

## The True Cost of Schools Study

The preferred metric of primary and secondary education costs in Ohio at the District level is the Interactive Local Report Card from the Ohio Department of Education's (ODE) website. The compilation allows researchers, like the Council, to compare data without a fear of "apples-to-oranges" conflicts. It also allows analysis on numerous levels (by district, by building, by similar districts, etc.). This data is commonly used in the media to report primary and secondary education spending in Ohio.

However, these figures significantly understate the full cost to taxpayers for sustaining Ohio's primary and secondary education system. This happens because large expenses borne by taxpayers in connection with their schools are not included in these numbers.

These expenses range from easy-to-determine costs like state and local debt service to pay for buildings, to harder-to-figure, but nevertheless real, costs associated with such factors as teacher pension liability and the cost of deferred maintenance, an historical problem in many of the state's 613 school districts.

This study by the Council seeks to create a more accurate picture of the full impact of schools on taxpayers, on the conviction that accurate information is a necessary input to sound decision-making.

To keep the scope of the study manageable, figures were calculated only for the eight major urban school districts, which are among the highest-spending districts in the state. The formulas used, however, can readily be applied by interested parties to any of our school districts.

Ohio's eight largest urban school districts, responsible for educating almost 13 percent of Ohio's kindergarten through 12th grade students, report a total budget of \$2.76 billion.

The actual cost of educating these students, however, is appreciably higher than the stated totals when additional costs are added. Obligations beyond direct instructional costs add an additional

\$346 million a year in expenses for these eight districts...almost \$1.6 billion in additional expenses over a five-year period. For all 613 districts in Ohio the total additional expense is \$1.34 billion yearly.

The Council's goal was to more accurately determine the true cost of educating students in Ohio, much as a manufacturing firm would strive to determine the "true cost" of producing a finished product.

**The Council is well aware of two facts concerning this study.**

- Even with Council efforts, not all potential expenses have been captured, although the picture painted by this report is far more complete than the one usually seen by taxpayers.
- Because it is sometimes difficult to exactly allocate – and in some cases, anticipate – statewide costs and potential liabilities, there is room for limited debate about some of the numbers utilized in determining the true cost.

Also, while the study concentrates on urban districts, similar costs exist in all districts, although not necessarily in direct relation to district size.

**What are these additional expenses that often are overlooked when putting a price tag on education?**

They range from the costs to retire debt to the cost of remedial education, from delayed building maintenance and equipment replacement to potential teacher pension liabilities.

## Local Debt Service

Take, for example, local debt service. When local voters approve school district capital improvement levies to finance new buildings, major renovations to existing buildings, computers and other long term investments lasting more than five years, there is an annual cash outlay of district funds to pay principle and interest for district approved projects.

If a district has agreed to collect construction dollars from the Ohio School Facilities Commission, the debt service for the local contribution would be recorded there.

For the eight largest districts this represents as additional \$129.6 million annually in expenses, all paid by taxpayers.

## State Debt Service

The state, similarly, issues debt to assist with school construction and other capital expenditures. It incurs annual principal and interest payments to finance this, particularly in this era of accelerated school replacement.

By allocating the state's debt service appropriately among school districts, the Council determined that debt service attributable to the eight urban districts is an additional \$95 million annually.

## Teacher Pension Obligations

The next largest expense, some \$41 million, stems from a projected \$250 million statewide annual unfunded liability to the State Teachers Retirement System (STRS). Estimates have placed the pension funds total unfunded liability for health care costs as high as \$9.78 billion and legislators are presently studying the problem.

Pending legislation would increase a district's contribution by up to 2.5 percent of payroll and, according to the Ohio School Boards Association, would produce an additional \$250 million a year in Ohio school district contributions. This is in addition to an increase to teacher contributions of up to 2.5 percent. Assigning a portion of the \$250 million to the eight urban districts, based on the districts' operating budgets adds \$41 million.

