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BUDGET BRIEF

An analysis of education funding proposed by the Kasich administration Fiscal years 2012-13

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Introduction

The 2012-13 biennial budget proposed by the Kasich administration significantly cuts state funding for Ohio's public schools over the two-year period, both on a year-to-year basis and when the proposed budget is compared to the 2010-11 biennium. Loss of federal stimulus money magnifies state cuts, leaving virtually all Ohio school districts with difficult decisions before the start of the 2011-12 school year.

Cuts to the teaching workforce across the state are likely to have a huge impact on schools, with resulting class size increases for Ohio's most vulnerable children. Many districts are weighing school closings. Cuts to line items that fund areas such as gifted education, Science, Technology, Engineering and Math education, and school improvement will inflict further damage. One result, in districts wealthy and poor, will be a shifting of the tax burden from the state to local taxpayers.

The administration's main approach to school improvement relies on increased support for charters and nonpublic schools. But research has not borne out proponents' faith in the "free-market" approach to education, with the majority of charters performing no better, and often worse than, comparable public schools. Charter oversight in Ohio is lax at best, and the governor's budget gives no evidence that accountability will be strengthened enough to make a difference. Research on school vouchers is mixed at best. Even the track record of nonpublic schools receiving public money outside the voucher program is unclear, particularly for low-income students.

Over the past ten years in Ohio, overall state funding for education has remained relatively flat when dollar amounts are adjusted for inflation, and began dropping sharply after 2009. But support for vouchers and charters – deducted from state funds to districts – has soared during the same period. In FY2003, the state deducted some \$221 million and directed it to non-district schools; that number will reach about \$798 million in FY2011. Based on proposals by the Kasich administration and the legislature to expand vouchers and charters, those deductions could top \$1.2 billion by FY2013.

In the end, depending on unproven reforms and relying solely on cuts to balance the budget, rather than strengthening the public system that educates 90 percent of Ohio's children, risks undercutting Ohio's future. The governor and the legislature must address the need to raise revenue to support the state's basic needs, including education.

State funding cuts

On March 24, the Ohio Office of Budget and Management released an explanation of education funding that described the distribution of \$170 million in additional state General Revenue Funding “directly to school districts” through a “bridge formula” designed to ensure that districts “most heavily reliant on state assistance did not bear the greatest burden from the expiration of the federal stimulus funds.” The same document stated that in FY2012, 421 school districts would get increases in state foundation aid when compared to FY2011, and 405 would see increases in FY2013.¹

On March 25, Innovation Ohio, a policy and advocacy organization, released spreadsheets that they said were internal Kasich administration documents. The data showed that all but a few school districts were losing state funding when calculations included the loss of other state funds that had been directed to districts.² A subsequent analysis in the *Akron Beacon Journal* found that the districts hit hardest by proposed cuts as a percentage of total aid are communities with a large concentration of commercial and industrial property. The state’s biggest cities would lose the most dollar-wise, while the poorest districts would have to pass double-digit levies to “provide a basic education that is easily afforded in property rich districts,” according to the newspaper.³

Policy Matters Analysis

After analyzing available documents, Policy Matters has found that the Kasich administration has proposed cutting state funding for education by more than \$918 million (a cut of 5.6 percent) when the 2012-13 executive proposal is compared to the 2010-11 budget. As Table 1 shows, about \$200 million is shifted to the General Revenue Fund for education in the governor’s proposal. This amounts to an increase of 1 percent from 2011 to 2012 and an additional 1.4 percent from 2012 to 2013, as stated by the administration. This increase, however, is rendered meaningless by the state’s proposed seizure of more than \$1.1 billion in education funding over the two-year period; this is the amount the administration plans to redirect away from school districts from compensation for the phase-out of the business tangible personal property tax and losses of property tax revenues from changes in public utility assessment rates. Both of these sources of funding come through the Revenue Distribution Fund.

