

# Educational Service Center Study



**OFFICE OF BUDGET AND SCHOOL FUNDING**  
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## Senate Bill 310 Requirement

In December 2020, the General Assembly passed Senate Bill 310. The legislation, among other things, directed the Ohio Department of Education to conduct a series of studies related to education finance and school funding.<sup>1</sup>

For this study, the legislation required the Department, in collaboration with the Auditor of State and the Ohio Educational Service Center Association, to evaluate educational service centers (ESCs) in the following five areas: services provided; cost of existing services; the ability to generate revenue for providing nonmandatory services and offset fixed costs with that revenue; the average operating cost per pupil; and the effectiveness and efficiency of all educational service centers. This report reflects the Department's findings in these five areas and includes a recommendation for a funding formula for ESCs.

Generally, these areas received extensive review by the Auditor of State's Office in a 2020 Operational Study of ESCs.<sup>2</sup> The study, spanning nearly three years, includes detailed operational and financial analysis, program inventories, a review of revenues and expenditures, and a profile for each ESC in the state. Rather than duplicating the work of the Auditor of State's Office, this report refers to comprehensive work presented by the Auditor of State.

## Educational Service Centers

Partnerships play a key role in delivering services that enable schools to meet the needs of all students. The Department partners with many entities at the state and regional levels to implement its initiatives. At the local level, districts and schools work with organizations and businesses in their regions and communities to improve educational opportunities for students. These partnerships bring resources, funding and technical expertise to bear on the common goal of promoting academic achievement and excellent schools. Ohio's 51 ESCs stand at the center of this network of partnerships.

Districts and schools rely on ESCs for professional development, specialized instructional programs, behavioral and health services, technology, and fiscal and administrative services. The Department views ESCs as key partners, implementing statewide priorities at the regional and local levels. The unique position of ESCs makes them valuable partners in supporting and improving schools across the state.

ESCs are local political subdivisions governed by elected boards of education. ESCs function as large-scale service providers, offering administrative, academic, fiscal and operational support services to schools and districts, including chartered nonpublic, community and STEM schools across the state. Every school district with an enrollment of 16,000 or fewer students is required to affiliate with an ESC (primary service agreement, referred to as a client school district). While most school districts are required to affiliate with an ESC, all but one school district in the state has established a primary service agreement with an ESC as a client school district. While schools are aligned through a primary service agreement, any school or district may purchase services from any ESC in the state.

<sup>1</sup> [Am. Sub. SB 310 of the 133<sup>rd</sup> General Assembly](#)

<sup>2</sup> [Auditor of State Operational Study, 2020](#)

As public entities, ESCs receive some state funding to support operations. While ESCs are government bodies, they do not have taxing authority. Rather, each ESC depends on revenues from client schools and districts, state operating subsidies and payments, contracted services to districts, and grants and state funding.

The state operating subsidy (discussed in more detail in the Funding Model Recommendation section) represents the primary direct public funding received by ESCs. In FY22, the state operating subsidy totaled \$41.7 million. ESCs also receive a minimum of \$6.50 per pupil transferred from each client school district (\$9.6 million). ESCs also may receive direct subsidy through the provision of services for gifted and talented students (\$3.8 million) and special education transportation services (\$789,869).

The Auditor of State's Operational Study includes a helpful history on ESCs and information on the operating and funding structure of ESCs.<sup>3</sup>

## Areas of Evaluation

The requirements of SB 310 require evaluation in the following five areas: services provided; cost of existing services; ability to generate revenue for providing nonmandatory services and offset fixed costs with that revenue; average operating cost per pupil; and effectiveness and efficiency of all educational service centers.

