

A Tale of Two Fiscal Policies: Entrepreneurial and Entropic

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Introduction

Ohio's school finance history can be characterized as progressive. Early state funding for school libraries was apportioned from state property tax receipts and distributed to local schools on a per-pupil basis. When equalization funding was invented to help poorer school systems, Ohio adopted that model of funding. Later, when policymakers placed greater emphasis on teaching, Ohio distributed state funds based on teacher units. Throughout the 1990s, Ohio grappled with the elusive concept of adequacy of school funding. The new millennium ushered in an era of data collection, evaluation, and assessment.

While the aforementioned educational progressions were evolving, the economy was demonstrating its cyclical nature. Tax receipts increased during economic expansions, and tax receipts decreased during economic contractions. Optimism for school funding ensued during expansions, and demands for increased productivity were characterized during contractions. Although this pattern of optimism and demand for productivity has been difficult to empirically address, we can learn much about schooling by studying this tension in political economy.

Superintendents and other school administrators live with tensions in political economy. The voting public believes school funding is fixed when the economy expands and new state programs are introduced. Administrators are publicly criticized when, strained for resources, their schools cannot perform within the "do more with less" paradigm. This research begins to trace patterns of political economy in schooling. I emphasize the last economic recession along with funding for schools to describe challenges for school administrators. I also emphasize entrepreneurial movements in schooling to describe competition that public school administrators face. A jaundiced viewpoint asserts that public school funding suffers entropy while entrepreneurial school funding expands.

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Litigation Background

The most controversial and definitive Ohio school finance reform judicial decisions began and ended with *DeRolph v. State* (1997, 2003). Although relevant court decisions occurred before 1997, just as others will occur afterward, these two-of-five *DeRolph* decisions encompassed the spirit, intent, and outcomes of school finance reform litigation in Ohio.

The 1997 *DeRolph* decision declared Ohio's school funding system unconstitutional. Fundamentally, the Ohio constitution was interpreted to mandate a thorough and efficient system of common schools throughout the state. After elaborate presentations of evidence by both plaintiffs and defendants, in addition to diverse deliberations among Ohio Supreme Court justices, Ohio's school funding system failed; that is, the system was found to fail tests of being thorough and efficient. Underlying this judgmental test of thoroughness and efficiency, the following rationales were expressed:

- (1) A "thorough" system is not starved for funds.
- (2) An "efficient" system does not lack teachers, buildings, and equipment (*DeRolph v. State*, 1997, 741).

The 1997 *DeRolph* decision furthermore dictated that the state supreme court would retain jurisdiction over the case's final resolution. Ohio plaintiffs were supported by this dictation. In other states, when supreme court justices declared school funding systems unconstitutional, they did not retain oversight. Lack of judicial oversight was one explanation for why school finance reforms waned (Walter and Sweetland 2003).

Although three other *DeRolph* decisions followed the 1997 Ohio Supreme Court decision, the 2003 *DeRolph* decision stipulated that the high court no longer retained jurisdiction over the case's final resolution and outcomes (Maxwell and Sweetland 2004). For plaintiffs, the good news was that Ohio's school funding system was, as reiterated by the court, unconstitutional. The bad news was that, barring judicial oversight, perceived gains in winning an unconstitutional ruling could result in null financial outcomes.

Throughout the same period of time, entrepreneurial activities in education were supported. For example, a charter school program was authorized in 1997; that program's enrollment climbed to approximately 94,000 by 2010, more than 5% of statewide enrollment (Ohio Department of Education 2010a). The blatant irony was that entrepreneurial schooling was funded while traditional schooling was underfunded.

Recessionary Impact

Throughout litigated reforms, the economy was expressing typical ups and downs. Economic expansions made possible greater amounts of funding for schools. Economic contractions foreclosed additional funding and threatened already established school funding. The reality was that without substantial increases in state tax receipts, school finance reform would stall. Table 1 presents major tax receipts for the state of Ohio, 1997-2003.

