — not just for those students required by state law to be transported.
- Reward schools for efficiency (districts that maximize the number of students utilizing each school bus throughout the school day).
- Incentivize (rather than mandate) that students within one to two miles of their school be transported (the state only requires schools to transport K-5 students who live more than two miles from school).
- Incentivize school districts to provide transportation for high school students, even though the state does not require the practice.
- Contain provisions to compensate districts for the transportation of students to schools which are not part of the district (i.e., private schools and community schools).
- Include an adjustment to better support rural districts with low density and low wealth and low density.
- Operate separately from the education funding formula — thus, not being affected by funding guarantees or caps, or limited by a line-item appropriation amount — to ensure districts actually receive the state transportation funding levels to which they are entitled.

Also, we urge this committee to recommend that school bus purchase funds be made available

for districts that need it most. Data would show that the safest way for students to get to school is on a yellow school bus. Yet the average age of Ohio's school bus fleet is 15 years. Because of the recent economic stress experienced by districts, bus purchases have been postponed. This leads to higher maintenance and repair costs and could raise safety concerns.

### **Community School Levy Proposal**

HB 64 allows for community schools sponsored by "exemplary" sponsors to partner with the resident school district to receive funding from a local tax levy. Boards of education would have to approve the community school levy before it could be posed to the voters. **We oppose this provision.**

First, community schools already receive revenue from local taxes. The statewide average funding on a per pupil basis in FY 2015 is \$7607, all deducted from the public school districts of residence. Meanwhile, the statewide average per-pupil state aid for traditional public schools is \$4184.

The difference between what a school district receives from the state for a community school student and what is deducted from the district's state funds must be made up by the district using local tax dollars. Further, a district does not receive the full basic aid amount from the state for any of its students, as is the case for community schools.

Second, community schools have been promoted as a more economic option for delivering education services to students. Yet the state provides for them (through state and local means) the full per-pupil funding amount that is produced through the foundation formula — basic aid, special education, and other formula components. It seems unnecessary to adopt options for additional local tax dollars. Voters should not be asked to subsidize community schools beyond what is already provided.

If this provision is adopted, local board discretion should be maintained. However, if a levy is to be proposed on behalf of a community school, it should be a stand alone levy, with the community school bearing all election costs.

This concludes our comments on the funding provisions in HB 64. As was mentioned earlier, Dr. Fleeter will discuss the more technical aspects of the current formula, the Governor's proposal and the changes in the House version of HB 64.

Thank you for hearing our testimony today. We hope you will consider our comments as you consider the improvements to Ohio's school funding formula contained in HB 64. We will be happy to address your questions.