

INNOVATION OHIO

A NEW KIND OF POLICY THINK TANK.

To: Timothy J. DeGeeter, Mayor of Parma
 Michael P. Byrne, Mayor of Parma Heights
 Richard P. Dell'Aquila, Mayor of Seven Hills

From: Stephen Dyer, Innovation Ohio Education Policy Fellow

Date: 10/4/2016

Re: Solutions and Analysis of Parma City Schools' Financial Status

Memorandum

In response to the dire fiscal situation at Parma City Schools, I have drafted this memo to inform the district's mayors of what problems state data indicate may be causing the fiscal issues at PCS, while helping identify paths forward that could fix those issues.

Background

The most straight forward approach to fixing the fiscal issues at PCS is to identify areas of the PCS budget that appear to have excess expenditures. Generally, if one has to reduce a budget, the areas with the most potential to cut should be targeted, not areas where there is less to cut. And in school district budgets, the areas least affecting children's learning should be prioritized for those cuts. The Ohio Department of Education puts out a District Profile Report every year that includes many pieces of data, including how much each district spends in different expenditure categories, as well as how that spending compares with districts that are similar to them. What this report indicates is there are significant differences between what PCS spends per pupil and what districts similar to PCS spend per pupil. According to ODE's 2015 District Profile Report, in some expenditure categories, PCS is spending between 25 percent and 67 percent more.

District	District Total Average Daily Membership FY15	District Administrative Expenditure Per Pupil FY15	District Building Operation Expenditure Per Pupil FY15	District Instructional Expenditure Per Pupil FY15	District Pupil Support Expenditure Per Pupil FY15	District Staff Support Expenditure Per Pupil FY15	District Total Expenditure Per Pupil FY15
Parma City SD	12,263.96	1,661.38	1,814.29	7,941.83	1,127.18	500.61	13,045.30
Parma SIMILAR DISTRICTS	8,422.56	1,256.18	1,823.23	6,342.54	679.64	395.09	10,496.69

Table 1 Ohio Department of Education District Profile Report 2015

PCS spends 33 percent more on administration than similar districts. They spend almost two-thirds more on pupil supports (described by ODE as "a range of activities such as student counseling, psychological services, health services, social work services etc."), and 26 percent more on staff supports (described by ODE as "in-service programs, instructional improvement services, meetings, payments for additional trainings and courses to improve staff effectiveness and productivity"). The only area they spend less than similar districts is on building operations (described by ODE as "covers all items of expenditure relating to the operation of the school buildings and the central offices. These include the costs of utilities and the maintenance and the upkeep of physical buildings"), which is what they're trying to save with the consolidation of two high schools. So it looks like they're cutting from the leanest meat, relatively speaking, and leaving the fattiest on the bone. Overall, they spend about \$2,000 more per pupil from all sources than similar districts.

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The problem is especially acute in the administrative spending because it is least directly affecting student learning. Here is a list of all the administrative job titles the Ohio Department of Education has collected for PCS and how much each of those titles make. As can be seen, there are several administrator categories that make more than \$100,000. And of the 112 Education Administration Specialists in Ohio's city school districts, Parma has 4. That's a significant percentage given Parma's size.

Position/Title	FTE	Average Salary
Assistant Principal	15	\$92,514
Principal	14	\$105,930
Superintendent	2	\$142,540
Supervisor/Manager	13.6	\$78,875
Treasurer	1	\$115,000
Coordinator	1.8	\$65,622
Education Administrative Specialist	4	\$115,032
Director	8	\$109,273
Other Official/Administrative	1	\$104,835
Administrative Total	60.4	\$97,695

Table 2 Ohio Department of Education Average Salary of All Personnel 2015-2016

In addition to these expenditure issues, PCS has other challenges.

The state gives PCS significantly less per pupil than similar districts. Only 66 districts have smaller per pupil formula funding, which means that the formula woefully underpays for their kids. They only get back 32 cents for every dollar in income tax Parma residents send to Columbus -- a far smaller percentage than other similar districts. There are only 93 districts that have smaller rates. If the state provided the same formula funding as similar districts to PCS, PCS would receive about \$14 million more, essentially making up the district's budget shortfall

District	District Formula Funding Per Pupil FY15	District Formula Funding As % Of Income Tax Liability FY15
Parma City SD	1,520.66	0.32
Parma SIMILAR DISTRICTS	2,652.09	0.57

Table 3 Ohio Department of Education District Profile Report 2015

PCS loses more money to Ohio's largely failing charter school sector than all but 9 districts. At \$10.8 million, the loss is significant and a serious factor contributing to the district's fiscal problems. To its credit, the district has invoiced the state (along with at least 60 other districts) for its lost charter school revenue. However, it is unlikely to receive a response from the state.

Finally, in 2009, there were significant sums of property taxes listed as delinquent. While the Ohio Department of Taxation has not updated the list since then, it is likely that significant sums of delinquent tax dollars remain in the three PCS cities.