On a year-to-year basis, the administration’s proposal cuts state funding for K-12 by more than \$406 million from 2011 to 2012 and by another \$200 million from 2012 to 2013. As Table 1 shows, when the executive budget proposal for FY2012-13 is compared to FY2010-11, combined state and federal funding for education drops by more than \$2.3 billion.

Federal stimulus

When the loss of funds from the American Recovery and Reinvestment Act of 2009 is included in the calculation, K-12 education in Ohio would lose more than \$2.3 billion over the next two years if the governor’s proposal were enacted as written, a drop of 10.6 percent when compared to the 2010-11 budget.

Table 1 shows that the biggest hit comes from the loss of \$875 million in federal stimulus money that went to the K-12 General Revenue Fund in FY2010-11. Other stimulus money no longer available

¹ State Funding Explanation_03 24 2011, retrieved at

<http://obm.ohio.gov/SectionPages/Budget/FY1213/SchoolFunding.aspx>.

² “Innovation Ohio obtains Kasich Administration’s internal spreadsheet on school funding cuts; slams administration for ‘serial deceptions.’” March 25, 2011. www.innovationohio.org.

³ “Nearly all Ohio school districts face cuts: Group’s state numbers ‘flatly contradict’ Kasich on budget projections.” *Akron Beacon Journal*. Saturday, Mar 26, 2011.

includes funds distributed through federal Title programs for services targeted to special-needs children, low-income students and others.

Table 1: Executive budget proposal for FY2012-13 compared to FY2010-11
(combined state and federal funding for K-12 education)

| Budget Fund Group | Increase (decrease) from FY10-11 to FY12-13 | Percent change |
|--|--|---------------------------|
| General Revenue | \$ 201,281,000 | +1.6% |
| General Revenue Fund Stimulus | \$ (875,016,000) | -100.0% |
| General Services | \$ 32,518,000 | +64.2% |
| Federal Special Revenue* | \$ (562,667,000) | -11.5% |
| State Special Revenue (non-state sources)** | \$ 5,248,042 | +35.7% |
| State Special Revenue (state sources) | \$ 7,277,651 | +8.8% |
| Lottery Profit Education | \$ (58,000,000) | -4.0% |
| Revenue Distribution*** | \$ (1,101,536,000) | -46.6% |
| Total cuts to state and federal funds | \$ (2,350,894,307) | -10.6% |
| Total cuts to state funds | \$ (918,459,349) | -5.6% |

Source: Policy Matters Ohio, based on data from the Ohio Office of Budget and Management, Including FY2012-13 executive budget proposal.

* Includes funds distributed through federal Title programs for special-needs and low-income children.

**Some funds in the State Special Revenue fund come from private sources, such as grants.

*** Compensation for the phase-out of the business tangible personal property tax and losses of property tax revenue from changes in public utility assessment rates.

Cumulative cuts

When analyzed on a year-to-year basis, with FY2011 as the baseline, the severity of cuts to Ohio's public education system becomes even more apparent. Table 2 shows that federal and state funding for schools totaled more than \$11.5 billion in 2011, and that taken together, decreases in state and federal funding to Ohio add up to \$3.1 billion over two years.

Table 2: Total funding from state and federal sources for education in Ohio, with the governor's proposal for the FY2012-13 budget compared to FY2011.

| State Fiscal Year | Total funding (state & federal) |
|----------------------------|--|
| 2011 | \$11,529,974,751 |
| 2012 | \$10,206,003,935 |
| 2013 | \$ 9,709,172,635 |
| FY12 decrease | \$(1,323,970,816) |
| FY13 decrease | \$(1,820,802,116) |
| Cumulative decrease | \$(3,144,772,932) |

Source: Policy Matters Ohio, based on data from the Ohio Office of Budget and Management, FY2012-13 executive budget proposal.

