

## Appendix C: Operating Revenue

In FY 2018, the ESC network had approximately \$1.5 billion in reported revenue, nearly \$900 million of which was considered *operating revenue* for purposes of this operational study. The remaining revenue was reported in agency and internal funds which were excluded from our analyses.

Agency funds reflect assets held by an ESC in a purely custodial capacity. The Employee Benefits Agency Fund is an agency fund which accounts for monies received from school districts forming an insurance "pool" for employee benefits.<sup>1</sup> Internal service funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies within an ESC, or to other governments on a cost-reimbursement basis. The use of an internal service fund may be applied to situations where the ESC acts as fiscal agent for a multi-district program.

To provide an accurate picture of the revenue available for operations, agency and internal service funds were excluded from operating revenue within this study. While activities such as providing health insurance consortiums and acting as a fiscal agent are ESC services (and the administrative fee for providing these services are included in the General Fund) the actual money held within these two funds do not reflect operations but rather are simply held on the books of the ESC. For this reason, they were excluded.

The sources for the nearly \$900 million in operating revenue used within this study were broken out in order to better analyze operations and gain understanding of the monies received through direct funding and those generated by charging for services provided. This breakout of operating revenue allowed us to identify the appropriate revenue amount to use when evaluating areas including revenue generation and the uses of the direct public funding (see **Section 2**).

Operating revenue consists of three main sources: direct public funding, indirect public funding, and other revenue.

- **Direct Public Funding** – includes local per-pupil and state funding. Local per-pupil funding totaled \$9.9 million and is paid to the ESCs by each respective member school district through a deduction of its foundation payment. State funding totaled \$44.4 million which includes \$40.0 million of per-pupil funding, \$3.8 million of gifted education funding, and \$668,000 in special education transportation funding.
- **Indirect Public Funding** – includes the revenues received from other public agencies. The largest component of this revenue stream is the revenue received from local sources (primarily school districts) for services provided by ESCs. This includes the additional transfers from school district foundation payments that are sent to the ESC by ODE for

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<sup>1</sup> The Employee Benefits Agency Fund made up 95.4 percent of the agency fund total for the ESC network in FY 2018.

specified services at the request of the school district. Also included are unrestricted and restricted grants-in-aid from the state and federal government.

- **Other Revenues** – includes revenues received from sources not generated from tax revenue from other agencies. These sources include, but are not limited to, earnings on investments, contributions and donations from private sources, and tuition paid directly from patrons for services.

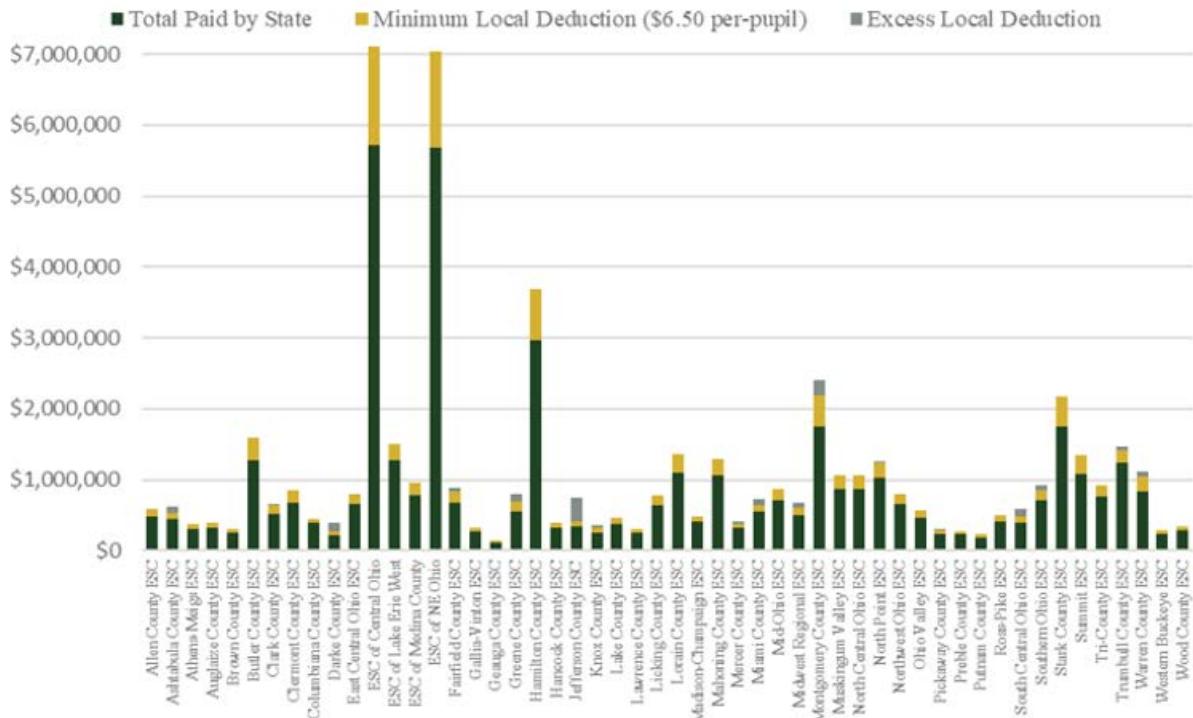
The information below provides greater detail around the local per pupil component of the direct public funding and provides explanation into what is included for the purposes of our study.

ORC § 3313.843(H) provides that pursuant to provisions in ORC § 3317.023, ODE shall annually deduct from each member district's foundation payment, a per-pupil amount of \$6.50 or an alternative amount in excess of \$6.50 if agreed upon by both the ESC and its member school districts to be paid to the ESC. This per-pupil amount is multiplied by the student count of the client district as reported on the latest ODE Report Card. The local per-pupil total amount of \$9.9 million included in the direct public funding within our analysis was calculated by multiplying each ESC's member district population by the minimum per-pupil subsidy of \$6.50. While the law gives school districts the ability to provide additional funding to their aligned ESC through foundation deduction, the excess amount is not required under law.

When an ESC and school district agree to increase the per-pupil funding from \$6.50 to an excess amount, the agreement as to what the additional funding is for is at the discretion of the ESC and respective school district(s). Our analysis intends to reflect the direct funding specifically outlined in law provided for basic operations. Therefore, any excess amounts were not included for those ESCs who have agreements to collect more than the minimum per-pupil subsidy. Including those amounts, without the transparency into the agreements between the ESC and school district in regard to what is being provided for the excess deduction, would restrict us from having a true baseline for comparisons related to the required local subsidy currently in law.

Further analysis was conducted to determine the number of ESCs collecting greater than the minimum local per-pupil subsidy (see **Direct Funding Model** within **Section 2**). The following graphic provides a breakout of the direct public funding components and includes a depiction of those ESCs collecting excess foundation payments from member school districts. Those ESCs collecting excess foundation payments from member school districts are also noted in the respective ESC Profile.

## Direct Public Funding by ESC



Source: ODE and AOS