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Cities	County	Personal Property	Real Property	Special Assessments	Total
Parma	Cuyahoga	\$ 2,287,558	\$ 6,901,094	\$ 316,875	\$ 9,505,527
Parma Heights	Cuyahoga	\$ 70,804	\$ 2,483,328	\$ 545,876	\$ 3,100,008
Seven Hills	Cuyahoga	\$ 9,599	\$ 911,107	\$ 24,831	\$ 945,537
PCS Total		\$ 2,367,961	\$ 10,295,528	\$ 887,583	\$ 13,551,072

Table 4 Delinquent Property Taxes in PCS Cities, 2009 Ohio Department of Taxation TD2

Paths to Health

What the state data indicate is that if Parma would spend per pupil on administration what similar districts to Parma spent, they would save \$4,969,357¹. If they spend on staff support what similar districts spent, they would save \$1,294,093. If they dropped pupil support costs by 35%, they would save \$4,905,584, but would still spend 7% more on pupil support than similar districts. Then if they cut instructional spending by \$400 -- about 5%, they would save another \$4,905,584, while still spending 19% more on instruction than similar districts. That means they would save \$16,074,618 a year, which would make up the expected shortfalls. The smallest relative cut in this scenario would be in the budget area most directly affecting student learning.

Do not read this as anything other than a generalized reduction in these spending categories. This is not a specific recommendation to eliminate any particular item within those broad categories.

In addition, those categorical cuts could be lessened if some of the \$13.5 million in delinquent tax collections could be collected, or if \$2 million in online charter losses disappear because the ECOT case makes the current cSchool environment impossible to maintain.

The cuts could also be eased if the state decides to suddenly provide more formula funding to PCS. If the state provided the same per pupil formula funding to PCS as it does to districts like PCS, it could make up for just about the entire shortfall.

There may not be a need for the 5% instructional cut if the district is willing to dip more into pupil services or other non-instructional expenditures.

As for the effort to consolidate the high schools, the data on large schools is not good for student achievement. Generally, larger high schools hurt kids and their achievement. This study sums up the issues in a nutshell: <https://www.edb.utexas.edu/hsns/HSNSbrief1.pdf>

From that report, here are the sections that most succinctly discuss the harm increasing school sizes have on students.

"Studies have shown that small schools affect student achievement in positive ways. Fowler and Walberg (1991) summarized findings of studies conducted between the 1960s and 1980s. These studies showed the following:

¹ Calculated by taking the difference between what PCS spends and what similar districts spend, then multiplying the difference by the Average Daily Membership in PCS. This is how all the savings estimates were calculated.

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1. There is a negative relationship between achievement tests (math and verbal ability tests) and school size.
2. Increase in size of school is detrimental to test scores.
3. Smaller schools increased learning at elementary and senior levels. African-American elementary students seem particularly to benefit from being in smaller schools, and low achievers benefit from being in smaller senior high schools.
4. School size is negatively related to third-grade reading and mathematics achievement when controlling for student socioeconomic status.
5. As school districts increased either the number of schools in the district or the size of the school, supervisory services were being financed at the expense of students' instructional services.

Recent studies have corroborated the aforementioned findings. In their 1997 study, Lee and Smith found that schools in the 600–900 enrollment range have the highest achievement gains in both low and high socioeconomic schools and that school size appears to matter more in schools that enroll less-advantaged students. The TEA's report on school size also cited recent studies that showed greater gains on the SAT and ACT in states with smaller schools as well as the disruption of negative effects of socioeconomic status on achievement.

Further, as can be inferred from the findings related to poverty and achievement in small schools, learning is more equitably distributed in smaller learning environments.

The findings of the Matthew Project (Howley et al., 2000), a series of replicated studies, showed that although academic "excellence" results varied by state, overall, the influence of school size varied by socioeconomic level.

A negative influence on achievement in impoverished schools and a positive influence in affluent schools were found. In their analysis of Texas schools, this finding translated into 57% of schools being too big to maximize achievement at the 10th grade level. The Matthew Project also looked at academic equity effects and determined that these effects were highly consistent across states and that the relationship between achievement and socioeconomic status was far weaker in smaller schools than in large schools. They found that in Georgia, Ohio, and Texas, smaller schools reduced the negative effect of poverty on average student achievement in every grade tested."

Finally, it is important to understand that all of these cuts could be offset by a new property tax levy. According to state data, Parma raises \$2,021,469 for every district mill raised. If Parma went for a 4-mill levy (costing the owner of a \$100,000 home roughly \$144 annually), it could reduce the need for any of these cuts by about a half. And if the district went for a 6-mill levy (costing a \$100,000 home about \$210 annually), they would raise enough to essentially do nothing but reduce administrative costs to the average of similar districts to Parma, leaving intact all student and staff supports, as well as all instructional costs.

If you have any further questions, please don't hesitate to contact me.