

# **Addressing Ohio's School Funding Challenge**

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## ***Introduction***

A cost-effective school funding system must begin with state leaders' thinking about:

- Problems to be resolved;
- Goals to be achieved; and
- Conditions to be created.

These problems, goals, and conditions provide a roadmap state leaders can use in allocating scarce tax revenues to steer the state's schools towards the destinations sought.

The initial steps in this process are gathering data from state leaders on these issues and then seeking consensus around the most widely shared problem formulations and goals. To seek, and help develop, such a consensus, Professor Neil Theobald of Indiana University conducted 40 interviews involving 58 Ohio state leaders in Fall 1999. These interviews gathered data from these state leaders about the goals they hold for their state's school funding system and enabled the identification of seven finance goals that were then evaluated in individual interviews with the same state leaders to ensure that they accurately reflected the issues that need to be addressed. Table 1 provides the goals identified by these 58 state leaders.

Table 1

Goals for Ohio's School Finance Systems

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1. The formula should ensure that (a) K-12 education is not shortchanged, and (b) spending for other needed state programs is not “crowded out.”
  2. The formula should provide (a) local option for school districts to spend more than the state deems adequate, and (b) local decisionmaking (some of which is non-financial).
  3. Local property taxes should remain an integral part of K-12 funding, but the formula must address the difficulty that low-wealth districts face in generating revenue.
  4. The state should provide increased school facility funding.
  5. The revised formula provides greater flexibility in how school districts use special education funds, but it should do a better job of ensuring that special education revenue is used to provide services for special education students.
  6. Schooling outcomes are the best measure of the state's success in meeting its constitutional obligation to provide a “thorough and efficient system of common schools.”
  7. The key to improving student outcomes is ensuring access to qualified teachers, primarily in urban and rural areas, but also in academic subjects with perceived shortages of qualified teachers.
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The subsequent Ohio Supreme Court’s decision in *DeRolph II* directs the Ohio General Assembly to make a series of *simultaneous* choices around the first three goals:

- (1) How should the State define the content of an adequate education?
- (2) What are the appropriate state and local shares of K-12 revenue?
- (3) How can Ohio General Assembly ensure that K-12 revenue is not overreliant on the current local property tax system?

There are no right answers to any of these questions. Different states have answered each question in very different ways as they seek to shape their school funding systems to facilitate achievement of the goals and aspirations they hold for their schools. Indeed, *DeRolph II* emphasizes that there are no ‘correct’ choices; as the Court points out “there are many options to choose from” (*DeRolph II*, 19).<sup>1</sup>

The purpose of this paper is to outline the range of effective options that meet the dictates of *DeRolph II* while also addressing the problems, goals, and conditions identified as most important by Ohio’s leaders. *DeRolph II* clearly states that the choice among these various effective options resides with state leaders, “we recognize that deciding what methodology to adopt is a policy determination [not a legal issue]” (*DeRolph II*, 40).

### ***How should the State define the content of an adequate education?***

The first issue raised by the court calls for the Ohio General Assembly to develop a school funding system that serves to promote the consensus expressed in Goal 1, “The formula should ensure that (a) K-12 education is not shortchanged, and (b) spending for

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<sup>1</sup> *DeRolph v. State* [DeRolph II] (2000), 89 Ohio St.3d 1.

other needed state programs is not “crowded out” (Theobald & Bull, 2000, p. 9).<sup>2</sup> Five strategies have been proposed over the last five years in Ohio to define the content of an adequate education. The ‘market-basket’ approach<sup>3</sup> is based exclusively on input measures such as pupil-teacher ratios, salary schedules, teacher credentials, counts of curricular offerings, inventories of available professional services, and measures of facilities. It seeks to cost out a particular set of these inputs that are believed necessary in order to provide an adequate education. By determining the ‘appropriate’ costs of these inputs in Ohio, the ‘market-basket’ approach builds, from the ground up, the cost of an adequate educational system.

