

Changes to School Funding

December will see the first major overhaul to funding for Ohio's school in over 30 years. This change has created many questions and left board members and school leaders wondering how to proceed with budgeting. In order to help bring clarity to the situation it is important to understand how we got to this point and what steps schools should be taking moving forward.

Why makes these changes? What was the rationale behind the Ohio Legislature attempting to tackle this issue at this time? There are actually a number of underlying factors causing the overhaul including:

- State law makers believe the current school funding model does not accurately reflect the cost of educating students
- Overall funding for schools has largely remained flat at the state level for years, with only minor increases.
- Local districts are remained concerned with how much of their funding is based on local property taxes and the resulting levies on each ballot.
- Ohio still has not solved the challenge of the 1991 DeRolph case, in which the Ohio Supreme Court declared Ohio school funding unconstitutional but gave no remedy.

Taken together it becomes clear it is time for the state to take action on modernizing the approach to funding schools.

So, what changes did the state enact? Overall, the new funding model calls for future school funding to be based on the actual cost of educating a child. It takes into account all aspects of the school operation including teaching, administration, transportation, facilities, support services, etc. The theory is to derive a total based on the complete picture of operating a successful educational program. More specifically to charter schools, the new law provides the following positive changes:

- Charters are no longer a deduction from local districts. Currently, districts see the full amount they receive from the state based on all resident students. There is then a line-item deduction on the district funding report to withhold money given to charters. The new change in law will assist in improving the "optics" of the situation. Districts will no longer see the funding, and the image of charters "stealing" the money will be reduced.
- Funding is scheduled to rise over the next 6 years. The new funding model was designed to be phased in over 6 years with increases each year. This directly impacts all schools in a positive way.
- The new model is also designed to adjust for increases in costs over time. Since the entire formula is driven by the full and true cost to educate students, any increase in these costs will lead to a corresponding increase in funding.
- Finally, facility funding for charter schools has been drastically increased. A few short years ago there was no money for facilities given to charters. Under the new funding model, schools will receive \$500 per student (brick and mortar schools).

Unfortunately, the new law does not solve all the issues charters and districts face in funding. Specifically:

- Local taxes are still a large component of district funding. This will continue to drive disparity in funding levels across the state and between wealthy and poor districts. It fails to solve the underlying complaint in the DeRolph case.
- Charter schools still can't access any local tax dollars. The district will retain all property taxes and charters will receive only the state foundation money. This will mean charters continue to operate at a funding disadvantage.

Finally, what can a school do to prepare for this change? There are a few tips we suggest to help ease the transition to the new model:

- Be conservative in your funding assumptions. There does appear to be a fairly strong likelihood of increases in funding for charter schools. However, the 6-year phase in period is still theoretical. It will require two more cycles of state level bi-annual budgets to be approved by the legislature and governor. It is difficult to know the political environment 4 years from now.
- Use the “guarantee” amount to budget for FY22 and FY23. This amount (which we can provide you with if requested) is the minimum ODE has assured schools they will receive over the next two years. It provides a solid baseline to work from.
- Consider setting aside a portion of any increase in funding into a reserve fund to protect against any future uncertainty. The new model make take some time to work itself out. There could also be changes to the model based on the next bi-annual budget. These uncertainties provide justification for creating a cash buffer to protect the school.
- Lastly, for board members who serve on multiple school boards it is very important to understand the funding for each school will now be different. It will be critical that board members become familiar with the “guarantee” amount for each of the different schools so they can budget accordingly.

If you have questions concerning funding within your school, please reach out to me and I will be happy to assist.

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