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EXCERPT OF PREVIOUS TESTIMONY

PERTAINING TO K-12 EDUCATION FUNDING PROPOSALS IN GOVERNOR KASICH'S EXECUTIVE BUDGET FOR FISCAL YEARS 2018 AND 2019

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KEY POINTS IN THIS BUDGET

Primary and Secondary Education

State resources allocated Primary and Secondary Education total $10.51 billion in FY 2018 and $10.62 billion in FY 2019; the highest levels ever, $199.8 million during the biennium and an overall increase of $1.6 billion since our first budget. State resources include GRF, Lottery Profits, TPP/kWh reimbursement, and property tax reimbursement paid to school districts. The GRF portion of these appropriations is $8.05 billion in FY 2018 and $8.19 billion in FY 2019, representing growth of $143.5 million, or 1.8%, in FY 2018, and another $136.9 million, or 1.7%, in FY 2019. Lottery appropriations equal slightly more than $1.0 billion in both fiscal years. State education appropriations represent the largest commitment of state appropriations contained in the budget.

Foundation Formula

Total state resources allocated to the Foundation formula total $7.93 billion in FY 2018 and $8.05 billion in FY 2019. This includes an additional $282.9 million over the biennium in new state aid distributed to school districts and community schools through the formula.

It has long been stated that a principle issue with the state's school funding formula is that it is subject to significant change and restructuring with each new biennium. Many have expressed concerns that constant changes to the formula are disruptive, and make it difficult for school districts to plan and develop their local budgets. The Executive Budget addresses these concerns by recommending only one change to the formula.

Transportation

Under current law, each school district receives transportation funding based on either a cost-per-rider or cost-per-mile calculation. Unlike other components of the formula, the transportation calculation includes a provision for a 50% minimum state share for school districts. The use of a minimum state share of 50% disproportionally benefits wealthier districts, as any district with a state share percentage between 5% and 49% - the upper half of local capacity - receives an upward adjustment for their transportation funding calculation.

The budget proposes reducing the minimum state percentage for districts from 50% to 37.5% in FY 2018 and 25% in FY 2019. This modification reduces the upward adjustment for higher capacity districts. This change allows us to better target limited state resources to districts with lower capacity, which is the intent of the formula.

The adjustment to the transportation calculation is the only proposed change to the formula. However, we are recommending changes to the transitional aid guarantee and the gain cap, both of which I consider to be post-formula adjustments.

Transitional Aid

Transitional aid (or the "guarantee" as it is commonly referred to), has long been an element of school funding. Most often, the guarantee in law has prevented a district's state aid from falling below the previous year's amount. However, 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 the factors used to calculate guaranteed state aid levels are often the result of student population and/or property values that are dramatically different from what currently exists. The purpose of the school funding formula is to efficiently allocate state resources to school districts based on current local capacity and the current number of students. The guarantee short-circuits the intent of the formula and continues to direct limited state resources without regard to changing district circumstances.

Our proposal builds from the current 100 percent guarantee but adds a feature that takes into account declining student population. The proposal examines school districts' changes in total ADM over a five-year period. Any district that experienced a decline of greater than 5% in total ADM between FY 2011 and FY 2016 will now have its guarantee base adjusted downward on a sliding scale.

School districts with a five-year total ADM decline greater than 5.0% and up to 10.0% will have a reduction in their guarantee base up to 5.0%. For example, a school district with a 5-year ADM decline of 6.0% would receive a 1.0% reduction in their guarantee base from the FY 2017 level to 99%; a district with a 7.5% ADM decline would receive a 2.5% reduction in their guarantee base from FY 2017 level to 97.5%. These incremental reductions apply up to a maximum of 5.0% for any district with a decline of 10.0% or more in total ADM. Any district with a total ADM decline of greater than 10.0% receives the maximum 5.0% reduction to its guarantee base (95%). School districts with a five-year total ADM decline up to 5.0% will have no reduction in their guarantee base.

The Executive Budget takes into account the concern that losing a small number of students does not have a material impact on a school district's costs. However, if a district loses an appreciable number of students, it no longer makes sense to continue to pay state aid to districts for students who no longer exist.

Additionally, our proposal shifts the third grade reading proficiency bonus and graduation bonus off the guarantee. These payments are made to school districts based on student performance and should not be guaranteed for future years. Finally, as enacted in HB 64, payments for the career technical education component of the formula will also remain outside of the guarantee.

Gain Cap

The gain cap is a provision that withholds calculated aid above a specified annual percentage growth rate. Like a guarantee, but with the opposite effect, the cap short-circuits the intent of the formula, in this case by withholding earned formula aid.

The Executive Budget recommends a gain cap of 5.0% each year. Similar to the guarantee, the previously mentioned performance bonuses and career technical education components will be outside the cap. We propose including the capacity aid and transportation supplement components under the cap. In H.B. 64, capacity aid and the transportation supplement were outside of cap as new components of the formula. This placement could be justified because placing them as new provisions under the cap would have denied additional resources they were designed to deliver. As these provisions are now established components of the formula, it is appropriate to include them in the gain cap.

Other Education Initiatives

With my review of the Foundation formula and related provisions complete, I will turn to other education-related initiatives that are included in the Executive Budget. While a significant amount of the Department of Education's budget growth is attributable to the school funding formula, a number of non-formula initiatives are also prioritized.

The Executive Budget again includes the Straight A Fund, designed to help Ohio schools launch creative new ideas for improving education with appropriations of $15 million in both fiscal years from the Lottery Profits Education Fund.

The proposed budget recommends $10 million in each fiscal year to continue the Community Connectors program to bring together families, community organizations, faith-based organizations, businesses and others in support of our schools and to mentor students.

The Executive Budget continues to prioritize early childhood education with funding of $70.2 million each year and creates a parent choice pilot program to provide parents with options for high-quality early education program for eligible children. Between funding to Education and Job and Family Services during the past six years, we have tripled the number of early childhood education slots.

The Executive Budget also supports the income-based EdChoice Expansion scholarship that provides students in fourth and fifth grades who are at or below 200% of the federal poverty level the opportunity to attend participating private schools through tuition vouchers. The proposal calls for GRF appropriations of $38.4 million in FY 2018 and $47.7 million in FY 2019.

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