

State Budgeting Matters

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The governor faces many challenges in producing and maintaining a balanced budget that meets Ohio's needs.

This series is an opportunity for our readers to get involved by e-mailing their Ohio budget questions to our Ohio budget expert, Richard G. Sheridan, at rsheridan@CommunitySolutions.com.

Please note that Richard G. Sheridan's opinions are not necessarily those of The Center for Community Solutions.

Can Ohio Afford Education "Reform"?

Ohio continues to spend state General Revenue Fund (GRF) money that it does not have. As of the end of April, GRF receipts, excluding federal Medicaid matching money, were \$286.7 million less than was budgeted. In late January, the Office of Budget and Management (OBM) issued its official revised forecast and predicted that GRF revenues for this fiscal year would be \$132.6 million below estimates. With two more months to go, they are already more than twice that number.

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Next year's revenues are forecast to be even worse, with an official OBM shortfall projected at \$350.1 million. Based on what is already occurring, this, too, is likely to be considerably off the mark.

Despite the bleak revenue outlook, and an even bleaker outlook for next biennium when an additional \$1 billion will be removed from GRF receipts because of scheduled tax reductions, the state continues to make commitments for future new spending obligations that will not be supportable without future tax increases.¹ These new commitments include:

- **Medicaid.** The current forecast calls for additional appropriations of \$121.8 million in state GRF funds to pay for this biennium's Medicaid program. If those additional sums are appropriated, they will create a larger base upon which to build next year's appropriations requirements.
- **Higher Education.** On March 31, the governor released his new strategic plan for higher education which, according to the state's chancellor, will require more than \$420 million in new GRF appropriations, an increase of \$42 million per year.²
- **Economic Stimulus.** Recently the legislature began work on several measures intended to act as stimulants to the state's sagging economy. Their total cost is estimated at \$1.57 billion, and it is to be paid for, in part, by \$370 million of GRF money to be appropriated in unspecified "upcoming fiscal years." In addition, if, as proposed, liquor profit revenue bonds are issued, their repayment will require the use of money that would have otherwise been deposited into the state GRF.
- **Education Reform.** Still another initiative is underway, intended to reform K-12 education in Ohio and it, like the higher education and economic stimulus initiatives, has fiscal implications. A major component of this initiative calls for developing plans to ensure "adequate funding" of education, an issue that has plagued the state throughout the 20th century.



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¹ See *State Budgeting Matters*, Volume 4, Issue 4, April, 2008.

² *Ibid.*

School Funding in the 20th Century

Throughout the 20th century, Ohio's governors have wrestled with school funding problems. But only three times has the state enacted what could be justifiably labeled "education reform." In each of these instances, education reform and increased taxes were inextricably tied together. The first important education reform of the 20th century occurred in the 1930s.

Education Reform / Under Governor George White

Paying for K-12 education has always been a problem for the State of Ohio, but it is especially difficult in times of economic distress. After the great stock market crash of October, 1929, the state was called upon to provide a variety of programs and services for a desperate population. An estimated 37.3 percent of all workers were unemployed and schools opened late in the fall and closed early in the spring, with many children failing to attend because they needed to help support their families. To make up for the loss of local tax collections, in 1931, the Ohio General Assembly authorized counties to issue bonds for relief purposes including supplying shoes, clothing, and medical care to school children. However, by 1932, counties had racked up so much debt that interest and debt retirement required 20 to 30 percent of school district budgets. Minimal local property tax assessments and state support from the intangible property tax were insufficient to support local schools and repay the issued debt.

In 1932, a report known as the Mort Plan, named after its author, Dr. Paul R. Mort of Columbia University, criticized the state for relying too heavily on local property taxes for financing. In 1935, as a result of the report and the severe school fiscal problems, the legislature adopted the state's School Foundation Program Law, which provided formula-driven state-funded subsidies to school districts and has formed the basis for state education finance ever since.³ Most important, to pay for this reform, the state enacted a sales tax and dedicated 60 percent of its receipts to support the state's schools. For the next 40 years, until the election of John Gilligan, every succeeding governor

3 George W. Knepper, *Ohio and Its People*, The Kent State University Press, Kent, Ohio and London, England, Second Edition, 1997, pp. 368-372.

avoided new taxes like the plague and struggled with continuing school finance problems.

