



Office of Budget and Management

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PRIMARY AND SECONDARY EDUCATION

FY2016-17 Ohio School Foundation Funding Formula Simulation Fact Sheet

Governor John Kasich's new FY 2016-17 budget proposal provides nearly \$700 million in school foundation funding growth over the biennium, with a continued focus on directing state support to the districts with less capacity to meet their own needs. Highlights of the funding proposal include:

- Increased Per-Pupil Funding: The per-pupil Opportunity Grant funding will increase from \$5,800 in FY 2015 to \$5,900 in FY 2016 and \$6,000 in FY 2017.
- Increased Funding for Key Classroom Categories: Increases in categorical funding for K-3 students, special education, and career-technical education reflect the governor's prioritization of the Third Grade Reading Guarantee and the youngest Ohioans, children with special needs, and college and career readiness.
- Formula Adjustments to Better Reflect Local Capacity: The budget includes a firm commitment to efficiently and effectively distribute resources through the formula to the districts with less capacity to raise revenues locally. Specifically, the governor's proposal allows the two measures of a district's capacity — property valuation per pupil and median income — to operate in the formula and better reflect a district's ability to meet its own needs. When a district's income is meaningfully above or below Ohio's median income, the formula will more accurately and appropriately direct state funds as needed. When districts are grouped by quintile from lowest to highest capacity, analysis shows the proposed formula very effectively targets resources to districts with lower capacity to raise revenue locally. Variations in an individual district's circumstances can always have impacts on the district's formula funding outside of these general principles. The use of guarantees and caps in past years can also impact the formula distributions. The effects of particular changes in the district's circumstances that were suppressed by formula revisions in previous years may now become apparent.
- One Percent Reduction in "Guarantees": Transitional aid, or the "guarantee," short-circuits the formula and continues to direct limited state resources without regard to changing district circumstances. The proposed foundation formula proposes to replace the 100% guarantee by allowing districts' final core funding to decline by up to 1% of their total state and local resources. Continuing "guarantees," with this modest modification, helps districts cope with changes to their fiscal environments and still frees up additional resources for districts with less capacity.
- Continued "Cap" Growth: Maximum district formula funding will be permitted to grow 10 percent per year for districts experiencing student population growth and/or other changes. Like a guarantee, but with the opposite effect, the cap short-circuits the formula by withholding

earned formula aid. The proposed formula's development choices will reduce the number of districts on the cap and the dollars withheld by the cap, which we believe establishes a glide path toward the cap's complete elimination by the end of the next budget.

- **Restarting the TPP/PUTP Phase-Out:** The budget restarts the phase-out of the Tangible Personal Property (TPP) and Public Utility Tangible Property (PUTP) reimbursement first put in law after comprehensive tax reform in 2005 and utility deregulation reform in 2001. The budget resumes and simplifies the reimbursement process by combining the TPP and PUTP (kWh) reimbursements into one calculation and reduces reimbursement payments based on the capacity of the district and the reliance on the reimbursement. The districts with greater capacity will see reductions in state and local resources that do not exceed 2 percent, the districts with lesser capacity will see reductions in state and local resources that do not exceed 1 percent.

TABLE 1: ESTIMATED TOTAL FY2016-17 STATE FORMULA FUNDS, BY QUINTILE

Quintile	Est'd Enrollment	FY16 Formula Funds (\$)	Change FY15-16 (\$)	% Change FY15-16	FY17 Formula Funds (\$)	Change FY16-17 (\$)	% Change FY16-17
1—Lowest Capacity	435,398	3,051,050,456	188,329,343	6.6%	3,213,270,525	162,220,069	5.3%
2—Low Capacity	303,297	1,490,290,325	73,966,072	5.2%	1,548,106,430	57,816,105	3.9%
3—Avg. Capacity	295,386	1,225,784,845	67,019,537	5.8%	1,277,280,109	51,495,264	4.2%
4—High Capacity	338,612	1,075,814,040	45,155,519	4.4%	1,106,978,340	31,164,301	2.9%
5—Highest Capacity	332,031	571,351,230	11,086,802	2.0%	577,946,502	6,595,272	1.2%
TOTAL	1,704,724	7,414,290,896	385,557,273	5.5%	7,723,581,907	309,291,011	4.2%

TABLE 2: ESTIMATED TOTAL FY2016-17 TPP/PUTP REIMBURSEMENT, BY QUINTILE

Quintile	FY15 TPP/PUTP Funds (\$)	FY16 TPP/PUTP Funds (\$)	Change FY15-16 (\$)	% Change FY15-16	FY17 TPP/PUTP Funds (\$)	Change FY16-17 (\$)	% Change FY16-17
1—Lowest Capacity	49,736,554	30,807,368	(18,929,187)	-38%	13,551,090	(17,256,278)	-56%
2—Low Capacity	62,107,433	42,654,692	(19,452,740)	-31%	26,352,513	(16,302,179)	-38%
3—Avg. Capacity	57,002,258	36,034,556	(20,967,703)	-37%	24,066,208	(11,968,348)	-33%
4—High Capacity	75,991,537	46,617,590	(29,373,947)	-39%	27,564,935	(19,052,654)	-41%
5—Highest Capacity	175,225,072	128,366,912	(46,858,160)	-27%	92,550,036	(35,816,876)	-28%
TOTAL	420,062,855	284,481,117	(135,581,737)	-32%	184,084,783	(100,396,334)	-35%