### Services Provided

ESCs provide a variety of services to schools and districts across the state. As service providers, program offerings primarily are determined by the needs of client school districts. In its study, the Auditor of State's office identified more than 350 unique services offered by ESCs.<sup>4</sup> These services include professional development for educators, support with curriculum and instructional materials aligned to academic content standards, special education services for students with disabilities, early childhood education programs, and gifted and talented supports. ESCs operate health insurance consortia, support regional connections to business and industry, deploy specialized staff and supports across multiple client schools, and aid in school improvement efforts. These services allow ESCs to create economies of scale and operate with greater efficiency.

The Auditor of State Operational Study categorized the 350 unique services reported by ESCs into 21 broader categories.<sup>5</sup> ESCs, on average, offered services in 16.7 of the 21 categories identified, with each ESC offering between 5 and 21 of the service categories.

### Cost of Existing Services

Ohio law requires each ESC to "post on its web site a list of all of the services that it provides and the corresponding cost for each of those services."<sup>6</sup> This requirement provides transparency and accountability and enables districts to make educated choices about the availability and cost of services across the ESC network.

<sup>3</sup> Auditor of State Operational Study – [Educational Service Centers \(pg. 2\)](#)

<sup>4</sup> Auditor of State Operational Study – [Appendix E](#)

<sup>5</sup> Auditor of State Operational Study – [Appendix F](#)

<sup>6</sup> [ORC 3313.843 \(F\)](#)

Additionally, the High-Performing ESC designation process serves as another indicator of the cost of ESC service. Following a process established by the State Board of Education, ESCs have the ability to demonstrate cost savings for their client schools and districts by comparing the cost of five services they provide compared to other entities.<sup>7</sup> Each year, all 51 ESCs have applied and received the designation. In the most recent application period, ESCs reported significant costs savings. The ESCs reported cost savings of nearly \$78 million (37.2%) for schools and districts compared to the cost of services provided by other entities. Because the high-performing designation only collects information for five primary services, the savings that ESCs provide to client schools and districts is likely much greater.

## Revenue Generation

As noted in the Auditor of State Operational Study, “an ESC, while a government entity, operates much like a private enterprise. They market their services, compete for customers, and charge for services. Nearly 90 percent of the total operating revenue within the ESC network comes from indirect public funding, primarily from fees for services provided to both member and nonmember school districts. School districts have the opportunity to change the ESC with which they are aligned with every two years, so ESCs are incented to provide quality services at a reasonable price – if the quality of service is lacking, or if services are deemed too expensive, an ESC risks having member districts taking their business elsewhere.”<sup>8</sup>

Only a very small portion of funding ESCs received is unrestricted operating subsidy – through both the state operating subsidy (discussed in the funding recommendation section below) and a local subsidy of \$6.50 per pupil transferred from the client school district to the ESC. The Auditor of State reported the two subsidies accounted for approximately 5.6% of operating revenue received by the ESCs.

In the Operational Study, the Auditor of State examined the amount of revenue generated by each ESC as a ratio of the direct subsidy received. This analysis controls for size and allows for comparison across ESCs. The Operational Study found the average ESC generated an additional \$18.22 for every dollar of direct subsidy. Said differently, for each \$1 in direct subsidy, the average ESC created an additional \$18.22 of revenue. While variation in revenue generation existed, the majority of ESCs has revenue generation ratios between \$10-\$20. The size of the student population served by an ESC did not have a direct relationship with the amount of revenue generated.<sup>9</sup>

## Operating Costs

As indicated above, nearly 90% of the total operating revenue within the ESC network comes from indirect public funding, primarily from fees for services provided to both member and nonmember school districts. Only a small portion of the ESC operating revenue is received through state operating subsidies and required local subsidy. An evaluation of operating costs is a challenge due to the variety and customization of services provides across each ESC to each client or non-client school or district.