Education Funding Under Governor Frank L. Lausche

After the earmarking of new state sales tax receipts to support local schools, school funding provided no major problems until the post-war administration of Democratic Governor Frank L. Lausche. Governor Lausche won election, and repeated re-election, by popularizing the electioneering slogan "no new taxes" during his several election campaigns beginning in 1945—a slogan which has since served as a campaign slogan to elect, or defeat, every successive governor in the state.

Despite his electioneering slogan, Governor Lausche advocated for higher taxes on gasoline and race track operators during his fourth term of office in 1953. After defeating Republican Auditor James A. Rhodes in 1954, he announced to the Republican legislature that "new taxes will be required to meet the rising costs of government."⁴ Lausche pointed out that additional money was needed to fund the school foundation formula, but the legislature rejected his request on the grounds that education was a matter to be dealt with by local school boards with minimal interference or assistance from the state. "Lausche would leave it to future Ohio governors to exert activist leadership for new or increased sales and income taxes to aid schools and universities and to cover state services."⁵ That leadership failed to be exerted during the succeeding administrations of Governors C. William O'Neill and Michael V. DiSalle (1957-1963).

School Funding Under O'Neill and DiSalle

Following in the footsteps of parsimonious Governor Lausche, Governor O'Neill told the legislature that "Our citizenry is already overtaxed," and he "pledged to run state government for two years without any new or increased taxes."⁶ The governor was proud of Ohio's national reputation as a low-tax, low-spending state. This reputation carried through to education spending, where

4 Brian Usher, "The Lausche Era, 1945-1957," in *Ohio Politics*, edited by Alexander P. Lamis with the assistance of Mary Anne Sharkey, The Kent State University Press, Kent, Ohio and London, England, 1994, p. 32.

5 *Ibid.*, p. 33.

6 Mike Curtin, "The O'Neill-DiSalle Years, 1957-1963," in *Ohio Politics*, *op. cit.*, p. 48.

Ohio ranked seventh among 12 Great Lakes and Plains states in primary and secondary education spending, and below its neighboring industrial states of Michigan, Pennsylvania, and Illinois.⁷ This was the situation when Michael DiSalle was elected governor in 1957. He hinted that Ohio needed to raise taxes to pay for needed increases in state spending, including primary and secondary education. During his term in office, he successfully managed to have a number of taxes increased allowing the state to increase its support for primary and secondary education, among other spending increases, but no major education reform was undertaken. Those tax increases led to his political defeat.

When DiSalle sought re-election, his opponent James Rhodes was quick to label him “Tax-Hike Mike,” as he is still known today. He was successfully defeated by Rhodes, who began what would be four, four-year terms of office characterized by the politically popular pledge of “no new taxes” and state service levels that corresponded to that pledge.

Education Finance Under James Rhodes (1963-1971)

James Rhodes served as Ohio’s governor for an unprecedented 16 years. After Governor Lausche’s repeated election to two-year gubernatorial terms of office, Ohio’s Constitution was amended to provide for four-year terms, but no governor was to serve more than two such terms. Rhodes, however, served two sets of two-year terms after sitting out one four-year term. He was able to keep his “no new taxes” pledge both times because intervening Governor Gilligan fought for the enactment of the state’s first personal income tax which provided sufficient revenue to almost carry the state through another two terms under Rhodes.

Upon entering office in 1963, Rhodes arranged for a 9.1 percent across-the-board cut in spending, and then submitted a record biennial budget requiring no new taxes. However, he managed to get the approval for the issuance of huge new bonds, the proceeds of which were used for a variety of capital construction projects including the promise of a branch campus, community college, or technical school within 30 miles of every Ohio citizen. Rhodes’ administration is best known for the massive construction of highways, industrial development, parks and recreation, and higher education projects. By the end

⁷ *Ibid.*, p. 51.

of his first eight years, there were six new state universities as well as new branches, community colleges, and post-secondary vocational schools.

Despite Rhodes’ aversion to taxes, the state did, in fact, increase the sales and corporate franchise taxes in 1967, with what was described as “vague support” from Rhodes. It was after that tax increase that “in 1969 he came up with a confusing, poorly drafted tax and education bill which seemed to require that counties pass an income tax, but he practically left the measure on the legislature’s doorstep rather than actively introducing and pushing it.”⁸ It did not pass.