TABLE 3: ESTIMATED TOTAL FY2016-17 STATE FORMULA FUNDS, AFTER TPP/PUTP REIMBURSEMENT ADJUSTMENTS, BY QUINTILE

Quintile	Est'd Enrollment	FY15 Funds (\$)	FY16 Funds (\$)	Change FY15-16 (\$)	% Change FY15-16	FY17 Funds (\$)	Change FY16-17 (\$)	% Change FY16-17
1—Lowest Capacity	435,398	2,912,457,668	3,081,857,824	169,400,156	5.8%	3,226,821,615	144,963,792	4.7%
2—Low Capacity	303,297	1,478,431,686	1,532,945,018	54,513,332	3.7%	1,574,458,943	41,513,925	2.7%
3—Avg. Capacity	295,386	1,215,767,567	1,261,819,401	46,051,834	3.8%	1,301,346,317	39,526,917	3.1%
4—High Capacity	338,612	1,106,650,058	1,122,431,629	15,781,571	1.4%	1,134,543,276	12,111,646	1.1%
5—Highest Capacity	332,031	735,489,500	699,718,142	(35,771,358)	-4.9%	670,496,539	(29,221,603)	-4.2%
TOTAL	1,704,724	7,448,796,478	7,698,772,013	249,975,535	3.4%	7,907,666,690	208,894,677	2.7%

Simulation Methodology And Data: The attached FY 2016-17 Ohio School Foundation Funding Formula simulation is based on the following methodology and data:

- Fiscal Year 2015 Final Core Aid (Foundation Formula) allocations represent current payments to school districts.
- Fiscal Year 2016 and 2017 Final Core Aid (Foundation Formula) allocations incorporate:
 - Projected average daily membership (ADM) for FY 2015 from the Ohio Department of Education
 - Actual and projected property valuation from the Ohio Department of Taxation is used on a three-year average. For FY 2016, tax years 2013, 2014, and 2015 are used, and in FY 2017, tax years 2014, 2015, and 2016 are used.
 - A school district's TPP/PUTP phase-out percentage is dependent on that district's capacity measure quintile placement. Districts in the lowest capacity quintile (Quintile 1) will receive a 1% phase-out; districts in Quintile 2 will receive a 1.25% phase-out; districts in Quintile 3 will receive a 1.5% phase-out; districts in Quintile 4 will receive a 1.75% phase-out; districts in the highest capacity quintile (Quintile 5) will receive a 2% phase-out.

Please note: For the purposes of analyzing the simulated data, organizing the more than 600 school districts into five quintiles is helpful for evaluating formula results and trends. The districts are organized into quintiles according to their capacity to generate local revenue. Districts in Quintile 1 have the lowest capacity and districts in Quintile 5 have the highest.

Key Factors/Definitions in Formula Calculations

There are numerous components and variables that make up the calculation of foundation funding in Ohio. As a result, there are numerous reasons why an individual school district will experience changes in foundation funding across fiscal years or why one district receives more state funds than another. Below are a few key factors that may affect changes in a school district's foundation funding:

- **Student Population and Demographics**: Ohio's student-centered funding formula provides resources based on a school district's Average Daily Membership (ADM). Changes in ADM, whether increases or decreases, can have an impact on a school district's foundation funding. Similarly, changes in the numbers of students and their needs, from special education to those who are economically disadvantaged, also impact the amount of funding each district receives.
- **Property Valuation**: Changes in property valuation, whether increases or decreases in total or in relationship to the statewide average, can have a significant impact on a school district's foundation funding.
- **Income**: Changes in income, whether increases or decreases, also have an impact on a school district's foundation funding. The governor's budget makes an appropriate change in how income is used to more accurately measure capacity. The calculation that incorporates the income adjustment for districts with less capacity to raise local revenues will be implemented in FY 2016. The calculation for districts with more capacity will be phased-in gradually over a five-year period. This approach will drive resources to districts with less capacity to generate local revenue and is a significant improvement over the income adjustment in current law.
- **Transitional Aid (The "Guarantee")**: The budget guarantees that no districts' reduction in formula aid exceeds more than 1 percent of their total state and local resources, even if improvements in their capacity or reductions in the student populations would normally lead to larger reductions in state funding. This allows the directional aspect of the formula to play out to some degree, but protects the districts from dramatic shifts in state aid and transitions them onto the path of the formula.
- **Other Factors**: When comparing annual funding levels for a particular district, it is important to consider the interaction of formula changes, changing characteristics of a district, and the effects of caps/guarantees:
 - A district's funding could change because the particular variables used in the calculation of the formula, or their application, differ from those used in a previous calculation (e.g. more appropriate use of median income when calculating a district's local capacity).
 - A district's funding could also change because its individual circumstances as measured by a formula have changed (e.g. declining ADM).
 - When "caps" and "guarantees" are used, the outcomes of any formula are suppressed. Because guarantees have been in place without interruption for many years, the guarantee is not necessarily to last year's amount, but perhaps to a formula calculation from a number of years prior. This means that guaranteed/capped funding amounts are often based upon district factors, such as student population and/or property values, that are dramatically different from what currently exist. Therefore, funding levels for a district relative to a prior year might be due to the impact of lessening those constraints that short-circuit formulas.