

Ohio

Summary and Highlights

This snapshot examines the revenue sources and funding equity for district schools and charter schools in Ohio, and, in particular, Cleveland and Dayton, during FY 2002-03 (Figure 1).

Highlights of our findings:

- Cleveland charter schools received 28.2 percent less funding than district schools: \$7,704 vs. \$10,732 per pupil, a gap of \$3,028.
- Dayton charter schools received 33.8 percent less funding than district schools: \$7,614 vs. \$11,498 per pupil, a gap of \$3,884.
- The state Department of Education does not collect detailed revenue information on charter schools in Ohio. Therefore, the statewide data presented here represent an extrapolation using Cleveland and Dayton per-pupil revenue patterns. The calculation shows that charter schools in Ohio received approximately 31.3 percent less revenue than district public schools statewide, resulting in a gap of \$2,564.¹

The primary reasons for these funding disparities:

- Charter schools in Ohio lack access to significant local resources, including receipts from property, local sales tax, and other local tax revenues.
- Charter schools lack access to school construction funding through both the Ohio School Facilities Commission and locally-approved bonds.

Figure 1: District and Charter School Revenues and Enrollments²

Ohio (2002-03)	STATEWIDE		CLEVELAND		DAYTON	
Per-Pupil Revenue³						
District	\$8,193		\$10,732		\$11,498	
Charter ⁴	est. \$5,629 ⁵		\$7,704		\$7,614	
Difference	est. (\$2,564) est. (31.3%)		(\$3,028) (28.2%)		(\$3,884) (33.8%)	
Per-Pupil Revenue by Source	District	Charter	District	Charter	District	Charter
Federal	\$546	N/A	\$0	\$77	\$0	\$349
State	\$3,682	N/A	\$0	\$6,030	\$0	\$5,539
Local	\$3,965	N/A	\$2,983	\$0	\$4,659	\$0
Other*	\$0	N/A	\$268	\$431	\$716	\$1,016
Indeterminate*	\$0	N/A	\$7,481	\$1,166	\$6,123	\$710
Total	\$8,193	est. \$5,629	\$10,732	\$7,704	\$11,498	\$7,614
Enrollment						
District	1,724,929 (98.1%)		71,613 (94.5%)		18,163 (78.3%)	
Charter	33,704 (1.9%)		4,170 (5.5%)		5,027 (21.7%)	
Number of Charters ⁶	136		16		17	
Total Revenue						
District	\$14,132,528,223 est. (98.7%)		\$768,528,241 (96.0%)		\$208,834,732 (84.5%)	
Charter	est. \$189,708,513 est. (1.3%)		\$32,126,252 (4.0%)		\$38,274,992 (15.5%)	
Total	est. \$14,322,236,736		\$800,654,493		\$247,109,724	
Percentage of Revenue by Source	District	Charter	District	Charter	District	Charter
Federal	6.7%	N/A	0.0%	1.0%	0.0%	4.6%
State	44.9%	N/A	0.0%	78.3%	0.0%	72.8%
Local	48.4%	N/A	27.8%	0.0%	40.5%	0.0%
Other	0.0%	N/A	2.5%	5.6%	6.2%	13.3%
Indeterminate	0.0%	N/A	69.7%	15.1%	53.3%	9.3%
Change in district school funding if subjected to charter funding structure						
	est. (\$4.4 billion)		(\$216.8 million)		(\$70.5 million)	

*Other funding = nongovernmental funding; indeterminate funding = intergovernmental funding.

Note: Italicized figures marked with "est." (estimated) are extrapolated statewide based on district data.

