



THE SCHOOL FUNDING SQUEEZE:

*The factors that have squeezed school funding and
what we should do about it*

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INNOVATION 
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ANALYSIS: THE SCHOOL FUNDING SQUEEZE

The factors that have squeezed school funding and what we should do about it

OVERVIEW

As the state of Ohio considers its budget priorities, Innovation Ohio takes a closer look at how school funding has been squeezed over the last two decades by a steady reduction in the state income tax and the rapid increase in state funding to charter schools. This analysis examines:

1. The opportunity cost of income tax cuts
2. Shifting the cost of education to local taxpayers
3. Education spending as a share of the state budget
4. The impacts of increased state spending on charter schools

The final section of this analysis will outline what the legislature should do right now to address these pressures and restore our commitment to public education in Ohio.

1. THE OPPORTUNITY COST OF INCOME TAX CUTS

Prioritization of income tax cuts over education funding has created an opportunity cost of at least \$3 billion a year for over a decade, making it harder and harder for the state to properly invest in education.

The State of Ohio has reduced the state income tax eight times in 10 years and is currently considering two more income tax cuts for 2015 and 2016. The progressive income tax is based on one's ability to pay so those at the bottom end of the economic spectrum can more easily absorb the impact.

However, consistently reducing a progressive tax code not only impacts working and middle class families more, it also makes it harder to maintain the state's commitment to education.

In 2005, the state passed House Bill 66, which cut the state income tax by 21 percent over five years. In 2013, Gov. John Kasich passed another tax cut in House Bill 59 that reduced the income tax by 10 percent over two years. Now, the legislature is considering another income tax cut of 23 percent that would be phased in through 2015 and 2016.

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As a result, Ohio has reduced the top tax rate from 7.5 percent in 2004 to just 4.11 percent in 2016 (proposed).

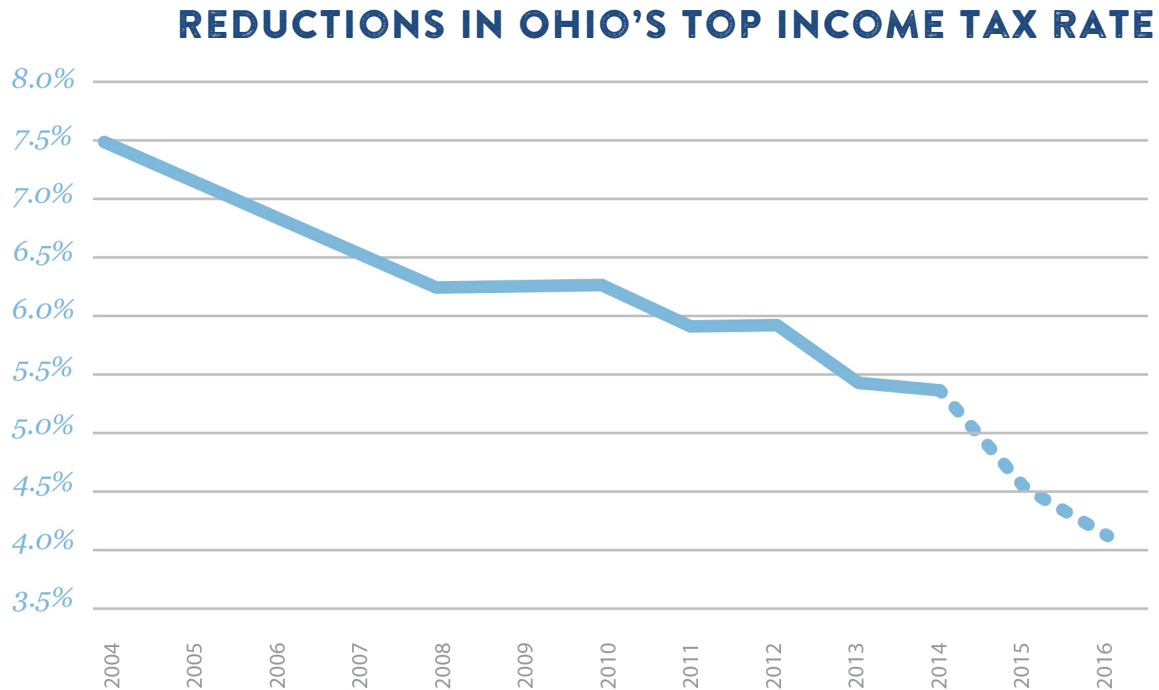


Figure 1: See endnotes for source

For the top income earners in Ohio, these tax changes result in a 45 percent overall reduction since 2005. However, for our schools and all other budget priorities, these changes mean getting by with an estimated **\$3 BILLION LESS EACH YEAR** – a number that grows to **A NET REDUCTION OF \$3.4 BILLION ANNUALLY** under the current budget proposal.