*DeRolph II*, though, casts doubt on the viability of this approach in Ohio when it notes “it is impossible to generate an all-inclusive list that specifically enumerates every possible component of a thorough and efficient system.” (*DeRolph II*, 21). In addition, an ‘input’ only approach would seem at variance with a Supreme Court decision that embraces the concept of standards and accountability—“we agree that accountability is an important component of a system that provides funds” (*DeRolph II*, 74)—and a General Assembly that is committed to educational accountability, both in terms of student performance and financial management.

The other four approaches, the 2000 Resource and Accountability Model proposed by the State Board of Education, the 1998 Present Law,<sup>4</sup> the 1997 Augenblick

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<sup>2</sup> Theobald, N. & Bull, B. (2000). *Ohio’s goals for school funding: Objective measures for informing policy debate and action*. Oak Brook, IL: North Central Regional Educational Laboratory.

<sup>3</sup> Equity and Adequacy Coalition (2000). *Basket of Essential Learning Resources*. Columbus, OH: Author.

<sup>4</sup> *DeRolph v. State* [DeRolph I] (1997), 78 Ohio St. 3d 193.

Report,<sup>5</sup> and the 1995 ‘Expert Panel’,<sup>6</sup> begin with the same assumption: at least one Ohio school district is providing an adequate education. Thus, the adequate funding level falls somewhere between the lowest and highest per pupil expenditure level in Ohio. Each of these approaches then eliminates from consideration school districts that are sufficiently unique that they don’t allow generalization to the state as a whole. These unusual districts are assumed to be the districts that are outliers in terms of important input variables (e.g., property value per pupil, median income).

The primary difference between the four approaches is the criteria they use to identify the spending level in Ohio that can provide an adequate education. The Present Law and the Augenblick Approach rank the non-outlier school districts according to performance indicators to ascertain which districts are effective (i.e., provide an adequate education). The Resource and Accountability Model and the Expert Panel, on the other hand, select school districts that not only meet set performance indicator criteria, but also exceed a threshold level on input variables (e.g., teacher experience, staffing ratios, curricular offerings, extracurricular participation).

The last step in each of the four approaches is to average the spending levels of these ‘effective districts’ in order to determine an adequate funding level. The Present Law and Resource and Accountability Models infer that the “unweighted average base expenditures per pupil” of the effective school districts they have identified is the spending level that can provide the basic education component of an adequate

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<sup>5</sup> Augenblick, J. (1997). *Recommendations for the Base Figure and Pupil-Weighted Adjustments to the Base Figure for Use in a New School Finance System in Ohio.*

<sup>6</sup> Alexander, K., Augenblick, J., Driscoll, W., Guthrie, J., & Levin, R. (1995). *Proposals for the Elimination of Wealth Based Disparities in Public Education.*

educational system. The Expert Panel and Augenblick Approaches use a “weighted average base expenditures per pupil.” In other words, while the first two approaches weight each school district equally, the latter two weight expenditure levels of larger districts more heavily.

A review of the funding options available to Ohio<sup>7</sup> emphasized, “The important point for policymakers to realize is that there is no single, best, uncontroversial method available to answer fundamental questions about what constitutes an adequate education. The research on this topic is disappointingly thin and inherently problematic” (Monk & Theobald, in press). The guidance provided by *DeRolph II* is consistent with this view, but while the Court is not able to define the content of an adequate education, it seems to have reservations about an inputs-only approach since it does not provide the accountability that *DeRolph II* describes as “an important component” of a school funding system.

Thus, either an output-only definition of an adequate education or one that incorporates both inputs to the system and outputs from the system seem most consistent with *DeRolph II*. Beyond this, the Court leaves the choice of the best option up to whatever approach will allow the State to meet the goals it has formulated and the priorities it has set. Research conducted before the issuance of *DeRolph II* suggests these goals and priorities include ensuring that:

- (1) K-12 education is not shortchanged,
- (2) Spending for other needed state programs is not “crowded-out”, and

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<sup>7</sup> Monk, D. H., & Theobald, N. D. (in press). A Conceptual Framework for Examining School Finance Reform for the State of Ohio. *Journal of Educational Finance*.