Additional points:

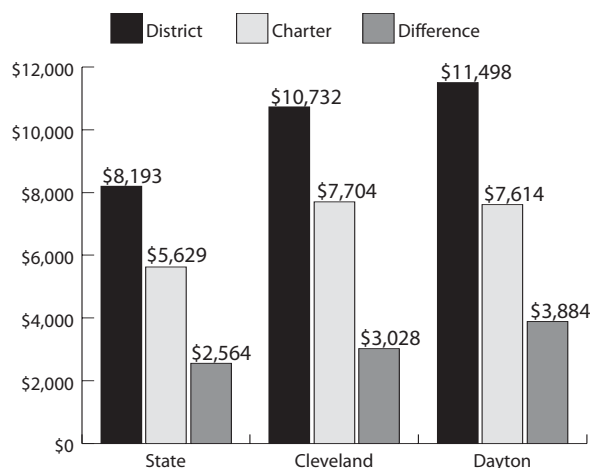
- While Cleveland and Dayton district schools serve a more expensive student population (more children classified as needing special education and from low income families; fewer kindergarten children) than do charter schools, differences in student population are not a primary cause of the funding disparity in Ohio. The two districts serve only a slightly higher percentage of children eligible for free and reduced price lunches (80.8 percent vs. 77.6 percent).⁷
- Accessing usable and reliable information in Ohio proved difficult. The Ohio Department of Education’s web site provides data on district and charter funding based on reports submitted by district and school business officials. These data, however, appear to contain numerous inaccuracies. As an example, had we used the revenue data provided by districts for our statewide analysis, we would have reported that districts received over \$141,000 per pupil.⁸ In order to create an accurate financial comparison for schools in Cleveland and Dayton, we turned instead to the State Auditor’s Office and used independent audits for each charter school and the two districts. Many of these audits, particularly at the district level, lump state and federal government funding together, so it is difficult to differentiate between those funding sources. Locally-provided funding, however, is largely accounted for in the audits and appears to make up a significant portion of funding for districts—a resource that is inaccessible to charters for operations and facilities.

How Ohio Funds Its District Schools

The basic funding program in Ohio is called the “School Foundation Funding Program.” It consists of two parts:

1. A foundation amount supported by an amalgam of state and local funds.
2. A supplement to the foundation program that adds a series of state categorical grants to schools. (In certain cases, the state funding is not enough to support programs, and local participation is required.)

Figure 2: Per-Pupil Revenue for Ohio District vs. Charter Schools, FY 2002-03



Each district’s foundation amount is calculated as a base level adjusted for the state-determined “cost-of-doing-business” in the district.⁹ The local share of this amount is calculated after determining how much the district can afford to contribute, which depends upon its tax base. What remains is the state share. A state share percentage is calculated and used to determine the level of state funds for vocational and special education funding.¹⁰

This program pays for a district’s general operating expenses, including salaries, benefits, maintenance, and utilities. In addition to the foundation program, schools also receive funding for specific programs. The actual amount of state funds available to a school is based on a number of variables, including the cost-of-doing-business community factor, six special education factors, and a Disadvantaged Pupil Impact Aid (DPIA) adjustment factor.

Local districts have the authority to add to the statewide sales tax rate of 5 percent for the purpose of providing additional county and local public services, including education. Typically the increase is between 0.75 percent and 2 percent within a given district.¹¹

State aid is also provided to districts by the Ohio School Facilities Commission (OSFC) for renovation or new construction of school facilities.¹² This funding

Figure 3: State Charter School Policies

State Policies	Yes	No	Partial
Charter schools receive their funding directly from the state			X ¹³
Charter schools are eligible for local funding		X	
Cap on funding a charter school can receive		X	
District public schools receive differential funding (e.g., more funding for 9-12 vs. K-8 schools)	X ¹⁴		
Charter schools receive differential funding	X ¹⁵		
State allows districts to withhold funding from charter schools for providing administrative services	X ¹⁶		
State “holds harmless” district funding for charter enrollment		X	
School is considered LEA if authorized by non-district organization	X		
School is considered LEA if authorized by district	X		
Cap on number of charter schools	X ¹⁷		
Cap on number of charter schools authorized per year		X	
Cap on number of students attending charter schools		X	
Charter schools have an open enrollment policy	X ¹⁸		

billion in state funding alone). Dayton’s program was estimated to total \$488 million (\$297 million in state funding).²⁰

How Ohio Funds Its Charter Schools

Charter schools in Ohio receive federal funding in the same fashion as other public schools. State and local funding, however, work much differently. As with districts, the state calculates a foundation amount for each charter school and various categorical supplements. But since charter schools have no tax base, they have no “local share” to contribute to this amount. As a result, the state funds charter schools’ foundation amounts fully, subtracting these amounts from the allocations that would have been made to the districts in which charter students reside. Districts are, in essence, forfeiting the per-student local portion of their “basic state aid” for each student attending a charter school.