THE IMPACT

The loss of revenue as a result of over 10 years of state income tax cuts has made it harder for Ohio to adequately fund primary and secondary education. The current budget plan provides only a modest increase in state funding to education – just \$464 million over two years. Not including the loss of revenue from local school districts to charter schools, this modest increase in overall funding results in **OVER HALF OF OHIO'S SCHOOL DISTRICTS FACING FUNDING CUTS – 308 OUT OF 609 DISTRICTS.**

DISTRICTS FACING CUTS IN 2016-2017 BUDGET

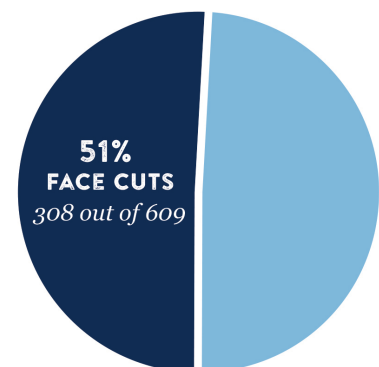


Figure 2

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2. SHIFTING THE COST OF EDUCATION TO LOCAL TAXPAYERS

Local school districts in Ohio are funded by a mix of local property taxes and state aid. State aid to local school districts helps to offset the costs for local taxpayers and to create funding equity between high-property wealth and low-property wealth districts. This was the basis of the Ohio Supreme Court rulings in the 1990s, which declared our system of school funding unconstitutional.

When state aid to schools is cut, as was the case in the 2012-13 budget, local school districts are forced to fund a larger share of the budget with local property taxes. Prior to this reduction in state aid, Ohio had provided a majority share of aid to schools (50.5 percent in 2010). As figure 3 demonstrates, **SINCE 2011 THE GAP BETWEEN THE PERCENTAGES PAID BY LOCAL TAXES VERSUS STATE AID HAS REVERSED AND WIDENED.**

To make matters worse, the state has also eliminated a 12.5 percent property tax break for local taxpayers on all new levies. The elimination of this “property tax rollback” in the 2014-2015 budget will inevitably keep this gap in place and potentially make it worse.

