

ETPI Research Update:
The FY16-17 Funding Formula,
TPP Replacement Payments,
& 2015 School Levy Analysis

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HB 64 School Funding Formula

- Governor proposed modified version of FY14-15 funding formula, including:
 - Reductions in guarantee
 - Modification of income factor in State Share Index (SSI)
 - Increases in many formula parameters (Core Opportunity Aid amount, Special Ed., Career Tech, etc..)
 - Gain cap at 10%
 - Resumption of phase-down of TPP replacement payments that began in FY12-13 biennium
- House made changes, including:
 - Reversing guarantee reductions
 - Adding Capacity Aid
 - Gain cap at 7.5%
 - TPP supplement
 - Replacing SSI with income adjusted charge-off

HB 64 School Funding Formula

- Senate made further adjustments, including:
 - Restoring the SSI
 - Adding several components outside the Gain Cap
- Conference Committee – compromise between the House and Senate with:
 - SSI being retained
 - Capacity Aid funded at level between House and Senate versions
 - Retained 3 of 4 Senate components outside Cap
- Governor vetoes:
 - 20% minimum per pupil aid (provision added by House)
 - FY17 TPP supplement

FY10-FY17 School District Formula Aid & TPP Tax Replacement Payments (\$ in Millions)

	FY10	FY11	FY12	FY13	FY14	FY15	FY16 Final Est.	FY17 Final Est.
School District Foundation Aid	\$6,536.8	\$6,514.7	\$6,266.1	\$6,325.6	\$6,599.5	\$7,028.8	\$7,496.4	\$7,755.3
JVSD Foundation Aid	\$261.0	\$263.0	\$263.0	\$263.0	\$267.2	\$271.1	\$278.2	\$283.0
Total K-12 Foundation Aid*	\$6,797.8	\$6,777.7	\$6,529.1	\$6,588.6	\$6,866.7	\$7,299.9	\$7,774.6	\$8,038.3
	\$13,575.5		\$13,117.7		\$14,166.6		\$15,812.9	
Business TPP Tax Replacement	\$1,041.4	\$1,052.3	\$728.3	\$482.0	\$482.0	\$482.0	\$360.9	\$249.8
Public Utility TPP Tax Replacement	\$79.9	\$76.8	\$31.6	\$28.0	\$28.0	\$28.0		
Total TPP Replacement	\$1,121.3	\$1,129.1	\$759.9	\$510.0	\$510.0	\$510.0	\$360.9	\$249.8
	\$2,250.4		\$1,269.9		\$1,020.0		\$610.7	
Total Foundation Aid & TPP Replacement	\$7,919.0	\$7,906.8	\$7,289.1	\$7,098.6	\$7,376.7	\$7,809.9	\$8,135.5	\$8,288.1
Biennial Totals	\$15,825.8		\$14,387.7		\$15,186.6		\$16,423.6	
Biennial Change			(\$1,438.1)		\$798.9		\$1,237.0	
Change vs. FY10-11					(\$639.2)		\$597.8	

* Foundation Aid figures include Federal Stimulus funds of \$417.6 million in FY10 and \$515.5 million in FY11.

Source: All data are from the Ohio Legislative Service Commission.

FY10-FY17 State Formula Funding + TPP Payments

- Formula funding (including JVSDs) increased by nearly \$1.1 billion in the FY14-15 biennium compared to FY12-13, and will increase by almost \$1.65 billion in the FY16-17 biennium compared to FY14-15.
- However, reductions in TPP replacement payments from \$1.13 billion in FY11 to \$510 million in FY15, and further reductions to \$250 million in FY17 undercut the funding formula increases.
- As a result, when TPP Replacement is taken into account, Foundation + TPP funding in FY16-17 will be only \$598 million more than in FY10-11. FY17 total state funding is \$369 million more than the FY10 amount. This is a 4.7% increase. By comparison, the CPI inflation rate from 2010 through 2015 is 9.1%.