Historical context

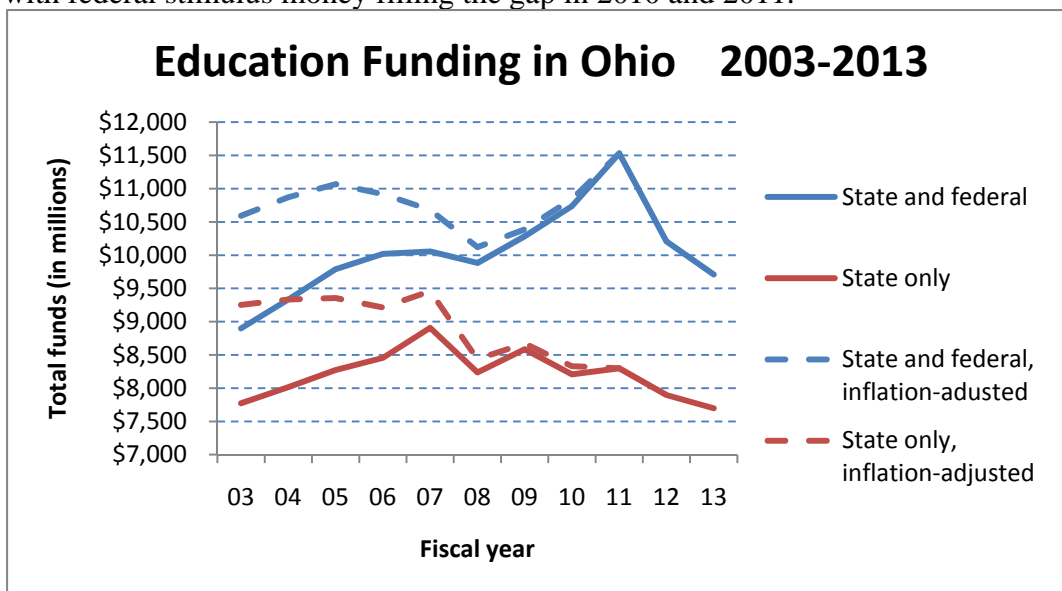
Cuts to education funding proposed by the Kasich administration also must be viewed in the context of changes in funding over time. Figure 1 shows two sets of trend lines. One represents changes over time in nominal dollar amounts, including the 2012-13 proposal; the other shows amounts adjusted for inflation through 2011.⁴

⁴ Using Consumer Price Index averaged for fiscal years, figures in 2011 dollars; 2011 rate from February 2011.

In nominal dollars, total state funding peaked in 2007 at just over \$8.9 billion, a 15 percent increase from the \$7.7 billion spent by the state in 2003; it dropped in 2008, then climbed to \$8.5 billion in 2009 before hitting the current downward trend. In its 2012-13 executive budget, the Kasich administration has proposed to cut education funding below 2003 levels by the second year of the biennium, a 1 percent drop over 10 years. Adjusted for inflation, however, Figure 1 shows that state funding since 2003 remained flat, climbing only 2 percent by 2007 and then dropping 6 percent by 2009; using current dollars, state funding has dropped 10 percent from 2003 to 2011, with the biggest annual decrease in 2008. If estimated rates of inflation are used for 2012 and 2013, the governor's proposal would result in an overall decrease in state funding of nearly 20 percent from 2003 to 2013.⁵

Year-to-year cuts for the coming biennium are nearly 5 percent from FY11 to FY12, and an additional 2.5 percent from FY12 to FY13. Drastic cuts in state funding in fiscal years 2010 and 2011, due largely to the deep national recession and a loss of state revenue because of income tax cuts and changes to business taxes passed by the Ohio legislature in 2005, were offset by an increase in federal spending over that biennium. The gap created by a 4.4 percent drop in state funds for education from 2009 to 2010, for example, was filled by an increase of nearly 50 percent in federal funding in 2010. Those federal funds are no longer available.