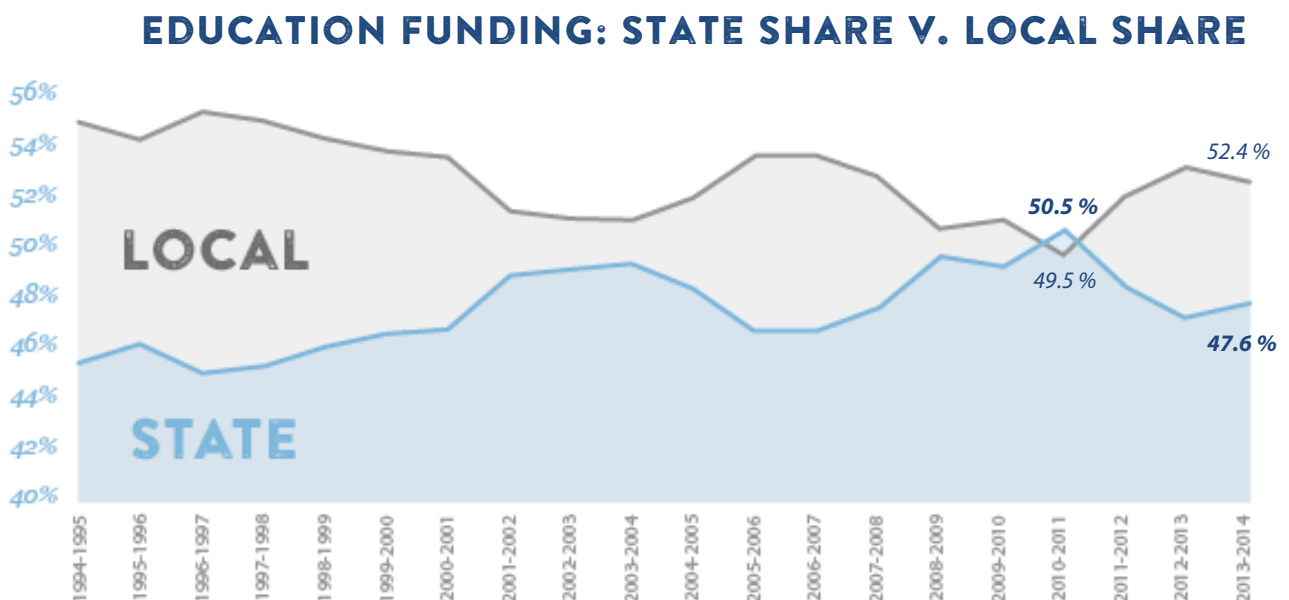


Figure 3: Share to total education spending from state and local sources, by year (See endnotes for source)

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3. HOW EDUCATION SPENDING AS A SHARE OF THE BUDGET HAS CHANGED FROM 1997 TO 2017

As a share of the general revenue fund budget, the 2016-17 budget proposes to spend less on education than at any time since 1997 – the year the Ohio Supreme Court ruled that our system of funding education was unconstitutional. As the chart below shows, in 1997 Ohio spent just 27 percent of the general revenue fund budget on education. That **PERCENTAGE HAS REMAINED ABOVE 27 PERCENT UNTIL THE CURRENT BUDGET PROPOSAL, IN WHICH IT DROPS TO 26 PERCENT IN THE 2016-17 SCHOOL YEAR.**

However, when factoring the loss of state revenue from local school districts to charter schools, both the overall spend and the percentage share drop to historic lows. The chart below shows the percentage of the budget spent on education, but also subtracts the amount of money each year that is going from local school districts to charter schools. **The state commitment, taking charter school funding into account, drops to a historic low of 23 PERCENT by the 2016-2017 school year.**

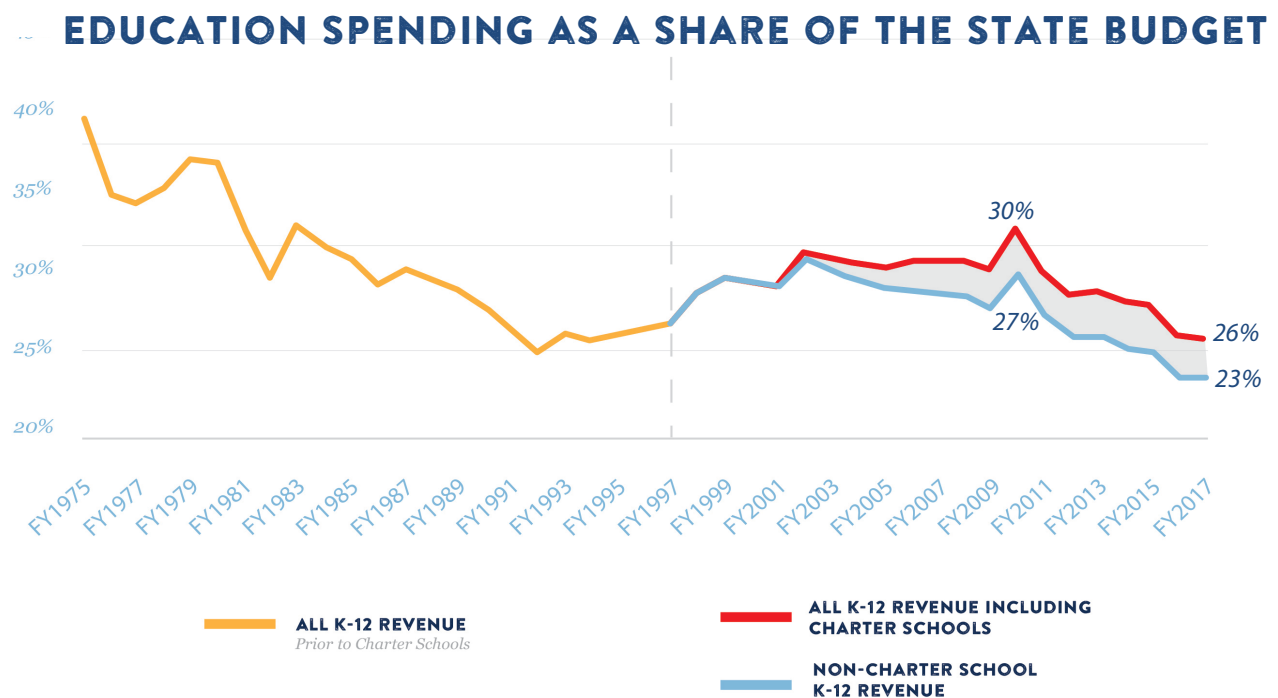


Figure 4: (See endnotes for source)

