

FY 2020 EXECUTIVE ORDERED STATE FOUNDATION FUNDING REDUCTIONS

Introduction

The steps that have been taken to slow the spread of the coronavirus in Ohio are having, and will continue to have, a negative impact on the state's financial position. On May 5, 2020, the Governor ordered the Department of Education to reduce state foundation funding by \$300.5 million before the end of FY 2020. Reductions will be made to school district payments starting with the May #2 foundation payment. The ordered budget reductions were determined in the following manner.

Funding Reduction Calculation Methodology for Traditional School Districts

The ordered reductions were made using an equalized per-pupil approach. This generally results in more modest reductions to districts with less local capacity and is considered to be more equitable than either a flat, per-pupil reduction approach or reduction in the percentage of state aid. The reductions range from \$88.76 per-pupil for the districts with the lowest local capacity, to \$304.32 for the districts with the highest local capacity.

Historically, the state distributes funds to school districts based on an equalization formula that takes into account the local capacity of each school district and provides more funding on a per-pupil basis, to schools with lower capacity and wealth. In the most recent formula, last calculated in FY 2019, local capacity was calculated using a state share index. The state share index combines the property wealth of the school district with the income of its residents resulting in a percentage ranging from 5% to 90%. This state share index was then applied to the per-pupil amount of the formula to determine the amount state funds provided to the district, with districts having the lowest state share percentage receiving the least funding per-pupil and those with the highest state share percentage receiving the most.

It was the state share index, last calculated in FY 2019, that was used to apportion the FY 2020 ordered reductions to traditional public-school districts. The methodology used to determine each school district's per-pupil reduction amount and total annualized reduction was achieved as follows:

1. **Determination of the statewide per-pupil reduction amount:** Based on the target of reducing state foundation funding by \$300 million, a statewide per-pupil reduction amount of \$317, adjusted based on the local wealth and capacity of each district was computed. (*Note – based on the adjustment for local capacity, no district receives a \$317 per-pupil reduction.*)
2. **Adjustments made for “capped” districts:** Foundation funding in FY 2020 is based on FY 2019 funding. In order to treat a number of districts that were subject to funding limitations (caps) more fairly, and improve the equity of funding reductions, an adjustment was made to the state share index of these capped districts. For school districts impacted by the funding cap in FY 2019, the state share is revised by first multiplying the state share index by the cap reduction ratio and then subtracting the product of this calculation from the state share index to get a difference. The difference is added to the state share index, up to the limit of 90%. By increasing the state share index, the funding reduction is lowered for capped districts.

3. **Range compression:** Next, to reduce the range in per-pupil reduction amounts, the revised state share index is compressed to 80% of its original range; from a range of 5%-90% to a range to 4%-72%. This range compression maintains the equity of the reduction but narrows the variation in per-pupil reduction amount. The compression of the index is achieved by simply dividing the revised state share index (# 2) by 1.25.
4. **State Share Index Inverse Value:** The calculation is finalized by subtracting the compressed state share index from 1. This reverses its effect so that a district at the low end of the range receives a greater reduction than a district at the high end of the range to equalize the district per-pupil reduction amount.
5. **District per-pupil reduction amount:** The inverse compressed state share index is then applied to the statewide per-pupil reduction amount (#1) to obtain the individual district's per-pupil reduction amount.
6. **District total reduction amount:** The individual district's per-pupil reduction amount is then applied to the FY 2019 formula ADM of the district to obtain the total funding reduction amount. FY 2019 formula ADM is used as the basis of the reduction, as it is the FY 2019 formula ADM that generated the originally budgeted funding amount in use for FY 2020.

A spreadsheet outlining the steps involved in the calculation of the funding reduction amounts by school district can be found [here](#).

Funding Reduction Calculation Methodology for Community and STEM Schools

The calculation of the funding reductions for community and STEM schools is achieved by a reduction in the per-pupil foundation level (\$6,020) used in the calculation of the opportunity grant by \$88.76. This will result in a per-pupil foundation level of \$5,931.24. The \$88.76 is equal to the lowest per-pupil reduction amount for traditional school districts. This per pupil reduction will be reflected in the June foundation payment to community and STEM schools.