Funding Formula Issues

- Guarantee & Gain Cap
- TPP Reductions (discussed below)
- Community School Deduction
- State/Local share calculation
- Method (or lack thereof) for determining base amount per pupil
- Funding for economically disadvantaged students

Guarantee & Gain Cap

- Transitional Aid Guarantee:
 - FY15: \$165.9 million (188 districts)
 - FY16: \$137.1 million (168 districts)
 - FY17: \$100.8 million (122 districts)
- Gain Cap (7.5% in both FY16 and FY17):
 - FY15: \$669.2 million (237 districts)
 - FY16: \$474.4 million (193 districts)
 - FY17: \$352.4 million (138 districts)

Community School Deduction

- The deduction of the full per pupil amount (+ categoricals) rather than the state share of aid has been frustrating school districts for more than 15 years.
- In FY15 123,000 students went to community schools. The deduction amount was \$940 million.
- Under the old chargeoff system of determining the local share of funding there was some ambiguity about the extent to which local money was following students to charter schools.
- Under the SSI there is no more ambiguity - local money absolutely follows each student to charter schools.
- I estimate that \$278 million was the “local share” of community school funding in FY15.

State/Local Share Calculation

- “Chargeoff” approach was used from the mid-1980s through FY11 (ranging from 20-23 mills).
- State Share Index (SSI) approach adopted in FY14.
- SSI is based on ranking districts according to valuation per pupil and income. A district's local share now depends on the wealth and income of every other district.
- Valuation per pupil disadvantages small districts. Capacity aid helps to offset this.
- Income factor is irrational and needs to be changed. Governor tried to do this and wealthy districts objected.
- House replaced SSI with income adjusted chargeoff. Wealthy districts objected.

Methodology for Determining Base Cost Amount

- FY09: \$5,732 per pupil (“Building blocks” method)
- FY10-11: OEBM - no per pupil amount
- FY12-13: Bridge Formula (not really a formula)
- FY14: \$5745 per pupil
- FY15: \$5,800 per pupil
- FY16: \$5,900 per pupil
- FY17: \$6,000 per pupil
- If \$5,732 was inflated according to the CPI, the FY16 amount would be \$6,335 per pupil

Funding for Economically Disadvantaged Students

- In FY15 actual (post-gain cap) funding for economically disadvantaged students was \$372 million
- In FY99 it was \$345 million
- The % of economically disadvantaged students is more than 50% higher now than it was 15 years ago
- Poverty is nearly perfectly negatively correlated with student achievement
- We need to figure out how to move the needle on closing the achievement gap

Continued Phase-out of TPP Replacement Payments in FY16 & FY17

- HB64 enacted further reductions in TPP replacement payments according to the following formula:
 - Districts in Wealth Quintile 1 (poorest) will see TPP replacement payments reduced by a maximum of 1% of total resources
 - Districts in Quintile 5 (richest) will see TPP replacement payments reduced by a maximum of 2% of total resources
 - Districts in Quintile 3, 4, and 5 will see TPP replacement payments reduced by a maximum of 1.25%, 1.50%, and 1.75% of total resources, respectively
- Wealth quintiles are based on a combination of property valuation per pupil and median income
- “Total Resources” includes local property & income taxes, casino tax revenues, and state funding

FY11-FY17 School TPP Replacement Payments

Fiscal Year	Fixed Rate Operating Business TPP Replacement Payments	Fixed Rate Operating Public Utility TPP Replacement Payments	Total TPP Fixed Rate Operating Replacement Payments
FY11	\$919.9	\$66.0	\$985.9
FY12	\$625.0	\$26.7	\$651.8
FY13	\$396.7	\$23.6	\$420.3
FY14	\$396.7	\$23.6	\$420.3
FY15	\$396.6	\$23.5	\$420.1
FY16 (ODE)	TPP & PUTPP Combined		\$281.7
FY17 (Est. *)	TPP & PUTPP Combined		\$180.5

* FY16 figure is based on ODE September 2015 computations and FY17 amount is an estimate prepared by Howard Fleeter based on the ODE FY16 data.

