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# POLICY MATTERS OHIO

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## BUDGET BRIEF

### **Slash, Seize and Privatize: Ohio's budget bill and its impact on education**

Piet van Lier  
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Educating our children is among the most important ways that we improve people's lives, prepare tomorrow's workforce, and make our state appealing to employers. Rather than investing in education to build a stronger Ohio, however, the legislature has put the state's future at risk by reducing funding for public education by more than \$2 billion compared to the current biennium.

The education budget that was passed by the House and the Senate is similar to the proposal introduced by Governor John Kasich's administration in March. The House increased funding for schools by about \$100 million, and the Senate threw in another \$115 million. These slight increases over the Governor's initial proposal still leave education with far less funding than in the last budget and will do little to soften the blow to education over the next two years.

The current proposal imposes the harshest cuts on education. The state seizes \$1.1 billion in property tax replacements that were promised to schools in the tax overhaul of 2005 and in 2001 during changes to public utility taxation. Legislators' refusal to consider ways to generate new revenue also is magnifying the loss of federal stimulus funding, which served as a vital bridge for districts during the worst of the recession.

The national economic crisis has contributed to Ohio's budget shortfall. But our state's problems were primarily caused by the legislature's 2005 decision to cut taxes for Ohio's top earners and corporations. These cuts have drained \$2 billion a year in revenue from basic services that are the responsibility of the state, including its share of education funding. As a result, the budget as written will damage Ohio's ability to create jobs because it relies entirely on cutting vital services needed to help rebuild a strong economy in our state.

Some iterations of this budget threaten to rewrite major sections of Ohio education law, particularly in the area of charter schools and the state's voucher programs. The House inserted into its version proposals that would deliver a serious blow to accountability, transparency and democratic governance in an already weak charter sector. The Senate eliminated the worst of the House's ideas, which were requested by charter mogul David Brennan, according to news reports.<sup>1</sup> But the Senate has sought to make its own mark in the area of school privatization, particularly by expanding charters for children who have special needs or are gifted, by

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<sup>1</sup> Jim Siegel and Darrel Rowland, "House cozy with charter school lobby." *The Columbus Dispatch*, June 5, 2011.

mandating virtually free leasing of district buildings to charter schools, and by creating a new special education voucher program.

Legislators are expected to iron out the differences between the House and Senate bills in conference committee, with HB 153, the budget bill, on track to get back to the governor by June 30. The current allocation of funds for public schools is unlikely to change much in this process – state lawmakers have made it clear that they will not work to build a stronger Ohio by raising new revenue through tax reform or by eliminating some of the \$7 billion in unexamined loopholes in the state’s tax code.<sup>2</sup>

As the two chambers come together to craft a final budget, some of the biggest questions center on charter policy. The stakes are high, as House provisions would substantially undercut charter oversight and allow schools to be established as for-profits; the Senate was right to remove these and other House proposals. The conference committee, too, should resist efforts to turn back the clock on charter oversight. The Senate’s policy changes are not ideal, but for charters they are an improvement on the House version. The Senate also improved the bill by stripping House provisions on teacher pay and evaluations, which would eliminate tenure and seniority rights for teachers without putting an effective system in place to replace them.

### **School funding**

Like the executive and House proposals before it, the Senate version of HB 153 does not restore losses from acceleration of the phase-out of reimbursements for the tangible personal property and utility taxes. These cuts to state education funding as currently proposed will magnify the loss of federal stimulus money and undermine Ohio’s future.

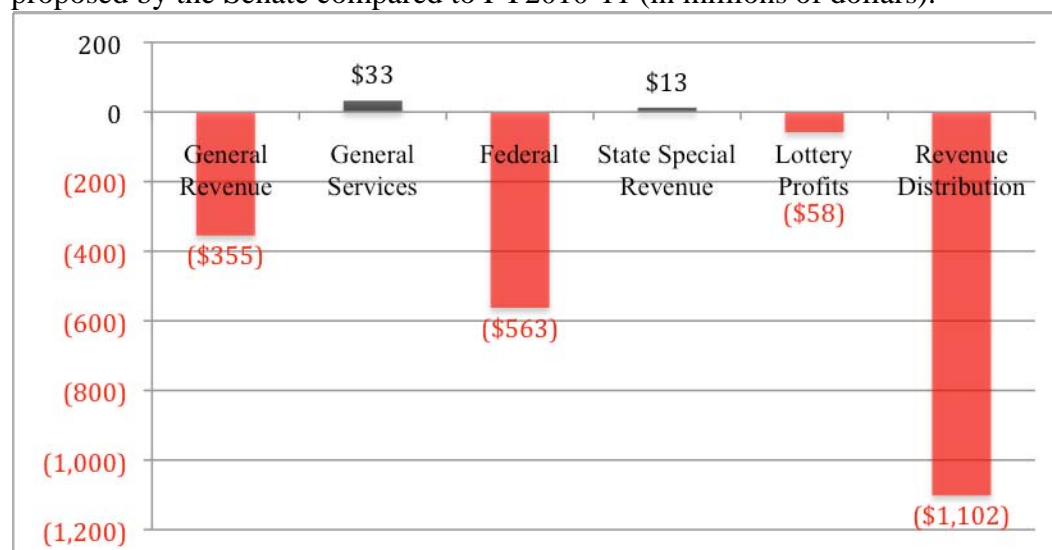
The proposed FY 2012-13 budget shows a loss of just over \$2.03 billion in education funding compared to the current biennium. Figure 1 shows that the biggest cuts in state funding for education, totaling \$1.1 billion, were made to the Revenue Distribution Fund. This reflects the seizure by the state of money that had been directed to school districts from property and utility tax reimbursement. The drop in federal funding for Ohio schools totals about \$1.4 billion, mostly reflecting the loss of stimulus money directed to schools as a bridge during the worst of the recent recession. The decision by state policymakers to essentially ignore this loss, blaming local leaders for spending the money as it was intended, will force school districts to make drastic cuts, put new levies on the ballot, or both. Pushing responsibility for school funding to the local level will exacerbate inequities in funding for Ohio schools.