While the cost will not be finally determined until legislation is passed, it represents the best estimate of actuaries for STRS of the amount of money needed annually to restore actuarial soundness to the health care portion of STRS and permit it to meet its obligations. Some will argue that the amount ultimately passed may be less and the Council would agree that when legislation is

approved, the actual amount should be used to make this calculation.

## Expense of Various State Departments and Programs

Next, the Council allocated the expense of running the Ohio Department of Education (\$21.6 million in Fiscal Year 2008) and the Ohio School Facilities Commission, which is overseeing the accelerated school construction/renovation program (\$7.7 million in 2008).

We also added the costs of a number of programs administered by the Ohio Board of Regents which assists local districts. These include programs like College Readiness and Access, Improving Tech Quality Grant, the Science Education Network, The Ohio Mathematics and Science Coalition and others with a total price tag of \$25.4 million. The share of these expenses paid by the eight urban school districts is \$8.9 million.

## Sick Leave and Personal Time

The combination of sick leave and personal time benefits also adds significantly to the total, some \$42 million. This amount represents sick days and personal days that are earned but not taken by employees and which, therefore, accrue as a liability to the district.

For illustrative purposes a look at the Columbus Public School system shows 8,284 (2004-05 school year, per the Ohio Department of Education) employees. If we apply the statewide average salary of \$48,360 and the statistic that the average employee does not use 10 sick days each year, the liability for the unused sick days carries forward and is not recorded as an expense for the current school year. If the future liability is paid out at 25 percent, the obligation for Columbus is in excess of \$2.5 million for each year.

The actual payout ratio (the percentage of unpaid sick leave and personal days actually reimbursed when an employee retires) varies from district to district. Similarly, personal days not taken and "banked" by teachers and staff may add a liability that is carried forward.

## Remediation

The next expense is one not incurred specifically by the school district but is paid by Ohio taxpayers. That is the cost of remedial education. The K-12 system in Ohio is tasked with preparing graduates either for work or for higher education. Yet, the reali-

ty is that large numbers of students entering Ohio's two and four-year colleges and universities require additional high school work to prepare them for the rigors of college courses.

Ohio spends \$102 million a year for remedial education. Not all remedial needs should be assigned to local school districts. Some of those needs occur because some Ohioans delay their entrance into college, necessitating a "repolishing" of skills. For that reason the Council assigned only a portion of the price of remedial education to the total – some \$15.7 million for the largest districts. It should be noted that this expense amounts to paying twice for the same work, something most employers would balk at doing.

If students acquired the needed skills in high school, or were held there until they did, it's fair to assume these costs would reflect on the operating budgets of the school districts.

### Facilities and Equipment Maintenance

Another exposure districts face, mainly because of tight budgets, is created by delayed facilities maintenance and equipment replacement. Delayed building maintenance is only that...delayed. It either is addressed in future budgets or the facility suffers depreciation. Either way a cost is incurred.

Similarly, a delay in the purchase of needed equipment (in this report we looked specifically at school buses, while acknowledging that Cincinnati schools contract with a supplier for bus transportation) must be addressed...either in eventual replacement (at a higher price) or in the aforementioned higher maintenance costs.

The Council estimates that, together, these delayed expenses represent \$13 million per year for the eight largest urban districts in Ohio.

The impact of these added costs can perhaps best be seen in a chart showing the additive effect of each of the commonly unreported expenses (*see Big 8 Urban 2006-2007 chart on insert page*).

**How much do these additional expenses represent to each of the eight largest school districts?** The Council estimates it ranges from \$4.1 million annually in Youngstown to \$116.8 million in Cleveland. In between are Canton (\$11.9 million), Akron (\$24.3 million), Dayton (\$27.5 million), Cincinnati (\$30.6), Toledo (\$56.3 million) and Columbus (\$74.6 million). The average for all eight districts is \$43.3 million.

Details of the Council's computations can be seen in the tables on the insert page (*see One Year, Five Year and Statewide Estimate tables on insert page*).

The column identified as "Instruction" is the gen-

erally reported budget for each district.