FY11-FY19 TPP Replacement Payments and # of Districts

Fiscal Year	TPP Operating Replacement Payments	# of Districts Receiving TPP Payments
FY11	\$985.9	610
FY12	\$651.8	421
FY13	\$420.3	260
FY14	\$420.3	260
FY15	\$420.1	260
FY16 (ODE)	\$281.7	202
FY17 Est*	\$182.4	131
FY18 Est*	\$122.2	89
FY19 Est*	\$83.7	67

* FY17, FY18, and FY19 figure are estimates prepared by Howard Fleeter based on the ODE FY16 data.

TPP Replacement Payment Phase-out

- The previous 2 slides show that HB 64 will lead to significant reductions in reimbursement payments for TPP fixed rate current expense levies (these are “ordinary” school operating levies).
- By FY17 TPP reimbursements for these levies will have been reduced by nearly 82% from FY11 levels.
- When other types of school levies are included, total TPP replacement payments to schools will be reduced from \$1.1 billion in FY11 to \$250 million in FY17 (78% decrease).

TPP Supplement

- This provision was added by the House, retained by the Senate and Conference Committee, and then vetoed for FY17 only by the Governor.
- The TPP Supplement is essentially a guarantee intended to ensure that no district receive less total state funding (Formula Aid + TPP replacement payments) in FY16 & FY17 than they received in FY15.
- LSC estimates that 120 districts will receive \$52.9 million in TTP supplement funds in FY16.
- LSC estimates that 116 districts would have received \$84.2 million in TTP supplement funds in FY17 had it not been vetoed.
- Because HB 64 did not provide for the TPP Supplement after FY17, the Governor's veto meant that the impact of the reductions in the TPP replacement payments will be felt 1 year earlier than the legislature had intended.

SB 208: Modification to TPP Replacement Payment Phase-out

- Modifications to the HB 64 TPP provisions were included in SB 208 (a tax corrections bill).
- SB 208 will reinstate the FY17 TPP Supplement at a level meant to guarantee districts 96% of their FY15 state formula aid + TPP replacement payment amount.
- SB 208 will also modify the phase-out of the TPP Replacement payment formula beginning in FY18 (the FY16 and FY17 TPP replacement payments will still be as prescribed in HB 64 .

SB 208: Modification to TPP Replacement Payment Phase-out

- Instead of basing the TPP reductions on a maximum percentage of each district's total resources, SB 208 provides that each district that is still receiving TPP replacement payments in FY17 will then see annual reductions of a maximum of $\frac{5}{8}$ th of a mill of local property valuation.
- The SB 208 TPP phase-out formula will slow down the loss of TPP replacement payments for many districts. No district would be worse off under SB 208 than they are under HB 64.

More Bad News? New Proposal will Eliminate TPP Tax on Electricity Generation Equipment

- Near the end of the FY16-17 budget process a proposal was introduced that would have eliminated the local TPP tax on electricity generation equipment, however this proposal was badly flawed and was eliminated from the budget.
- Recently an alternative proposal was introduced by the same interests (the power companies) that would also eliminate the local TPP tax beginning in FY17 and provide replacement payments that would be phased-out by 2032.
- This proposal would effectively replace the local tax TPP tax on generating equipment with an increase in the state Kilowatt Hour (KWH) tax.