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<sup>2</sup> See Zach Schiller’s \$7 Billion in Ohio Tax Breaks and Nobody’s Watching, online at <http://www.policymattersohio.org/TaxExpenditures2011.htm>.

The Senate's proposed boost in school funding disproportionately benefits more affluent districts. According to an analysis by *The Columbus Dispatch*, only 27 of the 305 districts ranked in the bottom half of the state based on per-pupil property valuation would receive additional funding under the Senate's proposal; all but two of the 100 wealthiest districts would.<sup>3</sup> This increase in funding for school operations – totaling about \$85 million – does not consider that property-poor and low-income districts, particularly in rural and urban areas, will have a harder time raising local revenue than would districts with higher levels of property wealth and personal income.

**Figure 1:** Changes in funding for primary and secondary education, FY 2012-13 budget as proposed by the Senate compared to FY2010-11 (in millions of dollars).



Source: Policy Matters Ohio, based on Ohio Legislative Service Commission, Budget in Detail (<http://www.lsc.state.oh.us/fiscal/bid129/default.htm>) - as passed by Senate.

Notes: Loss of some federal stimulus money is reflected in the General Revenue Funds category; Federal category includes reductions in IDEA and Title 1 stimulus money, as well as other smaller categories.

The Senate's proposal to provide a \$17 per-student bonus to districts and charter schools rated Excellent or Excellent with Distinction would direct extra money primarily to wealthier districts. Decades of research has shown that higher scores on standardized tests directly correlate with higher income levels; basing additional funding for school districts solely on such a crude and inaccurate measure of excellence is not sound public policy.

### Charter schools

The final budget bill will likely lead to more privatization in education, although the details and extent of this expansion will vary depending on what comes out of conference committee. Expanding Ohio's charter sector, with its relative handful of schools offering academic effectiveness, will deepen many districts' fiscal problems by draining additional money. Neither the executive, the Senate nor the House have used the budget bill to take the steps needed to strengthen Ohio's charter sector, instead inserting a number of provisions that will allow continued expansion with weak oversight.

<sup>3</sup> Siegel, Jim. "Wealthy schools get most budget relief under Senate plan." *The Columbus Dispatch*, June 2, 2011.

**Gifted and special needs charters** – The Senate inserted provisions that would allow charter schools for gifted or special needs students to be established in any district in the state. The proposals require certification, by the district where the school would be located or by the Ohio Department of Education, that there is a need for a school serving those populations in that region. The likely result of these provisions would be an expansion of charters to suburban districts. This could destabilize enrollment and funding for districts that had not previously lost as many students. Special education charters could end up drawing higher-functioning children with disabilities from district schools in new areas.<sup>4</sup>

**School facilities** – The Senate would mandate that school districts offer any school facilities that have not been used for two years for lease to governing authorities of charters within the district. Charters ranked in the top 50 percent of schools statewide would pay only \$1 under this proposal; the measure does not require the charter school to have enough money to maintain the building, which the public system would still own. The district could charge fair market value to lower-performing schools. This provision replaced a proposal in the executive budget that would have required districts to give right of first refusal to charters, with a priority for district conversion schools.

While the executive proposal is more sensible in that it doesn't require districts to literally give away school buildings, both are coercive where they should incentivize. If lawmakers want districts to lease space to charters, they should come up with ways to get districts and charters to work together. State policy has already created unhealthy conflict between charters and district schools; these proposals would likely cause further tension rather than foster collaboration.

**Improvements** – The Senate's improvements to the House budget are primarily in the area of charter school governance and oversight. The Senate stripped several damaging House-inserted provisions that would have allowed for-profit entities more control over public charter schools and reduced oversight of the charter sector. Ohio has made steps in recent years toward strengthening charter oversight and shutting down poorly performing schools; legislators must resist pressure to reinstate harmful proposals as the House and Senate craft a final bill in conference committee.