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4. THE IMPACTS OF INCREASED STATE SPENDING ON CHARTERS

THE IMPACTS OF INCREASING STATE AID TO CHARTER SCHOOLS

As tax revenue available for education funding dwindles and education spending as a share of the budget declines, the added pressure of increased funding to charter schools is tightening the squeeze on local public schools. The following chart shows the dramatic increase in state funding to charter schools over the last two decades.

INCREASING STATE AID TO CHARTER SCHOOLS

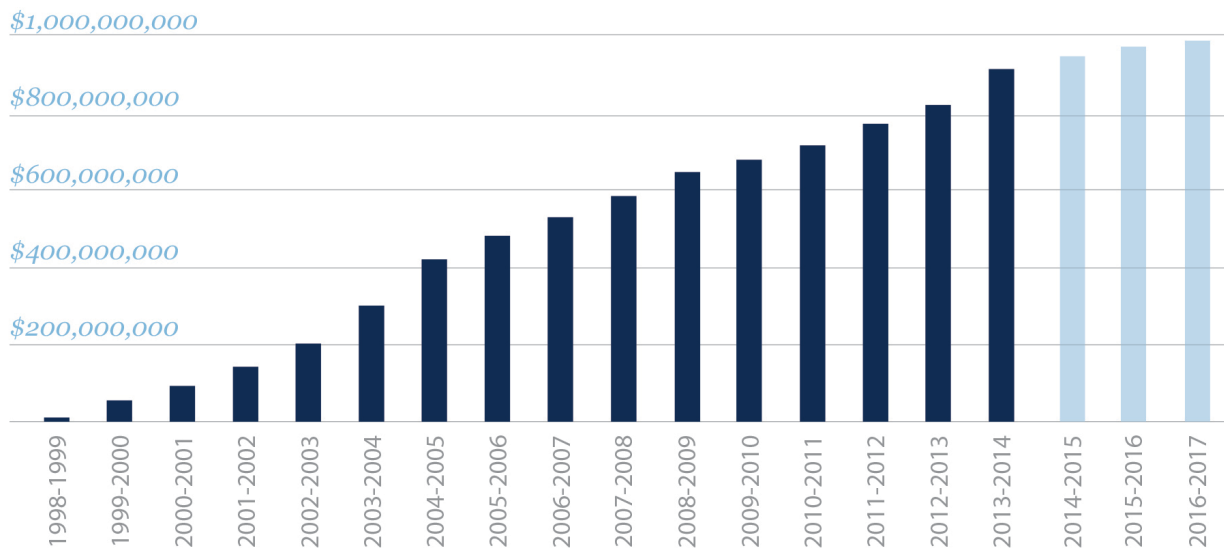


Figure 5

Despite the fact that Ohio's charter schools receive more F's than A's, B's and C's combined, according to the Ohio Department of Education's Report Card grading system, state funding has steadily increased. In the 2013-14 school year, the state of Ohio spent a record amount on charter schools – \$914 million. **Of the money spent in the 2012-2013 school year on charter schools that received report card grades, 53 percent (\$380 million) went to schools that performed worse than the public district the child left.**

If that \$380 million in state funding from the 2012-2013 year that was redirected **from higher-performing local public school districts to poorer performing charter schools** holds steady, that means that **\$760 million would go to worse options for kids** over the biennium. This would be two-thirds more than the proposed \$464 million increase in education funding in this budget.