2014 & 2015 School Levies by Election

Election	Total # of Issues	# Passing	# Failing	2014 % Passing	2013 % Passing
February	1	0	1	0.0%	50.0%
May	147	101	46	68.7%	58.4%
August	7	1	6	14.3%	31.6%
November	162	105	57	64.8%	59.8%
2014 Totals	317	207	110	65.3%	57.5%

Election	Total # of Issues	# Passing	# Failing	2015 % Passing	2014 % Passing	2013 % Passing
February	3	3	0	100.0%	0.0%	50.0%
May	102	86	16	84.3%	68.7%	58.4%
August	3	2	1	66.7%	14.3%	31.6%
November	109	92	17	84.4%	64.8%	59.8%
2015 Totals	217	183	34	84.3%	65.3%	57.5%

School Operating and Capital Levies from 2007-2015

Year	Total # of Issues	% Passing	# Operating Issues	% Passing	# Capital Issues	% Passing
2007	406	50.7%	247	51.4%	159	49.7%
2008	427	53.4%	255	52.2%	172	55.2%
2009	378	60.6%	251	63.3%	127	55.1%
2010	429	53.1%	317	52.7%	112	54.5%
2011	366	51.6%	275	50.9%	91	53.8%
2012	339	56.6%	245	56.1%	95	57.9%
2013	351	57.5%	236	58.9%	115	54.8%
2014	317	65.3%	207	69.1%	110	58.2%
2015	217	84.3%	149	89.3%	68	73.5%

New and Renewal School Operating Levies from 2007-2015

Year	Total # of Operating Levies	% Passing	# New Levies	% Passing	# Renew & Replacement Levies	% Passing
2007	247	51.4%	123	22.8%	124	79.8%
2008	255	52.2%	135	24.4%	120	83.3%
2009	251	63.3%	122	35.2%	129	89.9%
2010	317	52.7%	173	26.0%	144	84.7%
2011	275	50.9%	168	26.2%	107	89.7%
2012	245	56.1%	138	33.3%	106	85.8%
2013	236	58.9%	135	36.3%	101	89.1%
2014	207	69.1%	69	31.9%	138	87.7%
2015	149	89.3%	26	65.4%	123	94.3%

New & Replacement vs Renewal School Operating Levies from 1994-2015

Year	# of New Levies	# of Replacement Levies	# of Renewal Levies	Total # of Levies	# of New + Replacement	% New + Replacement Levies	
1994	281	1	54	336	282	83.9%	
1995	262	16	43	321	278	86.6%	
1996	205	14	60	279	219	78.5%	
1997	161	17	49	227	178	78.4%	1994-97 Avg
1998	92	10	72	174	102	58.6%	82.3%
1999	105	17	64	186	122	65.6%	
2000	96	12	106	214	108	50.5%	
2001	82	16	73	171	98	57.3%	
2002	107	15	79	201	122	60.7%	
2003	170	23	77	270	193	71.5%	
2004	313	25	97	435	338	77.7%	
2005	256	13	93	362	269	74.3%	1998-06 Avg
2006	186	13	83	282	199	70.6%	67.6%
2007	123	19	105	247	142	57.5%	
2008	135	11	109	255	146	57.3%	
2009	122	12	117	251	134	53.4%	
2010	173	13	131	317	186	58.7%	
2011	168	4	103	275	172	62.5%	
2012	138	3	103	244	141	57.8%	2007-13 Avg
2013	135	3	98	236	138	58.5%	58.0%
2014	69	3	135	207	72	34.8%	2014-15 Avg
2015	26	2	121	149	28	18.8%	28.1%
1994-2013 Average	166	13	86	264	178	67.5%	

2015 School Levy Summary

- The preceding slides show that there were only 2017 school levies (149 operating levies and 68 capital levies) on the ballot in 2015.
- These figures are all the lowest numbers since 1984 (the earliest year I have complete data) and the # of operating levies is the lowest since HB 920 was passed in 1976.
- Even more significantly, there were only 26 new operating levies on the ballot in 2015 - by far the lowest ever. And in 2014 there were only 69 new operating levies - the 2nd lowest total ever.
- Finally, the unusually high 84.3% passage rate of school levies in 2015 is largely due to the very high proportion of renewal levies on the ballot which typically pass at more than twice the rate of new levies.