Figure 1: From 2003 through 2011, overall funding for Ohio's schools appears to increase every year, but when those figures are adjusted for inflation, it becomes clear that both state and federal funding remained relatively flat or dropped through 2008 and 2009. State funding continued to drop after that, with federal stimulus money filling the gap in 2010 and 2011.



Source: Policy Matters Ohio, based on data from the Ohio Office of Budget and Management including the executive budget proposal for 2012-13. Inflation-adjusted numbers are based on the Consumer Price Index averaged for fiscal years; current dollars are set to February 2011.

⁵ Estimated inflation for 2012 is 1.6 percent according to the Survey of Professional Forecasters (<http://web.rollins.edu/~wseyfried/forecast.htm>) and the same levels are assumed for 2013.

Why funding trends matter

This trend analysis is important because supporters of the governor’s approach to cutting education funds maintain that funding for Ohio schools has increased over time even as student achievement has remained flat. Our analysis, however, shows that even as funding has remained relatively flat and then dropped, Ohio’s scores on the National Assessment of Education Progress have risen. NAEP scores, often referred to as the Nation’s Report Card, show that 4th and 8th grade scores in math and 4th grade scores in reading have been rising since the early 1990s and continued to increase over the past decade; progress in 8th-grade reading has been less evident since 2000.⁶

Privatization of the education sector in Ohio

Since the mid-1990s, Ohio has been a leader in the expansion of charter schools and vouchers. The state currently has three voucher programs – the Cleveland program, the Educational Choice voucher statewide, and the autism voucher. Since the legislature passed the state’s first charter law in 1997, Ohio has seen rapid growth of charters as well, with more than 320 operating in the state during the 2009-10 school year. Funds for school vouchers and publicly funded, privately run charters are deducted from the districts where participating students live. Table 3 shows that annual increases in state funding for education have been outstripped by money deducted from state funds directed to school districts.

Table 3: Annual amounts deducted from school districts for charters and vouchers has outstripped any increases in state funding for districts from 2003 through 2013 (in millions).

| Fiscal year | Increase (decrease) in state funding | Total charter/voucher deduction |
|--------------------|---|--|
| 2003 | \$ 193 | \$ 221 |
| 2004 | \$ 242 | \$ 317 |
| 2005 | \$ 258 | \$ 442 |
| 2006 | \$ 184 | \$ 507 |
| 2007 | \$ 451 | \$ 572 |
| 2008 | \$ (670) | \$ 627 |
| 2009 | \$ 349 | \$ 702 |
| 2010 | \$ (378) | \$ 752 |
| 2011 | \$ 91 | \$ 798 |
| 2012 | \$ (403) | \$1,087* |
| 2013 | \$ (198) | \$1,271* |

Source: Policy Matters Ohio, based on data from the Ohio Office of Budget and Management, including Executive Budget Proposal, 2012-13. Year-to-year changes are in nominal dollars, not adjusted for inflation.

*Estimates by Policy Matters Ohio assuming half of voucher slots filled in 2012 and all 60,000 slots filled in 2013; half of special education voucher slots filled in 2012 and all slots filled in 2013; and 18 percent growth in charter school enrollment each year.

Voucher expansion

The Kasich administration has proposed increasing the number of vouchers available through the Educational Choice program to 60,000 by FY2013 from its current cap of 14,000. Ed Choice is currently available to students outside of Cleveland who would otherwise be enrolled in schools rated in Academic Watch or Academic Emergency by the state, or live in a similarly rated district. At the same time, House Bill 136 proposes replacing the statewide Ed Choice program and the Cleveland program with a new statewide voucher program, the Parental Choice and Taxpayer Savings Scholarship Program.

⁶ See <http://nces.ed.gov/nationsreportcard/states/>.

This program would combine elements of both the existing school voucher programs by making vouchers available to anyone in the state with a priority for low-income families, regardless of where they live or how the public school they would attend is rated. HB 136 would also create a new special education voucher program, similar to but not replacing the existing autism voucher program.