What is important to note about these numbers is that 46.3 percent of the variance between instruction-based costs and the total that includes these additional expenses is represented by the cost of state and local debt. As noted, given the aggressive building replacement program that has been under way for several years in Ohio, this is understandable.

An additional 18.7 percent is attributable to the uncertainty of the health care portion of STRS. Whether or not this number is valid is certainly open to debate, but the Council believes it is important to account for this liability.

Aside from those two entries, the sick leave/personal days liability, the remedial education costs and the state-incurred administrative and program expenses round out the bulk of the balance.

The Council considered other potential sources of costs but elected not to include them because of the difficulty of calculation. These included:

- The U.S. Department of Education houses and supports organizations that provide research, evaluation and statistics, including but not limited to, the analysis of education policy and programs, research of special education and research on career and technical education information.
- The assumed cost of volunteers, including reading volunteers from state agencies and private businesses. These individuals commit time to help students improve reading and other skills. A case could also be made to reflect a cost for PTO/PTA volunteers, volunteer coaches, experts on committees, etc.
- A recognition of the efforts to collect local property taxes, student/parent time in school related activities, and the time and effort of the Executive, Legislative and Judicial branches dealing with K-12 budget and non-budget issues.
- School fees, while not a tax impact, nevertheless are a cost to the parents of a district, and a cost of our public education system.

### Conclusion

School costs, especially in the eight major urban school systems in Ohio are escalating rapidly, with per pupil expenditures for instruction now averaging \$9,587 a year. What this study shows is that even this number understates the full impact on taxpayers. When costs not considered for purposes of the state per pupil expenditure data are included, the

impact on taxpayers is an additional \$1.339 billion per year. For the eight urban districts the per pupil instructional costs average \$12,153, but an additional \$346 million must be added to reflect the entire cost of providing educational services in these districts.

Nationally, there is a great deal of action and innovation aimed at breaking cycles of inadequate student performance in large urban districts.

The Council believes Ohioans must be equipped with the facts about school spending in order to evaluate the following:

- The costs vis-a-vis other government needs.
- The results. Is performance of these districts increasing in parallel with increased spending, and if not, why?
- The potential need for a new paradigm in

school funding, driven by concerns the Ohio economy simply cannot support increasing school funding, together with other entitlement spending like Medicaid, at the current pace.

- The appropriate response to local levy requests, like those being considered this year in several of the eight school districts which are the subject of this study.

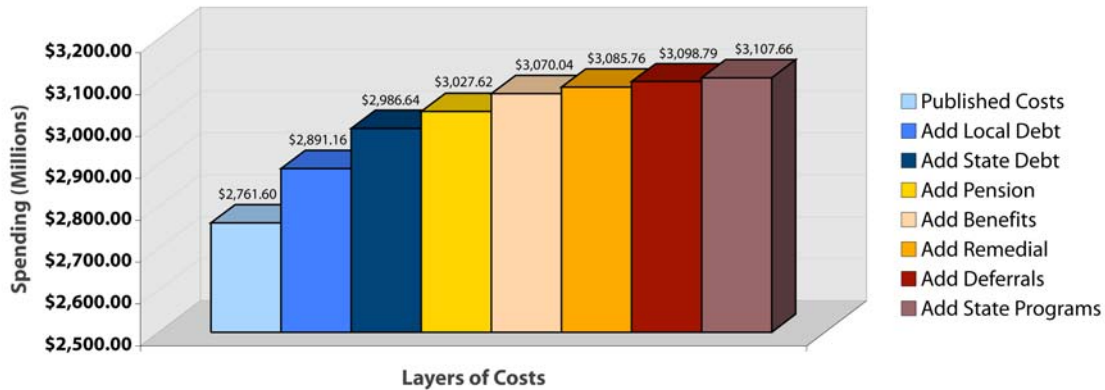
A recent Council study demonstrated graphically the difficulties ahead for the state budget as "boomers" begin to retire. As is evident from the Council's Ohio Medicaid report, issued in July, time is running out for serious consideration of changes needed in our historic methods of operation of state government, if solutions are to be found and implemented before we confront major budget crises.