So, education limped along supported by increased local property taxes overburdening homeowners and businesses alike while Ohio ranked 47th in the nation in terms of tax effort by the end of Rhodes’ second term of office, a fact that Ohio touted in full-page newspaper advertisements across the nation. Meanwhile, as reported by David Hess of the *Akron Beacon-Journal*, “While the administration fiddles a happy tune, Ohio’s education, mental health, welfare, and corrections programs sink steadily into indifference and neglect.”⁹

With respect to primary and secondary education, Rhodes’ main contribution was to maintain that the public school system needed to focus on vocational education to train youngsters to have the skills needed to take jobs in Ohio’s manufacturing industry. To that end, he proposed, and the legislature enacted, legislation creating joint vocational school districts throughout the state. These were housed in large, new, well-equipped facilities. Unfortunately, the jobs for which the students were to be trained were not there as the state’s manufacturing base had already begun to be seriously eroded. As for the rest of primary and secondary education, Rhodes’ term of office could be characterized as “benign neglect.” By the end of his eight years, Ohio led the nation in school closings and had become a national disgrace.

Education Reform II Under John Gilligan (1971-1975)

When Democrat John Gilligan ran for governor, he defied Ohio tradition and argued repeatedly during his campaign that Ohio, in the throes of financial disaster at

⁸ Richard G. Zimmerman, “Rhodes’s First Eight Years, 1963-1971,” *Ohio Politics*, *op. cit.*, p. 74.

⁹ Neal R. Peirce and John Keefe, *The Great Lakes States of America*, W.W. Norton & Company, New York, 1980, p. 305.

the end of Rhodes' administration, required new taxes to provide needed governmental services in the new decade. His first budget proposal was 50 percent higher than Rhodes' last one; most of the increase was aimed at increasing state support to public schools and reducing their reliance on voter-approved local property taxes. To finance the increase, he proposed the state legislature approve a graduated income tax on both individuals and corporations. When, after a bitter battle with the Republican-led General Assembly, the proposed new tax was approved, its proceeds were used to increase state support for local schools by 70 percent. So, while the state had been paying about 28 percent of school operating costs at the end of the Rhodes' administration, under Gilligan's first budget, it rose to 40 percent.

In 1974, Ohio voters approved the establishment of a state lottery, the proceeds of which were proposed to be dedicated to the support of public education—something that required a future constitutional amendment to ensure and which many analysts, including this one, argue is more of a fiction than a reality.¹⁰

The additional money available to primary and secondary education from the new state income tax and the lottery enabled the state to reform the way in which it distributed monies to the schools. The new state formula, created in 1975, was actually a legislative product resulting from the work of its permanently staffed (long since defunct) Education Review Committee. The principle of the Equal Yield Formula was to link state support to the willingness of local citizens to exert tax effort in support of schools rather than the happenstance of local property tax wealth. The intent was to remove primary and secondary education spending decisions from purely political considerations. The State Supreme Court declared the formula to be constitutional in a 1977 decision, only to change its mind in 1996.

The Return of James Rhodes (1975-1983)

When Rhodes returned to the State House to begin what would be another set of two, four-year terms of office, he tried to pursue the same public policies that had served him well previously: no new taxes, huge capital con-

struction programs, and a "hands-off" business policy designed to spur economic development. But voters rejected his proposed bond package, and a Democratic legislature asserted itself in state budget-making even to the point of rejecting his proposed budget and approving one that the House of Representatives created by itself. Unlike his first two terms of office, when he enjoyed the support of a Republican-controlled legislature, this time he had to face the reality of a veto-proof Democratic majority in the General Assembly that opposed every one of his initiatives. Neither the governor, nor the legislature, was able to make the requisite changes in the state's archaic public school financing system, thus described:

"The system is an archaic one, crippling for public education. In autumn 1969, for instance, more than 19,000 children in 40 Ohio schools were locked out of their classrooms for want of operating funds. Between 1970 and 1977 voters in Cincinnati, Dayton, Toledo, Columbus, and Canton rejected a total of 22 proposed tax increases to operate the schools; fearing defeat, school officials in Cleveland, Akron, and Youngstown didn't even submit levies in that seven year period, despite strong inflationary pressures. By the late '70s the situation was even more acute as schools became a whipping child not just of recalcitrant taxpayers but also of opponents of court-ordered busing to achieve desegregation in several of the state's largest cities, including Cleveland, Columbus, and Dayton."¹¹

In addition to these problems, Ohio's teachers defied Ohio's Ferguson Act, intended to prohibit public employees from striking. Arguing for adequate salaries, teachers walked out of a number of the state's public schools, adding to the state's poor reputation as a desirable location for industry and economic development. Part of the problem was a result of the legislative enactment of H.B. 920, which placed a lid on the growth of local property taxes.