Few specifics have been made available on Kasich's proposal, but the goal to rapidly expand voucher availability in Ohio is clear. It is unclear how the administration's proposal will be merged with HB 136, which would make the new "PACT" voucher available statewide; unlike the current EdChoice voucher, it would be available for students even if their assigned public school or district is not struggling academically. HB 136 proposes no limit on the number of PACT vouchers and grandfathers in students already using the Cleveland or EdChoice vouchers.

HB 136 would not allow participation by students already attending nonpublic schools in the year prior to their application for a PACT voucher for the 2011-12 school year (FY2012). But it would allow students already enrolled in a nonpublic in grades K-4 to apply for a PACT voucher the following year, and all nonpublic students by the 2014-15 school year. This factor could increase voucher growth rapidly and add enormously to the state's fiscal obligation for education, since many participating students would already be school age and not attending public schools. While Cleveland voucher enrollment has dropped in recent years (by 11 percent in FY09, 2 percent in FY10 and 3 percent in FY11), EdChoice, now in its 5th year, continues to see increases (39 percent in FY09, 21 percent in FY10 and 13 percent in FY11). Current enrollment for both programs together is at 18,708 students, (5,328 for Cleveland and 13,380 for EdChoice).

All current voucher recipients would be eligible, some at increased voucher amounts, some at reduced amounts. As a result, projecting growth for such a program is difficult, but growth is almost certain given expanded eligibility. According to state foundation settlement reports, just over \$71.6 million was deducted from district payments for vouchers in FY2010, and an estimated \$79.6 will be deducted in FY2011. The line item in the current executive budget under the School Choice program series is \$76.3 million.

PACT voucher amounts, as proposed in HB 136, are keyed to income. Based on those amounts, 10 percent annual growth in PACT enrollment over current Cleveland and EdChoice enrollment would lead to \$7.5 million in additional spending on vouchers over the current amount.⁷ If eligibility is expanded as HB 136 proposes, vouchers could grow much more quickly than 10 percent annually. Achievement of Gov. Kasich's goal of 60,000 vouchers by 2013 would entail growth of 220 percent, or as much as \$143 million in additional spending on school vouchers.

HB 136 and the special education voucher

The special education voucher proposed in HB 136 would provide funding directly to families to pay for private providers, much as the autism voucher program currently does. Unlike the autism voucher, which provides up to \$20,000 per child, the new special education voucher amount would be based on a weighted formula for each of six special education categories.⁸ The voucher would be worth the smaller of the weighted amount or the total fees charged by the provider. HB 136 calls for a cap on the new special education voucher of 5 percent of all special needs students living in Ohio, currently about 250,000 children.

⁷ This number could vary, depending on the income levels of participating students. This estimate assumes equal participation of students across five income categories defined in HB 136.

⁸ According to HB 136, the voucher amount would be based on the formula amount of \$5,732, plus a per-pupil supplement plus a weighted amount calculated by multiplying the formula amount by one of six weights assigned depending on disability. The total would be multiplied by .8.

Based on the formula described in HB 136, and assuming an even distribution across all six special education categories, when fully enrolled this program could draw another \$178 million in deductions from public school districts.

Charter expansion

The governor has proposed lifting geographic restrictions on where charter schools can open in the state and making online learning more available. Start-up charter schools are currently limited to urban districts and others that have struggled academically. All districts and Educational Service Centers can create “conversion” schools, and students from any Ohio district can enroll in charters in other districts or in online schools, on a space available basis.

Since FY2007, charter school enrollment rates have grown 6 or 7 percent on an annual basis., as Table 4 shows. Over the past decade, however, the average percent change from year-to-year has been 18 percent. Given the significant geographic expansion of charters proposed by the Kasich administration, as well as the likely lifting of the moratorium on online charters, an 18 percent growth rate for FY12 and 13 seems to be a relatively conservative estimate.