As revealed in Table 1, the rate of change in tax collections was positive and substantial during the first four years of *DeRolph* decisions. The next three years, however, as the Ohio Supreme Court was attempting to finalize *DeRolph* proceedings, the overall rate of change in tax collections became stagnant. The state simply did not have additional money to put into the school funding system. This economic reality should have impacted entrepreneurial activities in

Table 1
Major Tax Receipts for the State of Ohio, 1997-2003

Type of Tax	Tax Receipts by Year (in millions of dollars)						
	1997	1998	1999	2000	2001	2002	2003
Income	6,018.5	6,946.2	7,173.8	8,084.6	8,119.3	8,157.1	8,256.5
Sales	5,223.0	5,535.1	5,827.4	6,214.0	6,237.1	6,435.0	6,701.4
Corporate	1,220.3	1,268.7	1,150.3	1,029.9	973.0	774.4	808.3
Utility	672.9	708.0	670.6	675.3	674.3	300.0	255.5
Total	13,134.7	14,458.0	14,822.1	16,003.8	16,003.7	15,666.5	16,021.7
Change (%)		10%	3%	8%	0%	-2%	2%

Source: Ohio Department of Taxation (2003).

education as well as traditional schooling. Nonetheless entrepreneurial activities expanded.

Meanwhile, Ohio law required that public school districts calculate and report five-year financial projections. The projections included total revenue and other financing sources, and total expenditure and other financing uses to illustrate the financial position of each district. The projections were used to forecast potential school district deficits and to guide the adjustment of spending patterns as well as the pursuit of additional revenues. The Ohio Department of Education analyzed five-year forecasts to determine whether a district was likely to encounter a deficit during a three-year period. Table 2 presents school district projected deficits, 2002-2004.

The growth in the number of school districts that were projected to incur deficits was alarming, with 2002 as the year when state tax collections were most impacted by recession. As revealed in Table 2, the percentage of school districts that were projected to incur deficit financial positions more than doubled in just two years. The magnitude of this doubling was immense as well, impacting more than one in four public school districts in Ohio. Given the historical pattern of state tax collections, it was more than likely that the affected districts' administrators would need to ask voters to approve additional school tax levies. Asking voters for more money was particularly daunting during a recessionary period. Also, the task

would be an uphill battle because many citizens had been led to believe that the school funding system was fixed.

The alternative to raising local tax revenues was for the 27% of Ohio's school districts that forecasted deficits to cut school programs and services. This action would have directly countered stepped-up academic requirements that coincided with the *DeRolph* litigation as well as the federal No Child Left Behind Act requirements. Academic gains would have been jeopardized, and new standards of achievement would have been doomed. Moreover, if pre-*DeRolph* patterns of educational investment continued to hold true, then the school districts that would have been forced to embark on educational program reductions would have been those districts most in need of their current, and perhaps expanded, educational programs.

It is interesting to note that throughout 1997 to 2004, state foundation funding increased; that is, the nominal foundation amount increased. Unfortunately, foundation funding in Ohio suffered technical flaws. The most infamous technical flaw involved the foundation program "charge-off." The charge-off was the amount of the foundation program that each school district was responsible for funding locally. Set at 23 mills of the local tax base, the charge-off facilitated fiscal equalization in that wealthier school districts ended up being responsible for greater proportions of their foundation funding. This arrangement appeared to be reasonable until valuation and taxation aspects of the local tax base were considered. For example, as property valuations increased statewide, the charge-off calculus at the state level captured 23 mills of the increase. In many instances, however, the local level of taxation did not capture additional revenue owing to the same increase in tax base. Property tax limitations prevented some local tax revenues from increasing automatically when tax base property valuations increased. Because the state calculus operated as though local revenues automatically rose, the technical effect was dubbed "phantom revenue." Many school district administrators complained that they could only capture this revenue by asking local voters to approve new school tax levies.

Phantom revenue and other technical flaws in Ohio's school funding system were associated with lever and pulley effects. Those effects occurred among the foundation program funding amount, the foundation program charge-off, and property tax limitation

Table 2
School District Projected Deficits, 2002-2004

Projected Deficits	Number of Districts by Year		
	2002	2003	2004
Deficit in Current Year	9	21	35
Deficit in Second Year	14	27	50
Deficit in Third Year	50	69	78
Total Deficit Forecast	73	117	163
Proportion of All Districts (%)	12%	19%	27%
Cumulative Change Rate (%)		60%	123%

Source: Ohio Department of Education, 2003.