The Department partnered with the Ohio ESC Association to review FY22 financial data reported through the Department’s Education Management Information System (EMIS). Revenues across all 51 ESCs totaled more than \$1.94 billion, with expenditures nearing \$1.96 billion in FY22. Of the amount disbursed, approximately \$122.2 million, or 6.25%, was attributed to overhead expenses.<sup>10</sup> On a per-pupil basis,

<sup>7</sup> [OAC 3301-105-01](#)

<sup>8</sup> Auditor of State Operational Study – [Section 2 \(pg. 23\)](#)

<sup>9</sup> Auditor of State Operational Study – [Appendix I](#)

<sup>10</sup> For purposes of this analysis, overhead costs included expenses under the following [Uniform School Accounting System](#) function codes: 2300 Board of Education, 2400 General Administrative Services, 2500 Fiscal Services, 2600 Business Operations, 2700 Facilities Operations, 5600 Facilities Acquisition and Construction, and 6100 Debt Service

operating costs per pupil averaged \$1,330.53, with overhead expenses representing \$83.14 of the total. Across the ESC network, the state operating subsidy reflected approximately 2.1% of revenues and accounted for only 34.1% of overhead expenses. The remaining 65.9% is paid for through costs passed on via fee-for-service contracts with schools and districts or directed grants.

### **Effectiveness and Efficiency**

The Auditor of State's Operational Study includes data profiles for each ESC. The profiles examine revenues, expenditures, staffing and service levels. Revenues are displayed by source, a ratio of direct subsidy and a per-student basis, while expenditures are displayed by type and a per-student basis. These benchmarks were compared to similar-size ESC and statewide medians for all ESCs and can be found within the ESC Profiles inside the final report.<sup>11</sup>

The Auditor of State also attempted to measure efficiency and effectiveness of an ESC by evaluating General Fund operating margins. By equating effectiveness to revenue generation and efficiency to controlling expenses, the operating margins can be partially attributed to an ESC's ability to maximize revenues while efficiency can be attributed to the ability to control expenses. While the Auditor of State reviewed revenue and expenditure data, the measure did not yield a strong indicator of efficiency or effectiveness without more longitudinal or service-level analysis.<sup>12</sup>

The Auditor of State's Office did find that the size of an ESC is not a single indicator of efficiency. The operational study identified some ESCs with smaller student populations generate more revenue than their larger counterparts relative to the direct public funding received.<sup>13</sup>

Another indicator of efficiency and effectiveness is the ability for school districts with more than 16,000 students to align with an ESC. While eight school districts in the state are exempt from aligning with ESCs, all but one has elected to do so, indicating school districts, regardless of size, see the value in the services provided by ESCs.

Just as larger school districts have the option of joining an ESC, all school districts can elect to establish a primary service agreement with any ESC in the state. This election occurs once each biennium.<sup>14</sup> Since becoming effective in 2012, 61 school districts across the state (10%) have changed the ESC in which they established a primary service agreement. Additional school districts are expected to change ESC affiliations beginning July 1, 2023. This mechanism in state law positions school districts to be the judge of efficiency and effectiveness based on the services and supports an ESC provides.

Finally, the market forces described above and a desire for greater operational efficiency has resulted in ESC mergers and abolishment. In FY09, the state funded 58 ESCs. Today, 51 ESCs provide services to schools and districts across the state.

<sup>11</sup> Auditor of State Operational Study – [ESC Profiles](#)

<sup>12</sup> Auditor of State Operational Study – [Appendix J](#)

<sup>13</sup> Auditor of State Operational Study – [Section 2 \(pg. 25\)](#)

<sup>14</sup> [ORC 3318.843 \(D\)](#)



## Funding Model Recommendations

After the establishment of the study requirement in SB 310, the General Assembly revised the funding mechanism for the operating subsidy provided to ESCs.<sup>15</sup> This change was part of larger reforms made to school funding by the legislature in the current operating budget for all schools and districts. The change to the state operating subsidy for ESCs shifts from a uniform per-pupil funding amount to a variable per-pupil amount. Under the previous funding model, each ESC was funded at \$26 per pupil, regardless of the number of client school districts and students served by the ESC. This approach was consistent with the larger school funding formula in place for schools and districts at that time.

