

2018-2019 Biennial Budget Discussion & Guidance

The following are state budget topics for consideration as school districts prepare their upcoming 5-year forecasts. The information was developed by the members of the OASBO Legislative and Education Finance Committees with participation by OSBA, BASA & Dr. Howard Fleeter, consultant for the Ohio Education Policy Institute (OEPI).

Considerations relating to the 5-year forecast

Disclaimer ~ Ohio operates on a 2-year (biennial) state budget, one that's approved by the state legislature and the governor. Because these are political bodies, the state budget can literally change focus every two years depending on the political winds that may change.

Ohio's school funding formula has undergone numerous "overhauls" over the past decade, so it is possible that we could see major changes again, although we have not heard talk of that happening. The discussions below for each budget topic should be viewed with caution. Each district should include sufficient detail in its 5-year forecast notes/assumptions so as to make clear the difficulty in predicting future state funding levels.

A. Threshold Assumptions –

- Under Governor Kasich's previous 3 budgets, attempts have been made to scale back some aspects of the school funding formula (TPP elimination, introduction of a funding formula that was the equivalent of a base aid amount of \$5,000 per pupil, proposed reductions in transitional aid funding, and adjustments to how local "capacity to pay" is measured).
- While some of the administration's concepts have survived (such as the phase-out of TPP and PUTPP), generally, attempts to reduce state funding through the funding formula itself have not.
- Political pressure appears to be more successful with the Ohio General Assembly which has consistently made changes to the administration's proposals in order to protect school districts from receiving less state aid than in previous budgets. The TPP Supplement in HB 64 is a good example of this.
- However, there is no way to predict what will happen with any budget cycle given the changing nature of the legislature and its leaders.
 - Any guidance for amounts projected in districts' 5-year forecasts should be carefully considered with each district weighing past experience and any changing demographic data, wealth measures and economic trends.
 - Underlying forecast assumptions should thoroughly explain the rationale for the resulting forecast figures.

B. Transitional Aid Guarantee – Based on the recent trend for the "guarantee," fewer districts are reliant on these funds each year. If that trend continues, the pressure to eliminate those funds diminishes. Efforts by the administration to eliminate the guarantee in the past have not been successful; however, there have been times when

budget constraints have led to a percentage reduction in state funding (i.e., through the governor's "Bridge" formula for FY 2012-FY 2013). It may be safe to project flat funding for districts currently on the "guarantee;" however, forecast notes should explain that there could be reductions in this line item based on political or economic factors

C. Valuation – Careful attention must be paid to districts' valuation and also "valuation per pupil". With each new budget, we can expect the State Share Index (SSI) to be recalculated. The resulting SSI values then remain in effect for both years of the biennial budget period. Since there was no recalculation for FY 2017 (the current school year), changes in valuation may be more significant because there will be two years-worth of growth (or reduction). The SSI is "indexed" so a change in a district's valuation is just one factor that affects the outcome. If the statewide average valuation per pupil goes up or down, the impact on individual districts is magnified. For example, agriculture values are trending down statewide, so districts with a significant amount of agriculture property will see their valuation go down and their SSI likely go up. Likewise, districts with little or no agriculture property will appear wealthier, even if their own valuation stays the same (which will cause their SSI to go down).

D. Community Eligibility Program (CEP) – Districts with high percentages of poverty may opt to participate in CEP. Under current law and practice, with CEP these districts show that virtually 100% of students are economically disadvantaged for purposes of the economically disadvantaged funding component in the formula and also the report card subgroup. This has created issues for districts with high numbers of charter school students leaving (because the community school deduction increases when the district's percentage of disadvantaged students rises), and it also affects the statewide average percentage of economically disadvantaged students which adversely affects districts that don't participate in CEP because they are indexed to the statewide figure. We know that ODE is exploring alternative options for accurately counting the number of disadvantaged students. It is likely that a provision will be proposed in the next budget bill to change the way students are counted for a more accurate count. OASBO, OSBA, and BASA are working with ODE to arrive at an acceptable solution. We anticipate that the change would be phased in to avoid negative consequences for school districts.

E. Economically Disadvantaged Funding – The associations (with assistance from Dr. Howard Fleeter, consultant for OEPI) are researching better ways to fund economically disadvantaged students. While the number of students in this category has grown significantly over the past decade, funding levels have remained very much the same. We believe more should be done to cover the cost to educate these students. However, experience would show that even if increases were appropriated to this category, overall funding increases may not be realized because of state budget constraints (whether real or politically motivated). In the past the General Assembly has shown a tendency to tie economically disadvantaged aid to specific areas of expenditure which can limit district's flexibility even if funding is increased.