## School Report Data Methodology

The majority of raw data was extracted from state web sites. The Ohio Department of Education's (ODE's) Educational Management Information System (EMIS) collects cash-based, annual cost data from school districts and this system provided the published instruction-based district spending metrics, Building Operations Expenditures and local debt service payments.

- Published costs are for school operations and are categorized by administration, building operations, staff support, pupil support and instruction. The Ohio Board of Regents' web site provided raw data for remedial education estimate.
- Other state web sites provided raw data for state programs and administrative costs that exist for K-12 activities, state debt service payments and bus purchase totals.
- State debt service was allocated based on the percentage of a district's disbursement relative to total disbursements for Fiscal Year 2007.
- Sick leave and personal time benefits were calculated using ODE staffing levels and salary data for the latest years available.
- The allocation of Remedial education costs are based on a district's percentage of graduates who attend Ohio colleges and universities of the total graduates statewide. All of the \$32 million for recent graduates and two-thirds of the non-recent-graduate dollars were included in our estimate.
- Statewide program and administrative costs were allocated based on the district's budget as a percentage of a statewide estimate for all budgets.
- The proposed STRS contribution rate increase is allocated to a district based on the district's budget as a percentage of a statewide estimate for all budgets.
- Bus purchase costs were based on media reports for Columbus schools and an assumption that other Big Eight districts and non-Big Eight districts will need to replace five percent of their existing fleet that may have excessive mileage and/or number of years.
- Deferred Building Operations Expenditures for Big Eight districts was compared to the statewide average for each fiscal year. Dollars were either added or subtracted to the published spending metrics, depending on whether the district spends more or less than the state average.

## Big Eight Urban Schools | 2006 – 2007



### One Year | Fiscal Year 2007

|                   | Instruction       | Local Debt      | State Debt     | Sick Leave     | Personal Time  | Remedial Time  | State Programs | STRS           | Buses         | Deferred Maint | TRUE COST         |
|-------------------|-------------------|-----------------|----------------|----------------|----------------|----------------|----------------|----------------|---------------|----------------|-------------------|
| <b>Akron</b>      | \$268.40          | \$0.01          | \$11.50        | \$1.77         | \$5.25         | \$0.80         | \$0.86         | \$3.98         | \$0.08        | \$0.00         | \$292.65          |
| <b>Canton</b>     | \$109.30          | \$4.68          | \$0.28         | \$0.45         | \$1.11         | \$0.73         | \$0.35         | \$1.60         | \$0.07        | \$2.63         | \$121.20          |
| <b>Cincinnati</b> | \$424.10          | \$0.00          | \$7.70         | \$1.70         | \$4.40         | \$2.77         | \$1.36         | \$6.30         | \$0.00        | \$6.36         | \$454.69          |
| <b>Cleveland</b>  | \$635.60          | \$67.34         | \$12.30        | \$2.63         | \$7.20         | \$3.53         | \$2.04         | \$9.40         | \$0.28        | \$12.07        | \$752.39          |
| <b>Columbus</b>   | \$679.00          | \$26.95         | \$17.20        | \$2.57         | \$6.75         | \$3.75         | \$2.18         | \$10.10        | \$6.45        | -\$1.36        | \$753.59          |
| <b>Dayton</b>     | \$214.10          | \$17.12         | \$14.30        | \$0.75         | \$1.92         | \$1.15         | \$0.69         | \$3.20         | \$0.21        | -\$11.80       | \$241.64          |
| <b>Toledo</b>     | \$316.80          | \$10.57         | \$30.10        | \$1.26         | \$3.00         | \$2.29         | \$1.02         | \$4.70         | \$0.15        | \$3.17         | \$373.06          |
| <b>Youngstown</b> | \$114.30          | \$2.89          | \$2.10         | \$0.47         | \$1.19         | \$0.70         | \$0.37         | \$1.70         | \$0.09        | -\$5.37        | \$118.44          |
|                   | <b>\$2,761.60</b> | <b>\$129.56</b> | <b>\$95.48</b> | <b>\$11.60</b> | <b>\$30.82</b> | <b>\$15.72</b> | <b>\$8.87</b>  | <b>\$40.98</b> | <b>\$7.33</b> | <b>\$5.70</b>  | <b>\$3,107.66</b> |