- (3) That schooling outcomes reflect the state’s success in meeting its constitutional obligation.

The Court’s decision validates policymakers’ concerns that an adequate funding amount should not “crowd-out” spending for other needed state programs. “A consensus must be reached in a climate in which other budgetary considerations are always present” (*DeRolph II*, 19). What remains clear from *DeRolph II* is that regardless how the State defines an adequate education, it must ensure that no school district can fall below this funding level.

***What are the appropriate state and local shares of K-12 revenue?***

Once the State defines the content of an adequate education, it must choose among three options for providing these funds: (1) 100% local funding, (2) 100% State funding of the adequacy amount, or (3) splitting the cost of an adequate education between the State and local taxpayers. *DeRolph II* approved and followed a precedent established by the Ohio Supreme Court in 1923 that a thorough and efficient system of common schools is “expressly made a purpose, not local, not municipal, but state-wide.”<sup>8</sup> Thus, the first option—100% local funding—is clearly precluded by *DeRolph II*.

As mentioned previous, *DeRolph II* is quite clear that every school district must receive at least the funding amount set by the definition of an adequate education. However, as long as the State ensures that districts cannot receive less than the adequate amount, Ohio’s policymakers are free to choose the extent to which they want to

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<sup>8</sup> *Miller v. Korns* (1923), 107 Ohio St. 287, 297-298.

apportion the cost of an adequate education between the State and local districts. These local taxes, though, may not rely on passing property tax levies.

This position is consistent with policymakers' stated preferences in the interviews for splitting the base cost between the State and local taxpayers. *DeRolph II* allows a great deal of flexibility for state policymakers in choosing the best option for distributing responsibility for the cost of an adequate education between State aid and local school taxes.

However, as the cost of an adequate education rises, the ability of policymakers to realize their preference for continuing to derive a similar share of the base cost from property taxes may be limited. A definition of adequacy that generates higher costs is likely to require a greater role for the State in providing these additional funds because the variability in wealth across Ohio severely limits the ability of poor school districts to provide larger absolute levels of funding from local coffers. Higher base cost levels are likely to require a comparable increase in state funding for these districts. Thus, the more extensive [narrow] the definition of an adequate education, the lesser [greater] is the ability of Ohio's policymakers to apportion the cost of an adequate education to local districts. The converse is also the case: If Ohio's policymakers choose to apportion more [less] of the cost of an adequate education to local districts, then they narrow [broaden] the extent of the definition of an adequate education that they can prescribe.

***How can Ohio General Assembly ensure that K-12 revenue is not overreliant on the current local property tax system?***

At the same point at which the Ohio General Assembly defines the content of an adequate education and decides how to split responsibility for funding this adequacy amount between State and local revenue, it must also determine the degree to which the Ohio will pursue its goal of property tax reform.

The State attempted to argue in *DeRolph II* that the state's heavy reliance on the property tax is not unconstitutional because the school funding formula ensures equal ability to raise the basic aid amount and to fund facilities. The Court rejected this argument and placed emphasis on the inequity of the system by noting that dependence on local property taxes creates "vast disparities" (*DeRolph II*, 59). Indeed, as Focus (1) goes on to state, "The failure to address this problem [i.e., overreliance on the property tax] will make it exceedingly difficult for any system of school funding to comply with the Thorough and Efficient Clause, since the inherent inequities will remain" (*DeRolph II*, 83).

Thus, the Court is making a sharp distinction between using local property taxes to provide part of an equal adequacy amount and allowing some local districts to use local property taxes to vastly exceed this adequate amount. The Court appears to be providing a three-pronged test:

- (1) Every school district must receive the minimum funding amount established by the definition of an adequate education.
- (2) If Ohio chooses to split the cost of an adequate education between the State and local taxpayers, the local share must be generated by local taxes that the State mandates. Specifically, the funding of an adequate education cannot depend on passing levies.