Charter schools do not have access to two other sources that school districts use to supplement state foundation funding. First, as noted above, districts typically levy additional taxes to provide funds that go above and beyond the foundation level. These funds may pay for additional operating costs as well as for facilities. These funds do not “follow the child” to charter schools; they remain with the district even though the student is no longer enrolled there. Second, charter schools do not have access to the state facilities funding that districts enjoy. Like districts, charter schools may seek private contributions to try and make up for these shortfalls, but as the overall revenue numbers make clear, private funds do not come close to closing the gap.

The wealth of the district does not have a significant impact on the charter school per-pupil allocation. The charter school base formula amount is the same regardless of the district’s wealth. There is, however, a slight adjustment (parity aid) for charter schools in urban districts but the primary factor that determines the amount of aid above the base formula is the income level of the student’s family.²¹ Since most of the children in urban districts are from lower income families,

exists outside the basic and categorical aid programs and the Commission gives priority to the poorest districts and/or schools with facilities that are in bad condition.¹⁹ District schools in Cleveland and Dayton also have access to the Big 8 Program fund, which provides matching funds for major repairs and renovation in the state’s major cities, and the Accelerated Urban Initiative fund, which provides accelerated access to state funding for facilities. For calendar year 2003, the OFSC reported that the largest of the facilities projects was in Cleveland using over \$1.5 billion in funds (\$1.0

the end result is a higher allocation for charter school students enrolled in “poorer” districts. A lower income student residing in a wealthy district would receive nearly the same state allocation as if he or she were from a poorer district (except for parity aid).

The federal Public Charter School Program fund is the most important source of funding for start-up and implementation of new charter schools in Ohio. Start-up grants totaling \$150,000 per year per school during a three-year period are provided (up to a total of \$450,000). In Ohio, the state also provides start-up and planning grants of up to \$50,000 per school.

House Bill 364 was signed into law on January 7, 2003, by Governor Bob Taft and established a “Community School Revolving Loan Fund.”²² The fund, made up of federal monies and funds made available by the General Assembly, is designed to support charter school expenses associated with any element of the school's contract. A start-up charter school may receive multiple loans from the fund; however, no school can receive more than a cumulative \$250,000 loan amount during the period covered in its charter contract.²³

Facility Funding

As discussed previously, school districts in Ohio have access to three funding sources that are unavailable to charter schools: receipts from local tax revenues, state school construction funding through the Ohio School Facilities Commission, and locally approved bonds. Districts typically rely on these monies for construction and renovation of facilities.

Charter schools typically pay for facilities out of their operating funds. According to a report from the Ohio Legislative Office for Education Oversight, charter schools typically spend 6.4 percent of their annual operating budget for lease or mortgage costs.²⁴

The OSFC administers the Community School Classroom Loan Guarantee Program. This program does not provide facility funds directly to charter schools. Instead, the Program offers state credit

