

## **Community school direct funding part II**

The OEPI Winter 2016 Newsletter contained an article summarizing the issues relating to eliminating the much-derided community school deduction and replacing it with “direct funding” of community schools. This article provides a continued examination of this issue.

As anyone with even a cursory interest in school funding in Ohio is likely aware, Ohio community schools receive their funding through the “district deduction” method. The deduction method works by first counting community school students in the Formula Average Daily Membership (ADM) of their district of residence and then deducting funding for each community school student from the district after the district’s state aid has been computed.

Because community schools have no source of local funding, the community school deduction is 100% of the funding amount for each of the eight components of the foundation formula for which they receive funding. According to the Ohio Department of Education (ODE) Fiscal Year (FY) 16 June #2 SFPR payment report, in FY 16 there were 119,071 community school and STEM school students and the total community school deduction was \$937.2 million.

Ohio’s “traditional” public school districts have been complaining about the nature of the community school deduction almost since the moment of inception of community schools. The reason for the discontent among school districts is fairly straightforward. When community students are included in the Formula ADM of a “regular” school district the district only receives the state share of formula funding for each community school student. However, the community school deduction transfers 100% of the state formula amount for each student to the community school. For example, in a district with a state share of 50%, the district will lose roughly twice as much money to the community school deduction as it received in state aid for those students. For many years, districts have been referring to this excess transfer amount as the “local share” of community school funding.

As a result of the adoption in FY 14 of the State Share Index (SSI) approach to determining the state and local share of funding in each school district, there is no longer any debate about whether local dollars are being appropriated as part of the community school deduction. OEPI estimates that this “local share” of community school funding at approximately \$270 million — roughly 29% of the total community school funding amount in FY 16.

From the perspective of school districts the remedy to the community school deduction problem is straightforward: simply fund community schools “directly.” Direct funding of community schools would entail removing community school students from the Formula ADM of regular school districts (thus eliminating the need for the community school deduction) and having the state provide the full community school funding amounts directly to community schools.

However, implementing direct funding of community schools is not as simple as it might appear. First, a decision would have to be made about whether or not community school students would remain in the Total ADM of regular school districts. (Total ADM now includes all students who live within a district's boundaries and attending either the district's schools, a JVSD, or a community school.) Because Total ADM is used to compute the property valuation per pupil measure that is a key component of the SSI, altering the definition of Total ADM would have implications on state funding levels for all districts. OEPI analysis of this issue suggests that the potential change to the SSI might not be a significant issue for most districts, however.

A second complicating factor is that directly funding community schools and removing these students from the Formula ADM of regular districts will potentially create problems for districts on the guarantee and gain cap. Because districts on the guarantee and gain cap have their state funding levels determined based upon their funding from the previous year, an adjustment would need to be made to prior year funding levels in order to ensure a smooth transition to a funding formula where community schools are funded directly by the state rather than through the current deduction. OEPI analysis has shown that adjusting the guarantee base to account for the transition to direct funding of community schools is fairly straightforward, however, the adjustment is more complicated for districts on the cap. The remainder of this article focuses on the interaction between the gain cap and the community school deduction.

### **Interaction of community school funding and the gain cap**

While all Ohio school districts experience the "local share" issue described above, a second issue exists for school districts with large community school students who are also subject to the "gain cap" aspect of the school funding formula. The gain cap is a feature of the funding formula that limits the amount of growth in funding any district can get from one year to the next. In FY 16 this limit was 7.5% (with a handful of smaller funding formula components exempt from this limit). The gain cap means that in nearly 1/3 of Ohio's K-12 school districts the computed amount of state aid that they should have received according to the parameters in the funding formula and the district's specific characteristics was greater than the actual amount of state aid that they did receive. According to the ODE FY 16 June #2 SFPR report, 188 districts were subject to the gain cap in FY 16 and \$603.9 million in additional state formula funding would have been provided had the cap not been imposed.

By design the gain cap means that districts do not receive the full amount of state funding than the formula computes they should receive. However, this issue is further compounded when the district has a significant number of community school students. This is because the community school deduction, as described above, removes the full amount of formula funding for each community school student, not just the state share amount. The easiest way to demonstrate this effect is by using an example. Because Columbus City School District has both a large number of community school students and is also subject to the gain cap, it is a perfect example to show this phenomenon. The ODE June #2 SFPR Payment data is used for this example.

***Example: Columbus City School District***

The following figures provide a summary of state funding for Columbus City Schools in FY 16.

FY 16 Formula ADM = 70,721 students

FY 16 # Community & STEM school ADM = 18,089 students (74.4% of Formula ADM)

FY 16 Calculated State Formula Aid = \$387,288,983

FY 16 Actual State Formula Aid after Gain Cap is applied = \$296,876,285

Thus, as a result of the gain cap, Columbus only receives 76.65% of the state aid that the formula would otherwise provide.

Additional calculations show that the total state + local foundation formula amount (i.e. the amount that Columbus would receive if its state share was 100%) is roughly \$645 million.

Columbus's SSI in FY 16 is 53.56%. Because economically disadvantaged aid and targeted assistance are 100% state funded, if Columbus received all of the state aid the formula would allocate without the gain cap (\$387.3 million), then Columbus's actual state share would be about 60%. However, because of the gain cap, Columbus only receives \$296.9 million, which means that the district's effective state share is really only 46.0% (\$296.9 million / \$645 million).

Now consider what happens after the community school deduction.

The total FY 16 Community School deduction (for the 18,089 Community School students) is \$142,769,545.

This means that Columbus receives a net total of \$154,106,740 in state aid to educate the 52,632 students who remain in district schools (\$296.9 million - \$154.1 million). ***Thus, 26.6% of the students*** (the 18,089 community school students) ***take with them 48.1%*** (\$142.8 million out of \$296.9 million) ***of actual state aid.***

Looked at another way, assuming that the community school students are basically similar to the students who remain in the district to be educated, the total aid amount (if the state share were 100%) for the district's 52,632 students is approximately \$480 million (74.4% of \$645 million). ***This means that the effective state share for the district's 52,632 students is only 32.1%*** (\$154.1 million divided by \$480 million).

The reason for this is that ***the functioning of the community school funding mechanism that deducts 100% of the state share of funding is to allocate all of the gain cap funding to the students who remain to be educated in the district.*** This in turn lowers the district's effective state share even below what it would be due to the gain cap itself.

As the community school deduction predates the gain cap, this is clearly an unintended consequence of community school funding. It is a serious consequence nonetheless.

The second implication of the interaction between the gain cap and the community school deduction illustrated above is that any transition to direct funding of community schools will need to properly account for the circumstances of gain cap districts.