In FY22, the funding for schools and districts moved to a variable base cost model using various inputs, per-pupil amounts, educator-to-student ratios and minimum staffing levels. The General Assembly modified the ESC operating subsidy to align with the approach used for schools and districts. The result is a minimum funding level for all ESCs, with a base funding amount (\$356,250) regardless of the size of the ESC and a two-tiered per-pupil amount (\$24.72 or \$30.90) based on the size of the ESC. The new funding model contemplates a six-year phase, and the General Assembly established the first two years of the phase-in FY22 and FY23. The funding base, according to the practitioners who developed and advocated for the new funding model, generally reflects the staff costs of a superintendent, treasurer and administrative assistant, as well as facility costs. The per-pupil funding provides operating funds but allows each ESC to determine how best to use those funds to serve the needs of client school districts.

In FY23, the operating subsidy for ESCs totals \$43,695,474 (below the budget set-aside amount of \$45 million) based on a student count of 1,477,294. This amount, subject to the phase-in, provided a per-pupil amount between \$27.92 and \$41.20. Without applying a phase-in, the FY23 operating subsidy would total \$51,492,490 and yield a per-pupil amount between \$30.97 and \$67.64. The larger the ESC, the smaller the derived per-pupil amount.<sup>16</sup> This concept is consistent with the funding reforms for school districts.

Even with these changes and marginal increases in state funding, the operating subsidy represents a small percentage of total revenues reported across all 51 ESCs. The Auditor of State's operational study reported direct public funding (which would include the state operating subsidy) comprised 3.7% of total revenue. As noted above, the state operating subsidy reflected 2.1% of FY22 revenues.

Based on the existing structures for funding ESCs, the Department offers the following observations and recommendations:

- Should the General Assembly continue the phase-in of the larger school funding formula for schools and districts, it would be appropriate to continue the phase-in for ESCs.
- If the General Assembly updates the input and factors used for the base cost model provided to schools and districts (such as using more recent salary and expenditure data), it would be appropriate to make similar updates for the ESC base funding amount.
- While the base funding approach for ESCs includes minimum funding levels to reflect the cost of a superintendent, treasurer, administrative assistant and facility expenditures, the Ohio ESC Association identified expenditures incurred by ESCs not factored into this base amount. These costs include expenditures related to ESC governance and administration, information technology and connectivity, and student services supports. To the extent the General Assembly revisits portions of

<sup>15</sup> [Ohio Department of Education Funding for ESCs](#)

<sup>16</sup> Data retrieved from [FY23 December #2 payment file](#)

the base cost model for schools and districts, it would be appropriate to revisit the elements that comprise this base amount for ESCs.

- ESCs have and will continue to derive a majority of revenue from contractual relationships with schools and districts, grants for and on behalf of client school districts and work directed by the Department. In 2020 and 2021, the Department reported on the strong partnership between the state and ESCs with a number of directed grants and contracts supporting specific initiatives.<sup>17</sup> The partnerships create the opportunity for improving educational services at all levels. The initiatives reflect the versatility of the ESC network including school improvement, literacy supports, data analysis, professional development for educators, supports for learning acceleration, attendance supports, and family and community engagement. The use of targeted grant and contract funding to support specific initiatives and policy priorities should continue. State-defined priorities can be effectively delivered and change from year to year.

## Conclusion

The Department enjoys a strong partnership with ESCs. ESCs oversee the implementation of state-level activities at the regional and local levels and, in turn, raise the Department's awareness of issues faced by districts and schools around the state. The partnerships create a cohesive framework for improving educational services at all levels. Ohio Department of Education staff members stand ready to assist Governor DeWine and the General Assembly with any desired changes to the funding models for ESCs.

<sup>17</sup> [2020 Annual Report on Educational Service Centers](#) and [2021 Annual Report on Educational Service Centers](#)