Table 3
Hypothetical Illustration of Charge-Off Shift

	<i>Base Year per Pupil</i>	<i>Growth Rate</i>	<i>Next Year per Pupil</i>	<i>Change per Pupil</i>
Foundation Amount	\$5,000	3%	\$5,150	\$150
Charge-Off Millage	23		23	
Local Property Valuation	\$110,000	6%	\$116,600	\$6,600
Local Tax Burden	\$2,530		\$2,682	\$152
State Funding	\$2,470		\$2,682	-\$2

operands. Yet another systemic flaw involved charge-off shift. This technical flaw occurred when property valuations increased at a greater rate than foundation program funding. The net result was a shift in fiscal burden from state to local tax bases, owing specifically to the foundation program charge-off. Table 3 presents a hypothetical illustration of charge-off shift.

As revealed by Table 3, charge-off shift occurred when local property valuations increased by 6% while the foundation amount increased by 3%. When legislated increases in foundation funding were modest, the state inadvertently leveraged its commitment to school funding against the local property tax base. As illustrated by example, the local property valuation increase (\$6,600) was sufficient to generate the full foundation amount increase (\$150) as well as additional funds that actually replaced a very small amount of base year state funding (-\$2). Charge-off shift increased the local tax burden by \$152; that is, the full amount of the increase in state foundation program funding for the period as well as a portion of the state's historical commitment to school funding. School district administrators once again found themselves fighting an uphill battle.

In summary, traditional schooling was promised relief. That relief was symbolized by extensive litigation that resulted in a unconstitutional state supreme court ruling that the system of funding schools in Ohio failed to meet the thorough and efficient clause of the state constitution. The major problem was that the economy faltered and state coffers were stretched thin. Associated problems were technical flaws in the funding formula that were not fixed. School administrators suffered uncertainty and projected deficits.

Entrepreneurial Schooling

While funding for traditional schooling stalled, entrepreneurial schooling, i.e., schooling outside traditional public schools, expanded. Such alternatives in Ohio included vouchers, charter schools, Internet schools, and home schooling.

Vouchers

While adequate funding for traditional schooling was pursued, the economy turned downward, and the availability of funding diminished. One might have then expected entrepreneurial schooling to suffer funding reductions as well. The opposite outcome occurred. Even though there was not enough funding available for traditional schooling, entrepreneurial schooling expanded. Proponents of vouchers were early beneficiaries of the entrepreneurial schooling movement. Ohio's school voucher program, as well as its development, has been described by Sweetland (2000a; 2002b). The Ohio voucher program was established in 1995. This program was one of the contemporary, but early voucher "experiments," and was

initially limited to the city of Cleveland. By fiscal year 2000, total authorized enrollment in the voucher program was 4,000 schoolchildren. The cost to taxpayers was originally \$2,250 per pupil, but later the cost grew to \$3,450 (Ohio Department of Education 2010b). The measured cost to the public school district was zero. The voucher program was named "The Cleveland Scholarship and Tutoring Grant Program." By 2009, there were 5,388 students and 39 schools participating in the program (Ohio Department of Education 2009).

Since the advent of the Cleveland voucher program, other voucher programs were created across Ohio. Litigation ensued and, together with political persuasion, the expansion of Ohio vouchers was dampened temporarily. Eventually, however, a new voucher program was developed. The Educational Choice Scholarship Pilot Program was established for fiscal year 2007 to accommodate 14,000 schoolchildren. Under this voucher program arrangement, families from low performing schools statewide were permitted to apply for vouchers to attend private schools. Eighty-one public schools were impacted as of August 15th, 2007. The new voucher amounts were \$4,250 for grades K-8 and \$5,000 for grades 9-12 (Ohio Department of Education 2006a). As of October 2009, there were 11,722 students enrolled in the voucher program (Ohio Department of Education 2009). By 2011, the program was still limited to 14,000 students statewide, and the funding remained the same (Ohio Department of Education 2010c).

Charter Schools

Charter schools in Ohio were conceptualized as "community schools." Funding for community schools consisted of the foundation amount plus other adjustments that were awarded to the public school district of pupil residence. This funding flowed to the community schools. The Ohio Department of Education (2006b) described Ohio's community schools as public, nonsectarian units that operated independently from traditional public school districts.