Until its enactment, property tax levies to support local schools (along with other local governments) increased as inflation raised the value of real property. With the enactment of H.B. 920 in 1976, locally approved levies were frozen at the value of residential property at the time of the levy. To this day, schools continue to feel the adverse affects of this provision which, except for new construction, places a lid on locally generated property taxes. What it means is that schools must seek new and more

¹⁰ While officially lottery proceeds do, in fact, now go exclusively to the support of primary and secondary education, in the development of the state's budget, those amounts are deducted *before*, rather than *after*, a determination of how much state GRF money will go to primary and secondary education is determined.

¹¹ *Ibid.*, p. 304.

frequent levies to keep up with increased costs. State aid was increased to help make up for the lost revenues, but not enough. So, school districts, with inadequate state funds and an inability to gain voter approval for new property taxes, began to close schools before the end of the school year.

Since school districts budgeted on a January to December fiscal year (subsequently changed in 1986 to coincide with the state's July through June fiscal year) and received state funds for a new year beginning on July 1, they were able to end the school year when their money ran out and begin earlier in August after new higher state revenues were received. Although children still received 180 days of schooling, this convolution resulted in adverse national attention and criticism. Finally, a federal court ordered the Cleveland City School District to stop the foolishness and remain open. The state was forced to react and, in 1978, legislation was enacted prohibiting a school to close due to lack of money. Instead, school districts were forced to borrow money from the newly created state Emergency School Advancement Loan Fund. Soon after, school district debt to the state piled up and was a contributing factor in the Ohio Supreme Court's 1996 declaration that Ohio's system of funding was unconstitutional.

In 1978, when Rhodes was running for re-election against Richard Celeste, the closed schools, along with other problems in the state, appeared to have doomed his re-election. However, Rhodes, anticipating that Democrat Celeste's major issue would be school financing, preempted the issue promising that his estimate of \$1.1 billion in revenue growth during his next four years would all be given to the schools. He proclaimed, "The education crisis is over!" While Celeste had promised a solid education plan, all he came up with was a series of goals for primary and secondary education to be implemented by a special citizens' commission, the legislature, and the voters at large.¹²

Rhodes' new budget did not, in fact, propose spending all new revenues on schools, but it did propose a 21 percent hike in state aid; the legislature actually

¹² Lee Leonard, "Rhodes's Second Eight Years, 1975-1983," *Ohio Politics, op. cit.*, p. 125. Leonard reports that Rhodes successfully criticized Celeste's lack of a true education plan helping to win his re-election: "'He has no plan. He has nothing. He is incapable of leading this state. He know nothing about being governor. I wouldn't mind getting beat by somebody who's qualified, but not him.' 'He says education is a crisis,' Rhodes continued. 'So was the blizzard. And we did not have to appoint a commission to solve the blizzard. When you elect a governor, you elect management and not a commission.'"

approved an even greater increase in order to prevent schools from closing for lack of funds. Meanwhile, the Ohio Supreme Court upheld the state's school funding system as constitutional, and the concept of "equal yield" was abandoned. School reform was doomed. Legislators refused to give up any aid that their own school districts would receive, so poor school districts were given a "no-loss guarantee" rather than a redistribution of resources between wealthy and poor school districts.

When Celeste was elected Governor four years later, he engineered the largest state tax increase since Gilligan, as Rhodes had accused him of wanting to do four years earlier, but neither Rhodes nor Celeste did anything to reform school funding. During Rhodes' second eight years in office, primary and secondary spending increased by 52.7 percent while the total GRF increased by 87.1 percent. When he began his administration, primary and secondary education received 45.1 percent of the total budget; when he left it received 36.8 percent.

