

# What about the Schools? Factors Contributing to Expanded State Investment in School Facilities – Case Study State #5: Ohio

Marialena Rivera, Ph.D., 2016 IDRA José A. Cárdenas School Finance Fellow



## Overview of State School Facilities Investment Over Time

Since the creation of the Ohio School Facilities Commission (OSFC) in 1997, Ohio has taken an active role in working with school districts to overhaul their educational facilities. According to the State of Our Schools analysis of NCES statistics, the state of Ohio and local school districts spent a combined \$46.4 billion in capital outlay from FY 1994-2013, or about \$21,683 per student. The state's share of total capital outlay was 27 percent, three times the state share in Texas, but lower than the other case study states. From the 1993-94 school year to the 2012-13 school year, Ohio has experienced a 12 percent decline in its student population.

### State level facility administration and oversight

As of 2012, the OSFC and the State Architect's Office were consolidated to form the Ohio Facilities Construction Commission (OFCC). The goal was to bring all the construction arms of the state into one entity. Approximately 50 OFCC staffers work primarily on K-12 facilities (Ohio survey results, 2016). The OFCC's responsibilities are "to work with eligible school districts to master plan their school facilities, providing a portion of the project cost, and help them to manage the building project" (Ohio survey results, 2016). This process includes a facility assessment of 23 buildings systems, an environmental assessment, demography work and 10-year enrollment projections, and a plan for matching facilities to the educational plans of the district, which are co-funded (Ohio survey results, 2016).

Unlike other states, Ohio conducts an inventory of district facilities as they enter the state program, rather than on a regular statewide schedule. "The state program does not focus on individual projects, but instead commits to addressing every school building within the LEA, for a district-wide solution" (Vincent, 2014, p. 7). Districts working with the state can expect to receive ongoing support for years, including assistance with determining how many buildings they need, deciding where to put new schools, working with consultants and contractors, overseeing construction, and ensuring that the project is in line with the Ohio School Design Manual's (OSDM) standards and guidelines (OFCC staff, interview, August 16, 2016). The design manual is a detailed guide that districts must follow if they choose to use state money for their educational facilities. School districts must fund desired portions of the project that are not covered in the OSDM through locally funded initiatives (LFIs).

### Relevant litigation and legislative history

The current school facilities laws are a "direct outgrowth of a lawsuit challenging constitutionality of the state's funding system... which tries to level the playing field" (Professional Superintendent Association, interview, August 18, 2016). Before the *DeRolph v. State of Ohio* case in 1997, local school districts had to tax themselves heavily to provide for educational facilities, with little state support. According to

Ohio's Constitution, the state has a duty to provide a "thorough and efficient" public education to its state's students (Fothergill & Verdery, 2003).

In the *DeRolph* litigation, the Ohio State Supreme Court determined that the state's facilities were some of the worst in the country, and the entire educational system was unconstitutional. Consequently, the state created the OSFC to "provide funding, management oversight, and technical assistance to local school districts for construction and renovation of school facilities in order to provide an appropriate learning environment for Ohio's school children" (Fothergill & Verdery, 2003, p. 4). However, it took several rounds of litigation to develop the current system, illustrating the importance of continuing to press for change until the desired outcome is achieved.

## Factors Contributing to Expanded State Investment in Equitable Public School Facilities

### Taxation mechanisms (sources of funding)

Ohio's share of state tax revenue by source is similar to the United States on average, though with more reliance on sales and gross receipts taxes (58 percent in Ohio versus 48 percent U.S. state average) and a lower reliance on state income taxes (31 percent in Ohio versus 41 percent U.S. state average) (U.S. Census Bureau, 2016). Ohio has no statewide property tax and collects a higher percentage of license taxes than any other case study state (11 percent in Ohio versus 6 percent U.S. state average) (U.S. Census Bureau, 2016).

Ohio's primary mechanism for funding school buildings is through biennial capital appropriations as part of the state's capital budget (OFCC staff, interview, August 10, 2016). The remainder is provided through statewide general obligation bonds through the capital bill, as well as from tobacco settlement money and licensing fees. Debt on the bonds is retired from the state's general fund. As in Texas, local taxpayers rely on local property taxes for both educational operating expenses and capital funding. As Vincent (2014) described, "Once the district-wide facilities master plan is finalized, the school district puts their share of the funding up to local vote for bonding. If the local bond is successful, the state releases the funds necessary to complete the project" (Vincent, 2014, p. 7). Districts must show that they can raise their entire local share before the state will work with them. There are a few other ways districts can pay for their educational facilities, including using their general revenue funds, permanent improvement funds, or with lease agreements with a third party (OFCC staff, interview, August 10, 2016). An added requirement for participating in the program is that districts raise an additional ½ of 1 mill that must be used for facilities maintenance. This special tax lasts for 23 years, and is a small amount that accumulates for later repair and maintenance.