**Accountability and transparency** – Among the most harmful provisions the Senate stripped from the House version of the budget bill were many that would have directly benefited for-profit firms that operate charter schools. The House would have expanded rights of operators over sponsors and charter schools; specific provisions allowed for the establishment of for-profit schools and sponsors, and reduced opportunities for oversight. The House version also would have allowed charters to open without sponsors. Among the House-inserted language that would diminish accountability and transparency in the charter sector are provisions that would:

- Prohibit sponsors from denying sponsorship to charter schools based on certain criteria;
- Grant charter operators new authorities and allow charters to be established as for-profit entities;
- Allow charters to be established without the oversight of a sponsor, and;
- Make renewal of sponsorship contracts subject to approval of a school's operator.

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<sup>4</sup> This phenomenon has been documented in the state's autism voucher program and other special education charters already operating in Ohio's challenged districts.

**Sponsors** – The Senate has added a provision that would prohibit charter sponsors from selling any goods or services to schools they oversee. Curbing the conflicts of interest that these practices create – and they are common practice in Ohio – would be a big step toward strengthening charter oversight in the state.

Both the Senate and the House included provisions that address sponsor accountability for academic performance. Such a structure is vital to ensuring a stronger charter sector in Ohio. However, neither the Senate nor House proposals would do the job. The Senate’s version, for example, would likely favor larger sponsors by making it harder for sponsors overseeing fewer schools – in particular school districts – to authorize new charters. This approach runs counter to the push for collaboration among district schools and charters, and does not do enough to improve the quality of the vast, underperforming majority of charter schools.

### **School vouchers**

The Senate included a new special education voucher program in HB 153. Unfortunately, there is no evidence that the state’s existing autism voucher has done more than provide wealthier Ohioans and those whose children have milder disabilities the opportunity to spend public money outside of the public system.<sup>5</sup> The Senate proposal in the budget bill caps participation at 5 percent of all special needs students, making it better than a separate voucher proposal originating in the House that would not limit participation. Nevertheless, this provision should not be part of the budget bill.

### **Teacher pay and evaluation**

The Senate stripped the budget bill of provisions added by the House that would significantly change how teachers are paid and evaluated. This issue is expected to be part of the debate in conference committee, as the House proposed eliminating tenure for teachers hired after January 2011 and removing seniority as a criterion for layoff decisions. Other changes inserted by the House would require that:

- 50 percent of teacher evaluations be based on student academic growth in most cases, using the state’s value-added measure on standardized tests or other measures;
- Teachers with low ratings over a period of two to three years lose continuing contracts;
- “Employers use teacher evaluations to inform decisions about compensation, nonrenewal, termination, reductions in force and professional development.”<sup>6</sup>

The Senate has done well to strip these provisions from the bill. Teacher evaluation systems in many Ohio districts need to be improved, but that discussion should happen outside of the budget process and be guided by experience and research. Ohio school districts have pioneered new ways of assisting and evaluating teachers, and proven models should be incorporated into any new state system.<sup>7</sup> There is little evidence that principals are adequately prepared to evaluate

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<sup>5</sup> See the Policy Matters March 2008 report “Analyzing autism vouchers in Ohio” at [www.policymattersohio.org/AnalyzingAutismVouchers.htm](http://www.policymattersohio.org/AnalyzingAutismVouchers.htm), and the October 2010 article by John Higgins in *The Akron Beacon Journal*, “Complaints trouble state autism fund” retrieved at <http://education.ohio.com/2010/10/complaints-trouble-state-autism-fund/>.

<sup>6</sup> From Legislative Services Commission comparison document for the education from the Main Operating Appropriations Bill.

<sup>7</sup> For example, several Ohio districts have Peer Assistance and Review programs in place. These programs use teachers to support and evaluate new teachers and veterans who may be struggling. The Strickland administration

teachers across subject areas and grade levels, as they would be charged to do by House language in the budget bill. Furthermore, the use of value-added measures of student growth on standardized tests has been shown to be an unreliable indicator of teacher quality – as a result, it is unlikely that using such a measure would improve teaching and learning in Ohio’s schools.

There is even less evidence that so-called performance-based pay will lead to better school results, given that effective schools rely so heavily on creating an environment where people can work together. At the school level, the academic success of students is built on the work of many – teachers, administrators, and others – and differentiating who has contributed most to the success of a particular set of students can be difficult. Performance pay can quickly undercut collaboration by singling out individuals as more worthy than others. Research, including teacher surveys, also suggests that pay is near the bottom of the list of factors that motivate teachers.<sup>8</sup>

Decades of research has shown that non-school factors have the largest impact on student success – this includes policies relating to health care, housing, poverty, employment and human services. While schools must continue to do all they can to improve outcomes, it’s up to policymakers to commit to setting in place the public systems and structures that will help build a stronger Ohio. Rather than slashing funding for education and other basic services, the Ohio legislature and Gov. Kasich should work to strengthen supports for low- and moderate-income Ohioans.

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had worked to develop a model PAR program for Ohio. For more on PAR see the Policy Matters report at <http://www.policymattersohio.org/LearningFromOhiosBest.htm>.

<sup>8</sup> Numerous studies and articles have dissected the benefits of merit pay. Teachers often see a supportive school environment as more important than pay, according to Thomas Toch’s piece published in *The Washington Post* on October 11, 2009, “Myths About Paying Good Teachers More.”