Education Finance Under Richard Celeste (1983-1991)

When Rhodes left office, the state budget was woefully out of balance. Assuming office in January, 1983, Governor Celeste's first task was to re-balance the current state budget before proceeding with a new budget. The legislature quickly approved a tax proposal package that readjusted the balance between individuals and businesses with individuals paying a larger share of taxes. Two new temporary income tax brackets (\$80,000-\$100,000 and Over \$100,000) were added to the existing six, and a 25 percent surcharge was placed on base rates. The temporary brackets were subsequently made permanent and the surcharge increased to 83.1 percent. Then, effective January 1, 1984, a 90 percent permanent surcharge from the 1982 rates was imposed. It is this latter change that has caused many observers to characterize the overall tax reform effort as the "90 percent income tax increase," for which Celeste will always be known, rather than the fact that the income tax was raised only 50 percent over the temporary tax increase then in effect and that it was balanced by a series of reductions in other taxes. Nevertheless, the overall effect was the largest influx of new state revenues since the income tax was enacted under Governor Gilligan.

The influx of new money was spent on a variety of initiatives, and primary and secondary education received ap-

appropriate increases. However, nothing was done during the Celeste years to correct the fundamental problems in the state's formula for funding primary and secondary education. That would come as a result of a series of state Supreme Court rulings during the administration of his successor, George Voinovich. During Celeste's term of office, primary and secondary education spending grew by 62.2 percent, but the total GRF budget grew by 79.7 percent. As a share of the total budget during Celeste's administration, it declined from 39.8 percent at the beginning of his term of office to 36.0 percent at the end.

Education Reform III Under George Voinovich (1991-1999)

George Voinovich came to office as the "education governor" and quickly sought a large increase in state funding for primary and secondary education. However, despite significant funding increases under Gilligan, Celeste, and Voinovich, "these panaceas to some extent concealed a growing disenchantment in the legislature directed at school administrators and teachers."¹³ The legislature balked at a major restructuring of school finance because administrators, they believed, were wasting the money they had and spending it inefficiently. In fact, "more than a hundred districts had to seek state loan agreements during the 1984-1994 decade, even though voters in nearly all of them had supported higher property taxes in their districts."¹⁴ It appeared that the infusions of state money were insufficient to address the underlying financial problems of school districts.

What happened next is that a coalition of school districts sued the state (*DeRolph v. State of Ohio*) in 1991, arguing that the legislature violated the state constitutional requirement (Article VI, Section 2) to provide a thorough and efficient system of public education. It took five years for the state Supreme Court to hear arguments in the case. In 1996, it overturned its 1979 decision that found Ohio's formula for distributing state aid to be constitutional. Instead, they declared Ohio's system of financing education to have produced (1) inadequate school facilities, (2) undue reliance on voter-approved property taxes, (3) an unconstitutional loan fund, and (4) inadequate and inequitable funding.

To address these problems, the legislature sought voter approval to increase the state sales tax by one cent and dedicate its proceeds to primary and secondary educa-

¹³ Knepper, *op. cit.*, p. 484.
¹⁴ *Ibid.*

tion. The referendum was overwhelmingly rejected in 1998.

Meanwhile, the state legislature initiated a different kind of education reform through a state-funded program to provide vouchers to students who chose to leave the state's public schools and attend private, even parochial, schools instead. The stated purpose was to force public schools to compete for state money by improving their programs and becoming more accountable. Voinovich supported the program and a pilot program began in Cleveland in 1996. Since then, the voucher system has expanded significantly.

Under Voinovich, state GRF spending grew a meager 38.3 percent, and primary and secondary education grew by 39.9 percent. As a share of total spending, primary and secondary education held steady at 35 percent.

School Construction and Robert Taft (1999-2007)

In preparation for the submission of his last state budget, Governor Bob Taft convened three blue ribbon committees in 2003, including one on Financing Student Success. Unfortunately, its members were unable to agree on what to do about local property taxes, as well as several other important issues affecting school finance. However, they did make recommendations to change the way the state school finance formula worked, and the legislature accepted those that had the effect of shifting state funding away from central city schools and toward wealthier suburban schools and Appalachian school districts in southeastern Ohio. One of the recommendations that was not accepted (and which is now part of Governor Strickland's Education Reform Committee's package of considerations) would have imposed 22 mills of real property taxes that would not be subject to the growth restrictions imposed by H.B. 920. That would mean that, as real property grows with inflation, these unvoted mills would apply to the increased valuation and provide schools with a growing unvoted local property tax base. This proposal would require a constitutional amendment to be effectuated.