F. Cash Reserves – In the past we have heard complaints from the administration about the perceived high level of cash reserves some districts are carrying. This has

sometimes been used to justify efforts to scale back funding to education. However, when the observation is made that fund balances are high, we believe there has not been consideration for the fact that districts may be planning for the future. In addition to noting reasons for higher than normal fund balances in the 5-year forecast notes, districts should take time to educate their own legislators about the reasons for the balance.

G. Funding Community Schools Directly – There is some indication that the administration and the legislature may be open to considering a change in the way community schools are funded. We have a group of members working with the associations to develop a recommendation for funding community schools directly. However, we have discovered several complications including the effect on districts' SSI and the implications for districts that are on the gain cap. In general, districts on the formula and receiving transitional aid tend to do better under direct funding of community schools. However, in some cases, school districts could actually receive less state aid (net) if the community school students were not included in the ADM. At this point it appears likely that if a change is to be included in the next budget, methods for transitioning to a separate funding system for community schools will probably only provide moderate benefits to many school districts in the early years. Until further information regarding the status of direct funding for community schools is available, it seems prudent for forecasting purposes to assume that the community school deduction will remain substantially the same.

H. Capacity Aid – This new formula component was aimed at assisting school districts with a low capacity to raise money locally. Funded outside the gain cap, some districts saw real increases in state aid as a result of capacity aid. We have no indication that capacity aid will be eliminated in the next budget. We believe the House in particular has a focus on assisting districts where total available revenue per-pupil is low. If capacity aid is projected in the 5-year forecast to remain constant, it should be noted that this is a component calculated outside the funding formula and could be subject to change.

I. Base Per Pupil Amount – For the past three school years the base per pupil amount in the funding formula has increased in \$100 increments (FY15 = \$5,800, FY16 = \$5,900, FY16 = \$6,000). Ideally, the base amount would be the result of an objective methodology reflecting the cost of an adequate education for the “typical” student in the “typical” district. However, Ohio has not employed a methodology for determining the cost of adequacy since the Evidence Based Model (EBM) was discarded after the FY11 school year. For forecasting purposes assuming that the per pupil amount will continue to increase by \$100 increments is a reasonable assumption.

J. Gain Cap – Ohio school districts have enjoyed relatively high percentage increases in education funding compared to other states. Even though we have been recovering from cuts made during the Great Recession, 7.5% increases are not common elsewhere. Funding increases in the next budget (which are a function of both how the parameters of the formula, such as the base per pupil amount change, as well as where

the gain cap percentage is set) will depend on other budget priorities and how well the economy is doing. There are some indicators from revenues in FY 2016 that income levels may not be as high as expected. Also, there are some issues with Ohio's Medicaid program that may leave the budget short for the next biennium. Therefore, it is difficult to predict whether or not increases will be granted and if so, what percentage we might see.

K. Income Factor in SSI – Both the Administration and House FY16-17 school funding formulas modified the manner in which income is factored into the state/local share calculation. The Senate proposal (which was ultimately included in the final version of HB 64) made only minor changes to the income factor. It is not clear at this point whether or not further changes to the income factor will be proposed in the FY18-19 budget, or whether or not the Senate response would be similar to that in FY16-17 if such changes are proposed.

L. TPP Reductions – With the passage of Senate Bill 208 in the fall of 2015, the phase-out of TPP replacement payments is now in permanent law. SB 208 details that the reduction in TPP payments will occur at the rate of 5/8th of a mill of local property taxes until TPP replacement payments are zeroed out in every school district.

M. TPP Supplement – HB 64 provided for the TPP Supplement, the purpose of which was to ensure that no district received less total state formula aid + TPP/PUTPP replacement payment revenue in FY16 and FY17 than they did in FY15. However, the Governor vetoed the second year of the supplement (FY17). SB 208, passed in the fall of 2015, reinstated the FY17 TPP supplement at the 96% level (this means that districts will be assured that they receive no less than 96% of their FY15 total state formula aid + TPP/PUTPP replacement payment revenue in FY17).

Currently, there is no provision for the TPP supplement to extend after FY17. There have also been no indications at this point as to whether or not the legislature might extend the TPP Supplement as part of the FY18-19 state budget. Of course the Governor could always veto such a provision as he did with the FY17 supplement if the legislature continues the provision, but SB 208 sent a message that they are concerned about districts' loss of TPP/PUTPP (see comments from "**A. Threshold Assumptions**" above), even though they didn't go so far as to retain the replacement payments. Therefore, it is difficult to predict what the next General Assembly will do. As state aid increases, the TPP Supplement payments would go down naturally (and the number of districts qualifying will also go down), reducing the cost to the state. For forecasting purposes, a conservative view is likely best, however, it is reasonable to assume the legislature might continue to hold districts harmless. This is another instance where the 5-year Forecast notes are extremely important.