## Distribution of state facility funding

The Classroom Facilities Assistance Program addresses school districts in a specific order: “The OSFC provides state funding to school districts on a priority basis in converse relationship to the wealth of the district” (Ohio Department of Education staffer, personal communication, September 13, 2016). Since the 1990s, these “equity rankings” have determined when school districts enter the state’s educational facilities program. The equity list is primarily based on property values and secondarily on incomes, weighted by the number of students in a school district (OFCC staff, interview, August 10, 2016). Property values per student are based on a rolling average, and the equity lists are adjusted every year to reflect changes in enrollment and property values. The state and local share are then determined by the relative wealth of a school district, ranging from 5 percent to 95 percent. The first districts to enter the program, those with the least property wealth, were responsible for only a 5 percent (or similar) share, while the school districts with the greatest wealth will be almost entirely responsible for paying for their own facilities.

The state has spent \$11.3 billion in state funds since 1997 and built out 50 percent to 60 percent of the state’s educational facilities so far. With regard to the actual distribution of funds, “The state enters into a project agreement and quarterly releases the funds necessary to complete the project” (Vincent, 2016, p. 44).

Currently, the average district-wide project is \$40-45 million, which equates to two to three school buildings. The OFCC’s current policy is to conduct a thorough assessment of facilities, including the building’s finishes, foundation, HVAC, security system, etc. The state compares the results of the assessment to the standard they would expect to find and then develops the cost to bring that building up to standard. Ohio also has a variety of smaller programs, including the Exceptional Needs Program (ENP) to address facilities “most in need of replacement,” and the Expedited Local Partnership Program (ELPP), which is used for districts that cannot wait for their “number to come up” in the primary program.

## Public debt policies

Debt policies are important in a state like Ohio that relies heavily on long-term debt, both at the state and local levels, to finance educational facilities. In Ohio, only the wealthiest districts can afford to pay for large portions of their facilities without borrowing. Ohio has the authority to issue bonds equal to 5 percent of the total revenue fund. School districts in Ohio cannot use the state’s credit rating when issuing debt locally. In the current low-interest environment, it is easy to borrow money, and the state does not have plans to move away from a debt-based financing system. “The policy has been, when times are tough financially, there is going to be a desire to borrow money. The state has borrowed money for years, and there is a large amount of debt that has to be paid off. Principal and interest payments are considerable. It’s hard to do cash payments on top of that” (OFCC staff, interview, August 10, 2016). In other words, it would be difficult to try to do pay-as-you-go payments on top of retiring debt.

## Discussion of Equity of State Facilities Programs

As Filardo (2016) explained, “Ohio undertook a major statewide modernization program to overcome years of deterioration in its school facilities” (p. 9). With regard to quality, the design manual is quite specific about its siting standards and other guidelines for educational facilities in the state. Some wealthier districts that do not want to be limited by the OSDM have chosen to pass millage on their own, foregoing state support.

With regard to adequacy of funding, as the state has moved through the equity list, the state share for facilities has decreased. School districts eligible for 40 percent or less are having a harder time passing bond issues (Professional Superintendent Association, interview, August 18, 2016). These school districts “in the middle” are not necessarily economically disadvantaged and have some local wealth, but they are not wealthy enough to completely fund facilities on their own.

With regard to reliability, the program has been methodically working through the equity list for almost two decades, with no indication of stopping.

With regard to equity, Ohio has made significant efforts to weave equity into the fabric of its facilities policies, beginning with addressing the lowest wealth districts first. For the local share, generally a reliance on bonds tied to local property wealth results in continued inequity as taxpayers in districts with lower property wealth must tax themselves more to raise the same amount of money as districts with higher property wealth. The state addresses the disparity in revenue raising ability through its sliding scale, providing a higher percentage of money to districts with less wealth. However, the state’s strong reliance on bonds to finance facilities results in a lack of revenue source diversity, which can be helpful in challenging economic times or when interest rates increase.

Since Ohio relies heavily on debt financing to pay for educational facilities, the cost is ultimately higher across the state due to interest payments. The fact that the state does not allow school districts to use the state’s credit rating is also detrimental to school districts with lower credit ratings. The system is certainly more equitable than before the *DeRolph* rulings led to the creation of the OSFC. Davis (2015) used three measures of equity to look at the distribution of facilities spending in Ohio and noted, “It appears that the [OSFC] has to some extent leveled the playing field and also weakened the link between poverty and the quality of school facilities” (p. 22). It is also worth considering that Ohio is one of the more conservative states, which generally provide less funding for public services. Ohio’s program is potentially a model for both conservative states and those that do not want to move away from debt financing.

See the full report and other state highlights at <http://budurl.com/IDRASymposium>.

*The IDRA José A. Cárdenas School Finance Fellows Program honors the memory of IDRA founder, Dr. José Angel Cárdenas. The goal of the program is to engage the nation’s most promising researchers in investigating school finance solutions that secure equity and excellence for all public school students. An assistant professor of education and community leadership at the Texas State University College of Education, Dr. Marialena Rivera was named the 2016 José A. Cárdenas School Finance Fellow.*