In terms of responsiveness to *DeRolph v. Ohio*, Taft's major contribution was to address the dismal physical condition of Ohio's schools. Under Voinovich, a plan was initiated that would commit future legislatures to expenditures of \$300 million per year until all of the state's needs to rebuild schools were met. Taft received voter

approval for the issuance of state bonds to support that program, thereby launching the biggest school construction program in the history of the state.

While Taft was governor, primary and secondary education spending grew faster (48 percent) than total GRF spending (44 percent) but declined to 27 percent as a percentage of the state's total budget.

Education Reform IV Under Ted Strickland (2007-)

In his inaugural address on January 13, 2007, Governor Ted Strickland stated:

"I am convinced that the road to renewal—the road to a new, vibrant, growing Ohio begins with building a system of education which is relevant to the needs of all Ohioans from pre-school through college and beyond...I will gently remind my colleagues that public education is the foundation of our ability to succeed and that those efforts which weaken public education—even well-meaning efforts—can only serve to weaken our mission of rebuilding Ohio...We must be willing and brave enough to take bold steps to reform and renew the system of education itself..."

Legislators, educators, and others have been anxiously awaiting details of the governor's education reform proposal. In the opening session of the 127th General Assembly, S.B. 1 was introduced by Senator Padgett as a placeholder for the governor's education proposal "'to demonstrate Senate Republicans' commitment to working with the administration to build on progress already made and further improve school funding in Ohio,' a characterization Governor Strickland later described as an apparent means to apply political pressure to his office."¹⁵ Senate President Bill Harris later reported that education reform could proceed without further delay, arguing, "I don't think there is any more need for committees and discussion groups, we've had those for the last 10 or 12 years, and I think it's time to move forward." In response, "Governor Strickland told *Hannah News* he would not be 'dictated' to on a timetable for school funding and education reform."¹⁶ S.B. 1 remains an empty vessel.

In January, 2007, the State Board of Education issued a report on education reform prepared by its School Funding

¹⁵ *The Hannah Report*, February 20, 2007.
¹⁶ *Ibid.*

Subcommittee which, among other things, held a series of roundtable discussions around the state (just as Governor Strickland now proposes to do). Participants recognized a number of problems with the current system of funding primary and secondary education, including:

- The rules of property taxation, the way state funding mechanisms work, and the assumptions made about growth in local resources do not provide much stability or assurances about inflationary cost growth;
- The complexity of property tax laws and the difficulties in passing levies suggest that greater reliance on sales or income taxes to support schools is preferable but might lead to a greater erosion of local control;
- There is no "right" state/local mix of revenues that characterizes good school funding systems; however, by increasing the state share, there would be greater resource equalization, since state distribution mechanisms are designed to give more money to the poorest districts;
- State taxes must be raised by more than the amount required to offset property tax reductions in order to result in an actual increase in available funding for schools;
- It is easy, but not correct, to conclude that, by simply adding additional financial resources, better student results will be achieved; how money is used must also be addressed; bad instruction, regardless of how much is spent on it, does not lead to improved results;
- The rules of property taxation in Ohio, and its complexities, is a major contributor to the school funding problem;
- Budgeting for education has resulted in a patch-work quilt of restrictive and prescriptive grant programs that force districts to operate in certain ways simply in order to meet grant criteria; and
- How effectively dollars are spent in the interest of student achievement is difficult to measure.¹⁷

¹⁷ A New Direction for Ohio's School Funding: Designing a System that Relates Resources to Results, Report of the School Funding Subcommittee of the Ohio State Board of Education, January, 2007.

Little was done with the report by the governor or the legislature. The subcommittee, under the staff direction of Paul DeMaria, former budget director, has continued to work and, in February, 2008, prepared and circulated a draft report in preparation of issuing final funding recommendations. A series of stakeholder meetings were held in the spring, and the State Board is getting ready to issue its recommendations. However, what is interesting is that, while all that activity is going on in the Education Department, Governor Strickland has now begun what appears to be an almost identical process addressing the very same issues.

In advance of the introduction of the next state budget, in March, Governor Strickland began a process to collect policy ideas from education stakeholders in nine areas that would lead to the development of education reform. One of the nine areas of concern, of course, is "adequate funding." In that discussion area, a number of (potentially costly) ideas have been advanced, including:

- Create a P16 education budget and require early adoption before the operating budget every two years;
- Earmark certain general revenue sources and combine with a state fund from Class II property for education;
- Use median income solely or a combination of median income and property valuation to determine the state-local share for each district;
- Eliminate all guarantees;
- Adopt an evidence-based model based on unique size and demographics to fund school districts and schools;
- Create weights for gifted, English as a Second Language, and high-risk students; and
- Create a statewide 22 mills local contribution requirement.