Community schools were authorized in 1997, the same year that the *DeRolph* decision was rendered. Fiscal year 1999 marked the initial implementation of Ohio's community schools program. During that year, the program had 15 schools that served 2,245 children. Table 4 presents community schools and enrollment, 1999-2010.

Since inception, the number of community schools has grown to 323 and the number of children served by community schools to 94,269. Growth rates from 2001 through 2006 were phenomenal. The number of community schools grew at a rate exceeding 36%, or more than 42 schools per year. Community school enrollment was growing at an annualized rate that exceeded 43%, or more than 10,548 students per year. By 2010, growth in the number of

Table 4
Community Schools and Enrollment, 1999-2010

<i>Fiscal Year</i>	<i>Number of Community Schools</i>	<i>Growth (Number)</i>	<i>Growth (%)</i>	<i>Number of Children Served</i>	<i>Growth (Number)</i>	<i>Growth (%)</i>
1999	15					
2000	48	33	220%	9,032	6,787	302%
2001	68	20	42%	16,717	7,685	85%
2002	93	25	37%	23,628	6,911	41%
2003	133	40	43%	33,978	10,350	44%
2004	179	46	35%	46,938	12,960	38%
2005	266	87	49%	62,603	15,665	33%
2006	297	31	12%	72,318	9,715	16%
2007	313	16	5%	77,094	4,776	7%
2008	326	13	4%	82,868	5,774	7%
2009	332	6	2%	88,757	5,889	7%
2010	323	-9	-3%	94,269	5,512	6%

Sources: Jewell (2006); Ohio Alliance for Public Charter Schools (2011); Ohio Department of Education (2010a).

community schools slowed and actually became negative. The number of children served, however, continued to grow substantially.

Conclusion

While comprehensive public information about entrepreneurial schooling as well as data required for educated analysis were difficult to obtain, the pattern of policy administration was clear. Entrepreneurial, private-sector-centered activities such as voucher programs and charter schools expanded. At least in the case of charter schools, public funding that once went to traditional public schools was transferred directly to nontraditional, alternative schools. Meanwhile, growth in school funding resources for traditional public schools slowed substantially.

The old system was characterized by an inadequate school foundation program and dilapidated school facilities (Moyers 1996; Sweetland 2000b). Litigation promulgated remedies to increase foundation and facilities funding (Sweetland 2002a). Funding in both categories progressed substantially for roughly five years. Then, foundation funding stagnated in 2003-2004, and facilities funding slowed in 2005-2006. A new system emerged, cautiously maintaining traditional public schools while increasingly encouraging alternatives like vouchers and charter schools. A dual system of providing government sanctioned schooling was created.

On the surface, these changes seemed positive and progressive. Traditional schooling received the benefit of examination and improvement. The system of funding public schools officially adopted a methodology of adequacy that would eventually lead to resources for adequate student achievement. Entrepreneurial schooling was allowed, and its existence promised to provide new insights about education, organization, and achievement. The duality of the system made sense. The dual system did however espouse a major shortcoming: Lack of funding.

School district administrators were led to believe that their schools would receive more funding. That funding was provided for a while but then diminished. Entrepreneurial schooling may not have initially taken money away from school districts. Inevitably, though, entrepreneurial schooling would compete with traditional schooling for funding through the state budgeting process. Perhaps most overlooked were indirect costs to public school districts, e.g., costs associated with school administrators having to explain publicly what entrepreneurial schooling was available in the community. Moreover, there were direct costs associated with school districts having to compete with entrepreneurial schooling. In order to compete effectively, should school districts reallocate public funds to pay for marketing departments, salespeople, and advertising?

The unmeasured costs of entrepreneurial schooling that burdened traditional schooling were considerable. Many school districts also incurred direct costs such as transfer payments when children enrolled in entrepreneurial programs. By and large, these costs were not recognized, let alone reimbursed. School districts already faced an uphill battle to fight for funding new regulations and standards. Entrepreneurial schooling created an additional financial burden quite possibly canceling out the gains that were made toward achieving adequacy.

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