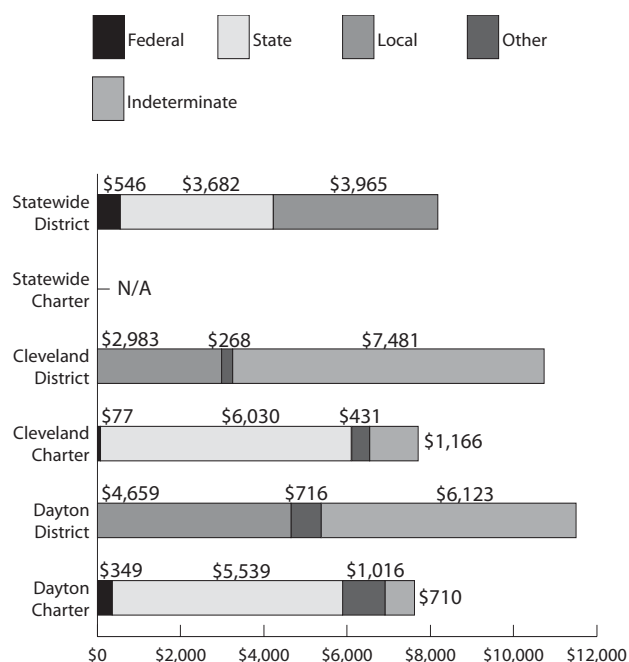
enhancement for facility improvement loans, which improves a school's creditworthiness.²⁵ As of January 2005, the OSFC has entered into guarantee agreements with 14 charter schools for a total guarantee commitment of \$7,608,354.

Charter schools may use a school district facility by contracting with the district. If a board of education decides to dispose of property suitable for classroom space, it must first offer the property for sale to start-up charter schools.

Primary Revenue Sources for Ohio's Public Schools

The audits for the Dayton district and most of the charter schools in this analysis lumped many resources into the “intergovernmental” category rather than specifying sources as state, federal, or local.²⁶ Consequently, full comparisons between district and charter school revenue sources are limited, with the exception of local tax resources.

Figure 4: Per-Pupil Revenue by Source for Ohio District vs. Charter Schools, FY 2002-03



In Cleveland, local tax funds accounted for at least 27.8 percent of total district funding. In Dayton, at least

40.5 percent of all available resources were from local funds.²⁷ Statewide, local revenue sources represented an average of 48.4 percent of the total resources available to district schools. Unlike districts, charter schools may not add to the statewide sales tax to support their education programs. (Ohio districts, on average, add 0.75 to 2.0 percent.)

While charter schools may receive assistance through the OSFC in the form of loan guarantees, they do not receive direct state aid for facilities. District schools receive funding through the OSFC for renovation or new construction of school facilities. District schools in Cleveland and Dayton also have access to two funding programs discussed earlier which are aimed at supporting facilities in urban areas (the Big 8 Program fund and the Accelerated Urban Initiative fund).

The two districts serve a more expensive student population (a greater percentage of children classified as needing special education, a smaller percentage of kindergarten children,²⁸ and a greater percentage of students from low-income families). A slightly greater percentage of students enrolled in the free and reduced price lunch program are served in district schools (80.8 percent vs. 77.6 percent).

Figure 5: School Characteristics²⁹

	Cleveland & Dayton District	Cleveland & Dayton Charter
Percentage of students eligible for free or reduced price lunch	80.8%	77.6%
Percentage of schools eligible for Title I	96.5%	97.1%
Percentage of students by school type:		
Primary (K-5)	53.0%	60.8%
Middle (6-8)	14.4%	2.6%
High (9-12)	20.2%	6.4%
Other (K-12, K-8, etc.)	12.4%	30.2%

These slight differences in student population characteristics do not greatly affect the financial gap between charters and districts. It is the lack of access to local

resources and direct state aid for facilities funding that creates the large gap between resources available to charter and district schools.

Recent Changes and Challenges

In FY 2003-04, new funding for charter schools began through the Parity Aid program (HB 95). This included an additional \$20 million for charter schools between July 2003 and June 2005.

On July 1, 2005, HB 66 was enacted, making numerous changes to charter schooling and school funding in Ohio.³⁰ While much of the bill's emphasis was on setting caps on individual school sponsors, a charter school lottery, and new accountability measures, there were also some "tweaks" to the charter school funding system. The bill phases out the "cost-of-doing-business factor" in calculating base-cost funding for school districts and charter schools. Under FY 2004-05 funding methods, and those in use in FY 2002-03, charter schools received various state payments, including base-cost funding, special education and vocational education weights, handicapped preschool and gifted units, parity aid, and Disadvantaged Pupil Impact Aid (DPIA). In most cases, these payments are deducted from the state aid accounts of the school districts in which the charter school's students are entitled to attend school and paid to the charter school by the Department of Education.