### Five Year | Fiscal Year 2003 – 2007

|                   | Instruction        | Local Debt      | State Debt      | Sick Leave     | Personal Time   | Remedial Time  | State Programs | STRS           | Buses         | Deferred Maint | TRUE COST          |
|-------------------|--------------------|-----------------|-----------------|----------------|-----------------|----------------|----------------|----------------|---------------|----------------|--------------------|
| <b>Akron</b>      | \$1,405.90         | \$2.23          | \$17.11         | \$8.85         | \$26.25         | \$4.00         | \$4.30         | \$3.98         | \$0.08        | \$22.15        | \$1,494.85         |
| <b>Canton</b>     | \$550.30           | \$20.48         | \$21.78         | \$2.25         | \$5.55          | \$3.65         | \$1.75         | \$1.60         | \$0.07        | \$16.17        | \$623.60           |
| <b>Cincinnati</b> | \$2,173.20         | \$112.58        | \$24.52         | \$8.50         | \$22.00         | \$13.85        | \$6.80         | \$6.30         | \$0.00        | \$33.78        | \$2,401.53         |
| <b>Cleveland</b>  | \$3,443.60         | \$261.74        | \$61.70         | \$13.15        | \$36.00         | \$17.65        | \$10.20        | \$9.40         | \$0.28        | \$28.82        | \$3,882.54         |
| <b>Columbus</b>   | \$3,347.30         | \$193.20        | \$31.45         | \$12.85        | \$33.75         | \$18.75        | \$10.90        | \$10.10        | \$6.45        | \$16.73        | \$3,681.48         |
| <b>Dayton</b>     | \$1,063.00         | \$164.71        | \$34.00         | \$3.75         | \$9.60          | \$5.75         | \$3.45         | \$3.20         | \$0.21        | -\$53.76       | \$1,233.91         |
| <b>Toledo</b>     | \$1,661.20         | \$53.02         | \$76.18         | \$6.30         | \$15.00         | \$11.45        | \$5.10         | \$4.70         | \$0.15        | \$23.74        | \$1,856.84         |
| <b>Youngstown</b> | \$548.90           | \$13.83         | \$37.10         | \$4.07         | \$5.95          | \$3.50         | \$1.85         | \$1.70         | \$0.09        | -\$16.80       | \$600.19           |
|                   | <b>\$14,193.40</b> | <b>\$821.79</b> | <b>\$303.84</b> | <b>\$59.72</b> | <b>\$154.10</b> | <b>\$78.60</b> | <b>\$44.35</b> | <b>\$40.98</b> | <b>\$7.33</b> | <b>\$70.83</b> | <b>\$15,774.94</b> |

### Statewide Estimate | Fiscal Year 2007

|                                  |                   |
|----------------------------------|-------------------|
| <b>Instruction-based</b>         | <b>\$16,830.0</b> |
| <b>Add debt service-local</b>    | <b>\$357.0</b>    |
| <b>Add debt service-state</b>    | <b>\$262.9</b>    |
| <b>Add Sick Leave Benefit</b>    | <b>\$73.2</b>     |
| <b>Add Personal Time Benefit</b> | <b>\$185.2</b>    |
| <b>Add STRS Pension</b>          | <b>\$250.0</b>    |
| <b>Add Remedial</b>              | <b>\$102.0</b>    |
| <b>Add Support Programs</b>      | <b>\$54.0</b>     |
| <b>Add Bus Purchase</b>          | <b>\$19.5</b>     |
| <b>Add Deferred Maintenance</b>  | <b>\$35.0</b>     |
| <b>Statewide Total</b>           | <b>\$18,168.8</b> |
| <b>Difference</b>                | <b>\$1,338.8</b>  |