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The current two-year budget proposal provides only a modest overall net increase in education funding of \$464 million, with more than half of Ohio school districts (308 of 609) facing funding cuts in 2017. However, **AFTER CHARTER SCHOOL DEDUCTIONS ARE FACTORED, 408 OUT OF 609 OHIO PUBLIC SCHOOL DISTRICTS WILL FACE FUNDING CUTS UNDER THE CURRENT BUDGET PROPOSAL.**

DISTRICTS FACING CUTS IN 2016-2017 BUDGET LESS CHARTER FUNDING

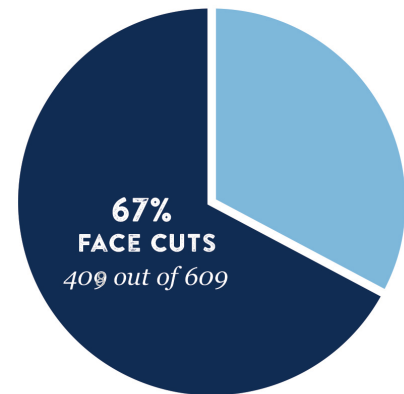


Figure 6

CHARTER FUNDING IMPACTS ON LOCAL TAXPAYERS

Innovation Ohio has previously examined the impact of the charter school funding system on both state and local funding for school districts. What state data shows is that:

1. Funding for charter schools forces local districts to increasingly rely on local property taxes to pay for their operations (see table 2 in appendix); and
2. Charter funding reduces revenue available to kids in local public schools, **even including local revenues in the calculation** (see table 1 in appendix).

Mandated per-pupil state aid to charter schools leaves districts with the unenviable task of filling in the state revenue difference with local tax money. In many cases, state funding to charter schools reduces the amount of the total per pupil funding available to students in local public schools, even with their local revenue. And in every case, it increases school districts' reliance on local taxes to fund their operations – sometimes by more than 50 percent.

In short: There are **86 OHIO SCHOOL DISTRICTS WHOSE OVERALL PER PUPIL SPENDING AMOUNT IS REDUCED** – even with local revenue included – after charter schools receive their money and kids. These districts account for 224,374 Ohio students.

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5. WHAT SHOULD BE DONE

1. TRY SOMETHING NEW, BE BOLD AND TRANSFORMATIVE

Ohio has cut income taxes eight times in the last ten years, but according to Bureau of Labor Statistics data we still have 80,000 fewer jobs now than in 2005. Instead of continuing to cut income taxes that favor those at the top, Ohio should make a bold and transformative commitment to public education.

BY USING SOME COMBINATION OF REVENUE FROM GOV. KASICH'S PROPOSED INCREASE IN THE CIGARETTE TAX (\$991 MILLION) AND COMMERCIAL ACTIVITY TAX (\$691 MILLION), OHIO COULD INVEST OVER \$1 BILLION IN NEW REVENUE TO

OUR SCHOOLS. With this new revenue, the state would need to develop a new funding formula that would more accurately reflect the cost of a high-quality education in this state.

2. REDUCE THE BURDEN ON LOCAL TAXPAYERS BY RESTORING THE PROPERTY TAX ROLLBACK

The state legislature should immediately restore the 12.5 percent property tax roll back that was eliminated in the last state budget. Restoring this roll back will reduce the cost of all new levies to local taxpayers by 12.5 percent

3. BASE CHARTER FUNDING ON WHAT IT COSTS TO EDUCATE CHILDREN IN CHARTER SCHOOLS

In Ohio, per pupil payments made to charter schools are based on what local public schools receive, regardless of the vast differences in their cost structures. In too many instances, this additional taxpayer funding merely serves to boost the profit margins of failing for-profit operators. The legislature could consider any number of ways to calculate this figure, but it should be based on actual costs in charter schools.

4. DIRECT FUND CHARTERS FROM THE STATE, NO DEDUCTIONS FROM SCHOOL DISTRICTS

This is an idea whose time has come and both sides have agreed should happen. Simply having the state fund charters directly, which would not require a line item, would eliminate much of the angst local public schools feel toward charter schools. It would also have the added benefit of funding both local districts and charters based on the kids they have enrolled.