Traditional ("brick and mortar") charter schools remain eligible for these payments under the bill. The bill, however, prohibits Internet- or computer-based charter schools ("e-schools") from receiving 1) vocational education weighted funding, 2) parity aid, and 3) poverty-based assistance, including funding for all-day kindergarten. Beginning in FY 2006-07, the bill limits an e-school (for three fiscal years) to 80 percent of the calculated per pupil base-cost amount unless certain conditions are satisfied. Additionally, the bill establishes procedures for paying state funds to a charter school for a student enrolled in the school and living in a residential "home." The bill directs the Department of Education to make recommendations to the General Assembly by December 31, 2005, regarding the payment of parity aid to charter schools.

Figure 6: State Scorecard

FINDINGS		Ohio
Federal Funding	Charters have access to federal funds according to state statutes (Yes = black, No = white)*	Y
	Charters have full access to federal funds in practice (Yes = black, Partial = grey, No = white)	P
	Percentage of federal revenue equals percentage of total enrollment for charter schools (Yes = black, No = white)	N/A
State Funding	Charters have access to state funds according to state statutes (Yes = black, No = white)	Y
	Charters have full access to state funds in practice (Yes = black, Partial = grey, No = white)	Y
	Percentage of state revenue equals percentage of total enrollment for charter schools (Yes = black, No = white)	N/A
Local Funding	Charters have access to local funds according to state statutes (Yes = black, No = white)	N
	Charters have access to local funds in practice (Full = black, Partial = grey, No = white)	N
	Percentage of local revenue equals percentage of total enrollment for charter schools (Yes = black, No = white)	N/A
Facilities Funding	Charters have access to facilities funds according to state statutes (Yes = black, No = white)	N
	Charters have full access to facilities funds in practice (Yes = black, Partial = grey, No = white)	N
	Percentage of facilities revenue equals percentage of total enrollment for charter schools (Yes = black, No = white)	N/A
Data Availability	State provides detailed, public data on federal, state, local, and other revenues for district schools (Yes = black, Partial = grey, No = white)	P
	State provides detailed, public data on federal, state, local, and other revenues for charter schools (Yes = black, Partial = grey, No = white)	P
Funding Formula	Charters are treated as LEAs for funding purposes (Yes = black, Partial = grey, No = white)	Y
	State funds student (black) or the LEA (grey)	S
	State funding formula is fair and equitable (Yes = black, No = white)	N

* For this finding, No could indicate that the statute is silent or that it denies access.

State Scorecard

We have assigned ratings to each state based on the quality of data available, as well as the extent to which charter schools have access to specific streams of revenue (Figure 6).

In Figure 6, we judged “Data Availability” on the ease of access to the information needed for this study and others like it. A rating of “Yes” means that all information was available through web sources or that it was provided upon request by state departments of education. A rating of “Partial” means some but not all of the data for this study were available either through web sources or through state departments of education. A rating of “No” means the data were not available either through web sources or through state departments of education.

Separately, we judged “Funding Formula” based on whether or not charters were considered local education agencies (LEAs) for purposes of funding. “Yes” means that charters in the state are always considered LEAs for all forms of funding. “Partial” means that charters are sometimes considered LEAs for specific streams of funding (such as federal revenue) or that only certain charters are considered to be LEAs. “No” means charters in the state are never considered LEAs for funding purposes. A state received a rating of fair and equitable funding if charters received fair and equitable revenue in all four revenue streams listed.

Similar methods were applied to ratings for federal funding, state funding, local funding, and facilities funding.

Endnotes

¹ See note five, below, for an explanation of this extrapolation.