The described education reform process is proceeding with Phase II, consisting of a Policy and Efficiency Review Committee to examine all education and tax policy changes since 1997; its work is to be completed by October. Meanwhile, the governor is to co-host with the Governor's Institute an Education Reform Summit in each

of the state's 12 economic development regions between July and October. After these summits, an education plan is to be formulated for implementation by March, 2009.

Education Reform Linked to Tax Increases

Only three times in the last century has primary and secondary education been truly "reformed." Many times, the state has had to react to the need for infusions of funds into the system and to react to the consequences of inadequate funding. But major reforms occurred only in the 1930s when a state foundation funding mechanism was established; in the 1970s when the mechanism for funding was changed to an equalization formula; and in the 1990s when, in response to a series of adverse state court rulings, the state responded by establishing a system of support for private schools as an alternative to public school attendance. In the first two instances, "reform" was accomplished only through the creation of a new tax: the sales tax in the 1930s and the income tax in the 1970s. The failure of voters to approve a tax increase for schools in the 1990s is considered by many to be responsible for the continued failure of the state to adequately address the school finance problem. However, it needs to be noted that the focus of education reform has changed drastically so that, since the 1990s, the state is concerned with the issue of accountability much more so than it was during previous periods of reform.

A recent report by the National Conference of State Legislatures¹⁸ notes that, around the country over the past decade, public education has been restructured around the notion of accountability, where the major concern is educational outcomes rather than just finding ways to get more resources to public schools. States are now concerned about inequities in student opportunities to learn. Maryland, for example, has a program to help traditionally lower-performing students through tutoring and remediation. Also, 20 states now have legislation allowing them to intervene in low-performing school districts. In New Mexico, for example, state teams are sent to analyze and diagnose problems in failing schools. Increasingly, governors are playing the lead role in education accountability reform:

"Georgia's Governor Roy Barnes initiated a comprehensive accountability reform dubbed as the 'A-Plus Education Reform Act.' By establishing accountability as the cornerstone, this reform establishes a system of graded schools, from A to F, based on student performance on statewide tests and eliminates tenure protections for new teachers.

18 "K-12 Governance; Shifting Roles in Governance," Education Program, National Conference of State Legislatures, 2008.

Schools that perform well will receive rewards and those that consistently earn a low grade will face sanction...This accountability package is similar, minus the elimination of tenure to Governor Jeb Bush's comprehensive accountability bill in Florida enacted in 1993/4 and Colorado Governor Bill Owens instigated reform to grade schools this legislative session."¹⁹

Whether the latest attempt at education reform in Ohio will follow the national pattern remains to be seen.

The Future of Education Reform in 2009

The timing of the governor's education finance reform process is interesting since the state's biennial budget proposal is to be submitted to the General Assembly in January and, presumably, any components of education reform that will require funding would be made a part of that budget submission—especially those that call for setting aside portions of GRF revenues for exclusive use by primary and secondary education. How this effort will be consolidated or coordinated with the work of the State Board of Education, which has already been underway for more than a year, is anybody's guess, and how the legislature will respond to either set of recommendations remains to be seen. What is clear, however, from all past efforts at "education reform," is that the state will be asked to make an additional commitment of resources. This time, it is likely that school accountability will be required as the cost of increased state support, whatever form it takes.

From a purely budgetary standpoint, the big question is the source of any additional funding. The state's current budget is still "out of whack." The next budget promises to be even more difficult and the state has already made commitments for the use of new money that it will not have absent a significant tax increase. And tax increases seem to be the name of the game when it comes to "educational reform." As suggested in the April issue of *State Budgeting Matters*, a substantial state tax increase would be a very likely source of funding for all these new initiatives. So, to answer the question posed at the beginning of this article ("Can Ohio Afford Education Reform?"), the answer should be "Not without a tax increase."

19 *Ibid.*

Do You Have Questions about Ohio's Budget?

E-mail your questions to budget expert Richard Sheridan at
rsheridan@CommunitySolutions.com.
Answers to your questions could be the topic of future issues!