Table 4: Growth in enrollment and transfer of funds to charters since 2002.

| Fiscal year | Pupil FTE | FTE increase (%) | Total Transfer | Funding increase (%) |
|--------------------|------------------|-------------------------|-----------------------|-----------------------------|
| 2002 | 23,626 | -- | \$ 139,928,888 | -- |
| 2003 | 33,978 | 44 | \$ 204,760,492 | 46 |
| 2004 | 46,938 | 38 | \$ 301,854,588 | 47 |
| 2005 | 62,603 | 33 | \$ 422,966,041 | 40 |
| 2006 | 71,838 | 15 | \$ 483,448,874 | 14 |
| 2007 | 76,932 | 7 | \$ 530,844,171 | 10 |
| 2008 | 82,643 | 7 | \$ 584,929,196 | 10 |
| 2009 | 88,536 | 7 | \$ 645,052,433 | 10 |
| 2010 | 93,699 | 6 | \$ 680,444,828* | 5 |
| 2011 | 99,520 | 6 | \$ 718,327,680* | 6 |
| 2012** | 117,434 | 18 | \$ 847,626,663 | 18 |
| 2013** | 138,572 | 18 | \$1,000,199,462 | 18 |

Source: Charter school settlement reports, 2002 through 2011. 2011 figure is mid-year estimate.

*Includes federal stimulus funding. ** Estimates by Policy Matters Ohio, based on average growth.

These calculations project an enrollment increase of 17,014 in FY2012 (total estimated enrollment 117,434) and an additional 21,138 students in FY2013 (total estimated enrollment 138,572). Using the total transfer of dollars to charter schools estimated for FY2011 of \$718.3 million (see Table 4), this would see an increased deduction from district funding flowing to charter schools of approximately \$129 million, for a total of \$847 million for charters in 2012. Under this same scenario, an additional \$152 million would be deducted from district funding for charters in 2013, for a total of \$1 billion.

These are preliminary numbers and assume that charters will receive the same per pupil funding as was provided in FY2011, even without federal stimulus. (FY2011 base cost funding was set at \$5,753.91.) In addition to base cost funding, Ohio charters receive weighted funding for special education and career-technical education, and additional funding for poverty-based assistance and parity aid. As a result, the actual per-pupil numbers depend on the needs and characteristics of students enrolling in the schools.



Budget overview – line items

Significant cuts are being proposed to line items that pay for ODE staffing levels, reforms focused on STEM education (Science, Technology, Engineering and Math), School Improvement, GED testing, Gifted Education and Pupil Transportation. At the same time, line items funding payments to nonpublic schools and to support or monitor charters and vouchers are being increased; these proposals are relatively small in terms of raw numbers, but are relatively large percentage increases. Finally, new funds are being moved to Educational Service Centers, with the idea that these regional providers will help reduce overall costs through increased assistance to school districts.

Personal Services (GRF 200100) – This line, which primarily funds staff payroll and benefits at the Ohio Department of Education, drops more than 10 percent from 2011 to 2012 (to \$57.3 million) and decreases just under 1 percent more from 2012 to 2013. Comparing the two biennial budgets, the drop is 4.5 percent (a decrease of about \$5.4 million).

Auxiliary Services (GRF 200511) – These funds are provided to chartered nonpublic elementary and secondary schools, which “receive administrative cost reimbursements and support for auxiliary services such as the purchase of secular textbooks, health and diagnostic services, guidance and social work counseling.” This line item increases 1.4 percent from 2011 to 2012 and another 1.5 percent from 2012 to 2013 under the governor’s proposal. Comparing the two biennial budgets, the increase is 2.2 percent (a boost of just over \$4.8 million).

Nonpublic administrative cost reimbursement (GRF 200532) – These funds “reimburse chartered nonpublic schools for the mandated administrative and clerical costs incurred during the preceding year for activities such as preparation, filing and maintenance of forms, reports, or records related to state chartering or approval of the school, pupil attendance, transportation of pupils, teachers certification and licensure and other education-related data.” This line item increases 1.4 percent from 2011 to 2012 and another 1.5 percent from 2012 to 2013. Comparing the two biennial budgets, the increase is 2.2 percent (about \$2.2 million).