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ENDNOTES

Figure 1: Sources

- Tax rates over time: [Ohio Department of Taxation and Policy Matters Ohio](#) (2015)
- Proposed rate reductions in HB64: [Legislative Services Commission](#) (2015)
- Lost revenue in HB66, HB59: [Policy Matters Ohio](#) (2014)
- *Lost revenue in HB64: [Tim Keen Budget Testimony](#)*

Figure 2 & 6: Innovation Ohio Budget Briefing: [Funding Impacts of Charter Schools](#)

Figure 4: Ohio Legislative Service Commission -

<http://www.lsc.ohio.gov/fiscal/revenuehistory/staterevenue.htm>

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APPENDIX

Table 1: The 25 Ohio school districts whose children lose the largest annual funding due to the charter school deduction, including local revenue

District Name	County	Per pupil State-Local Pre-Charter FY14	Per pupil State-Local Post-Charter FY14	Per Pupil Difference FY14
Lordstown Local	Trumbull	\$ 6,437	\$ 6,258	-179
New Boston Local	Scioto	\$ 7,608	\$ 7,433	-175
LaBrae Local	Trumbull	\$ 7,881	\$ 7,771	-110
Niles City	Trumbull	\$ 7,661	\$ 7,553	-108
Warren City	Trumbull	\$ 9,084	\$ 8,976	-108
Middletown City	Butler	\$ 7,619	\$ 7,538	-81
Zanesville City	Muskingum	\$ 7,197	\$ 7,121	-76
Weathersfield Local	Trumbull	\$ 7,325	\$ 7,257	-69
Monroe Local SD	Butler	\$ 5,491	\$ 5,423	-68
Bettsville Local	Seneca	\$ 10,339	\$ 10,272	-67
Springfield Local	Lucas	\$ 6,806	\$ 6,741	-65
Millcreek-West Unity Local	Williams	\$ 8,847	\$ 8,788	-59
Belpre City	Washington	\$ 5,490	\$ 5,435	-55
River Valley Local	Marion	\$ 6,159	\$ 6,112	-47
Howland Local	Trumbull	\$ 7,558	\$ 7,512	-46
Tuslaw Local	Stark	\$ 7,966	\$ 7,920	-46
Riverside Local	Lake	\$ 6,936	\$ 6,892	-44
Field Local	Portage	\$ 6,341	\$ 6,298	-43
Plain Local	Stark	\$ 7,078	\$ 7,037	-41
Delphos City	Allen	\$ 6,251	\$ 6,211	-40
Wilmington City	Clinton	\$ 6,626	\$ 6,587	-40
Hopewell-Loudon Local	Seneca	\$ 7,393	\$ 7,355	-38
Girard City	Trumbull	\$ 7,153	\$ 7,119	-34
Franklin City	Warren	\$ 6,952	\$ 6,919	-33
Brookfield Local	Trumbull	\$ 7,451	\$ 7,420	-31

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Table 2: The 25 Ohio school districts whose state-local share percentages drop the most due to the charter school deduction

District Name	County	State Share Pre-charter	State Share Post Charter	Charter Difference
Brooklyn City	Cuyahoga	7.0%	2.5%	-64.0%
Lordstown Local	Trumbull	13.6%	6.1%	-55.5%
Richmond Heights Local	Cuyahoga	12.1%	5.5%	-54.7%
Woodridge Local	Summit	6.8%	4.1%	-39.9%
Columbus City	Franklin	38.8%	25.7%	-33.8%
Parma City	Cuyahoga	23.5%	16.9%	-28.0%
Cincinnati City	Hamilton	37.9%	27.9%	-26.5%
Warrensville Heights City	Cuyahoga	34.9%	26.7%	-23.4%
Springfield Local	Lucas	23.3%	17.9%	-22.9%
Westlake City	Cuyahoga	6.6%	5.3%	-19.4%
Maumee City	Lucas	19.3%	15.6%	-19.2%
Groveport Madison Local	Franklin	55.4%	45.1%	-18.7%
Princeton City	Hamilton	8.6%	7.0%	-18.5%
Bedford City	Cuyahoga	19.3%	15.8%	-18.2%
Copley-Fairlawn City	Summit	7.0%	5.8%	-17.8%
Rossford Exempted Village	Wood	13.1%	10.9%	-16.8%
Euclid City	Cuyahoga	44.0%	36.8%	-16.3%
Field Local	Portage	42.5%	35.7%	-16.1%
Riverside Local	Lake	21.9%	18.4%	-15.8%
Wickliffe City	Lake	13.8%	11.7%	-15.1%
Berea City	Cuyahoga	13.2%	11.2%	-14.9%
Avon Lake City	Lorain	7.9%	6.7%	-14.9%
Vandalia-Butler City	Montgomery	17.8%	15.2%	-14.8%
Rocky River City	Cuyahoga	4.8%	4.1%	-14.3%
Cleveland Municipal City	Cuyahoga	66.9%	57.4%	-14.3%