² The Ohio Department of Education makes available summary district and charter school revenue data based on annual self-reported data from district school business officials. While these data would seem to provide the best “apples to apples” comparisons between districts and schools, there were large and vexing errors in the district and school-level dataset. Since the ODE-provided data

seemed unreliable, we chose independent audits of each charter school in the two districts and district-wide audits for Cleveland and Dayton. Charter school enrollment and revenues in Cleveland are based on 16 schools for which FY 2002-03 audits were available online as of March 2005 via the Office of the State Auditor. Charter school enrollment and revenues in Dayton are based on 17 schools for which FY 2002-03 audits were available. (One of the 18 audits was incomplete, and so the school was not included in the revenue total or enrollment count.)

³ The revenue amounts and sources for both the two districts and the charter schools in Cleveland and Dayton are posted in the FY 2003 Auditor of State Financial Audit (available at <http://www.auditor.state.oh.us/audits/>). The district revenue totals exclude transfer payments to charter schools—\$31,713,105 in Cleveland and \$27,201,752 in Dayton, according to the final versions of the SF3 payments. SF3 payment details are available at http://www.ode.state.oh.us/school_finance/data/2003/foundation/SF3-report-FY2003.asp. Statewide federal, state, and local revenue data from all district reports are available from the Ohio Department of Education. The total revenue figure included in Figure 1 excludes a community school transfer of \$203,733,492 (amount listed on final version of FY03 SF-3 is available at <http://odevax.ode.state.oh.us/htbin/WWW-SF3-HEADERF2003.COM?act=F2003+Final+Vers.+5&irn=045187+Ada+Ex+Vill+SD+%28Hardin%29&county=01+Adams&DISTRICT=TOTAL&sf3=y&comm=y>).

⁴ One charter school in Dayton, ISUS Trade and Technology Prep Community School, had an unusually large per-pupil revenue (PPR) figure that fell more than two standard deviations away from the overall PPR for the charter schools in the district. If this school were excluded from the analysis, because it is an outlier, the difference between charter and district funding in Dayton would rise to 37.8 percent, a gap of \$4,341 PPR. One charter school in Cleveland, Summit Academy CS for Alternative Learners, also had an unusually large PPR that fell more than two standard deviations away from the overall PPR for the charter schools in its district. If this outlier school were excluded from the analysis, the difference between charter and district funding in Cleveland would rise to 29.5 percent, a gap of \$3,162 PPR.

⁵ Because we were unable to obtain statewide figures for charter revenue, all statewide charter figures in this snapshot are extrapolated from the data collected on charter schools in the focus school districts, Cleveland and Dayton. We calculated the average per-pupil revenue in those two districts, weighted by the districts' charter school enrollment, and multiplied it by the total number of charter pupils in the state. The authors recognize that

district data may not be representative of statewide patterns due to differences between district funding and property wealth. This extrapolation, however, is a reasonable projection given the data available to the authors. In Figure 1, extrapolated data are marked with “est.” (estimated).

⁶ A comprehensive list of all charter schools operating in Ohio in FY 2002-03 was not readily available. The number of operating charter schools in Dayton and Cleveland was based on the number of audits that were available from the State Auditor for FY 2002-03. The number of charter schools statewide was listed in the Legislative Office of Education Oversight report, *Community Schools in Ohio: Final Report on Student Performance, Parent Satisfaction, and Accountability*, December 2003. Available at http://www.loeo.state.oh.us/reports/PreEleSecPDF/CS_Financial_Web.pdf.

⁷ National Center for Education Statistics (NCES) data, FY 2002-03. Since some schools choose not to participate in the free and reduced price lunch program even though they enroll significant numbers of low-income children, this comparison excludes district and charter schools that reported zero free and reduced price lunch students.

⁸ An example of the egregious errors posted, as of June 13, 2005, on the ODE Power Reports website (http://ilrc.ode.state.oh.us/Power_Users.asp) is the Greene Local School District, a small district with few schools, which posted revenues of \$89,733,369 *per pupil*.

⁹ In 2002-03, the average base aid amount was approximately \$4,949 per pupil.