Note regarding funding for chartered nonpublic schools – According to the 2012-13 executive budget proposal, the proposed increases of 1.4 percent and 1.5 percent in 2012 and 2013, respectively, for chartered nonpublic schools “represent the same aggregate percentage increase of the line items 200550 (Foundation Funding) and 200502 (Pupil Transportation).”

Community Schools and Choice Programs (GRF 200455) – Funding for charter school and voucher administration; ODE provides monitoring, technical assistance and oversight. This line item increases 120 percent from 2011 to 2012 and stays flat from 2012 to 2013. Comparing the two biennial budgets, the increase is 99.5 percent (almost \$2.2 million). Given cuts to ODE staffing levels (see Personal Services above), it is not clear if this increase will give a much-needed boost to charter and voucher oversight at ODE, or channel these funds to another entity or entities, such as charter school sponsors. Both the Kasich administration and the Ohio legislature are proposing significant increases in charter schools and vouchers; in this context, the need for better oversight is urgent.

STEM Initiatives (GRF 200457) – This line supports “innovative math and science education and professional development for teachers, including on-site labs, job-embedded professional development, and mentoring and coaching.” It is zeroed out for 2012 and 2013. Comparing the two biennial budgets, the decrease is 100 percent (a cut of just over \$13 million).

School Improvement Initiatives (GRF 200431) – Supports “continuous improvement planning initiative that provides technical assistance to academic watch and academic emergency school districts for the development of their continuous improvement plans and to school buildings not meeting the accountability measures established” by federal law. This line is also used to support administrative

work on middle and high school reform programs, but is zeroed out for 2012 and 2013. Comparing the two biennial budgets, the decrease is 100 percent (a cut of \$15.6 million). According to the budget proposal, 50 percent of the reduction in this line item is to be redirected to Educational Service Centers, which will be “responsible for providing school improvement services to school districts.”

Pupil Transportation (GRF 200502) – This line is for reimbursement to districts for transportation of public and nonpublic students. This line item decreases 5.3 percent from 2011 to 2012 and increases .9 percent from 2012 to 2013. Comparing the two biennial budgets, the drop is .1 percent (just over \$1.1 million). Districts rely on state funds to support student transportation, and many have cut back to providing the state minimum in recent years. Even small cuts here can have an impact.

Gifted Education – The executive proposal appears to eliminate direct funding to districts for this line, leaving only \$8.1 million per fiscal year earmarked for Educational Service Centers, the same amount as was designated for ESCs in FY10 and FY11. This represents a cut of 82.2 percent from 2011 to 2012. Total amount for gifted education in FY2011 was just over \$68 million, no data were found for FY10 as funds for Gifted Education were shifted into Foundation Funding that year. The executive proposal for FY12-13 reads: “Gifted education funding in the fiscal year 2012-2013 biennium is included in the basic aid support for schools districts. The spending requirements for gifted education are eliminated. Included in this program series is funding only for gifted units provided by Educational Service Centers.”

Will casinos provide extra money for Ohio schools?

All 88 Ohio counties, its public school districts and casino host cities are to receive tax money from gambling revenue. Under current projections, these entities would receive between \$390 million (on \$1.2 billion in gambling revenue) and \$520 million (on \$1.6 billion in revenue) in tax proceeds in 2013, rather than the \$650 million originally projected for the casinos’ first year of operation.⁹ The distribution formula allots 34 percent of casino tax revenue for school districts, based on enrollment, starting in 2013. So the range of potential new revenue, according to estimates made in 2011, would have Ohio schools receive anywhere from \$132.6 million to \$176.8 million in FY2013.

⁹ <http://communitypress.cincinnati.com/article/AB/20110214/BIZ01/102140321/Casino-estimates-shrink>