- (3) The latitude that is granted to local districts to exceed an adequate program cannot create “vast disparities.”

As Driscoll points out, *DeRolph II* calls upon policymakers to address two aspects of property tax overreliance.<sup>9</sup> One aspect is that “the system relies too much on local tax levy decisions” (Driscoll, p. 4). By focusing on the process by which voters approve additional property taxes, the Court is signaling that this *system* is suspect. As Driscoll points out, the Ohio Constitution requires a “thorough and efficient system of common schools.” Yet, since H.B. 920 “requires school districts to return to the ballot regularly to support a constant level of programming (this system) is not *efficient* [emphasis in original]” (Driscoll, p. 5). In its new school funding formula, the Ohio General Assembly must address exactly how much local latitude there can be in a constitutional funding system for school districts to rely on such a suspect process. This decision, though, is clearly interactive the base cost amount. If the adequacy amount is set high enough so that a district relies on levies to support “sky-diving, modern dance, and operatic singing courses” (Driscoll, p. 4), then the practice is not as problematic as would be the case if more basic instruction hung in the balance. The higher the adequacy level, the less problematic is the current levy system.

A second aspect of “overreliance on the property tax” that the Ohio General Assembly must address is the “vast disparities” that result in the distribution of resources. *DeRolph II* blames these disparities directly on dependence on local property taxes. The Court states that this system “puts property-poor districts at a disadvantage” (Driscoll, p.

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<sup>9</sup> Driscoll, W. (2000, July 11). *Meanings of “Overreliance on the Property Tax”*. Policy paper presented to the Joint Committee on School Funding and Accountability of the Ohio General Assembly, Columbus.

5). The focus on the property tax and the role that differences in property wealth plays in creating unconstitutional disparities has implications for the State's discussion of whether it will participate in equalizing Tier 2 levy revenues.

While the Court's also describes the high level of property taxes as an aspect of overreliance, this concern was expressed solely in terms of the concerns outlined above about the system used to approve them and the wide variance in the ability to raise them. If the system is improved and the inequities in the ability to raise property taxes narrowed, then the current (or a similar) level of property taxation appears to be acceptable under *DeRolph II*.

The underlying problem, cited in *DeRolph II*, is that "as a system, the current school funding laws force school districts repeatedly to rely on local voter approval to maintain existing programs in the context of an unequal distribution of the tax base" (Driscoll, p. 7). The focus on (a) flaws in the current property tax system, and (b) the extremely unequal distribution of the tax base, parallels the views expressed by state leaders in earlier interviews. The consensus view was that the state must "lessen the dependence on property wealth" (Theobald & Bull, p. 11). In addition, "most informants expressed grave reservations about the state's current property tax system" (Theobald & Bull, p. 11). Therefore, the Court's call for reform in these two areas should assist state leaders in tying Ohio's school funding system more closely to the goals and aspirations they hold for the state's schools.

The ability of state leaders, under *DeRolph II*, to realize their preference to continue to allow local voters to approve property tax operating levies in any amount

hinges on their willingness to aggressively pursue the goal they hold for ameliorating the difficulty that low-wealth districts face under such a system. Addressing this issue requires two choices. First, Ohio can either institute major reforms to the property tax system or significantly increase the adequacy level. Second, the state must move to provide more equal access to Tier 2 school revenue. The first choice addresses the concerns expressed in *DeRolph II* about forcing school districts to repeatedly rely on local voter approval in order to maintain existing programs and the second choice addresses the Court's concern about an unequal distribution of the tax base.

### **Next Steps**

Issues-based school finance reform recognizes that the choice among the various effective options resides with state leaders. To assist in this process, this paper seeks to organize the process of making this choice by identifying three *simultaneous* choices state leaders must make:

- (1) How should the State define the content of an adequate education?
- (2) What are the appropriate state and local shares of K-12 revenue?
- (3) How can Ohio General Assembly ensure that K-12 revenue is not overreliant on the current local property tax system?