¹⁰ The discussion of the foundation program is largely taken from the summary for Ohio in the National Conference on State Legislatures Education Finance Database. Available online at http://www.ncsl.org/programs/educ/ed_finance/index.cfm.

¹¹ *Ibid.*

¹² For more information about the Ohio School Facilities Commission (OSFC), search by district and program at <http://www.osfc.state.oh.us>.

¹³ Charter school funding flows through a process in which 1) the charter schools' students are counted in the enrollments of their resident school districts, 2) the districts' state payments are calculated with the charter school students counted in their enrollments, which for most districts (but not all) results in their being credited with the state funding that the charter school students would have generated for them, and 3) the state deducts the charter schools' funds from the school districts' state payments and pays them to the charter schools.

- ¹⁴ The actual amount of state funds available to a school is based on a number of variables, including a cost-of-doing-business factor for a community, six special education factors, and a Disadvantaged Pupil Impact Aid (DPIA) adjustment factor. Schools receive one-half the funding for kindergarten students.
- ¹⁵ *Ibid.*
- ¹⁶ The state allows sponsors to charge up to 3 percent administrative fee (of per-pupil funding) to provide sponsorship. Sponsors may also sell additional services to schools.
- ¹⁷ Through July 1, 2005, there was a cap of 225 schools for non-district sponsored schools. That cap was replaced when HB 66 was enacted on July 1, 2005, placing a cap of 30 new charter schools sponsored by non-school district entities during the 2005-06 and 2006-07 school years. There are now two cap provisions for new start-up community schools (schools that hope to open from July 2005 through June 30, 2007). For more information about the impact of HB 66, see <http://www.charter-schoolleadershipcouncil.org/pdf/ohiostatus.pdf>.
- ¹⁸ There are three open enrollment policies in Ohio. Two are concerned with intradistrict transfers which allow students in low-performing schools to attend different schools within the school district. The third is an interdistrict (voluntary) policy which requires districts to determine whether they will admit nonresident students. “E-schools” are a good example of schools operating under the state’s open enrollment policies.
- ¹⁹ Education Finance Database, National Conference on State Legislatures. Available at http://www.ncsl.org/programs/educ/ed_finance/index.cfm#test.
- ²⁰ OFCS, Accelerated Urban Initiative, <http://www.osfc.state.oh.us/Programs/AcceleratedUrban/AcceleratedUrban.htm> and <http://www.osfc.state.oh.us/Publications/2003%20OSFC%20Annual%20Report.pdf>.
- ²¹ Districts qualify for parity aid when they fall below the 80th percentile of all districts according to wealth. School districts may spend this money in any area of need.
- ²² Ohio HB 364, available at http://www.legislature.state.oh.us/bills.cfm?ID=124_HB_364.
- ²³ Review of Existing HB Analysis, Ohio Legislative Service Commission, available at <http://lsc.state.oh.us/analyses/anh124.nsf/All%20House%20Bills%20and%20Resolutions/D57D941A524775E385256B830058AAADF>.
- ²⁴ *Community Schools in Ohio: Implementation Issues and Impact on Ohio’s Education System*, a report from the Legislative Office of Education Oversight. Available at http://www.loeo.state.oh.us/reports/PreEleSecPDF/1CS4_web.pdf.
- ²⁵ The program was created by the Ohio General Assembly in House Bill 94, in Section 3318.50 and 3318.52 of the Ohio Revised Code.
- ²⁶ The Cleveland district audit did a much better job at separating out local, state, and federal funds. For this analysis, federal and state funds are included in Cleveland’s intergovernmental revenue figures.
- ²⁷ If payments to charter schools had not been excluded from the districts’ total revenues, the percentage of local revenues would have been less (26.7 percent in Cleveland and 35.9 percent in Dayton).
- ²⁸ Kindergarten students are funded at one-half of the regular student population.
- ²⁹ Source for Cleveland and Dayton school characteristic data: NCES.
- ³⁰ Text of the legislation is available at http://www.legislature.state.oh.us/BillText126/126_HB_66_EN1_N.html.