

Facts & Figures

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Education Tax
Policy Institute
2010
Membership
Form 11

Ohio's Resource for Reliable Data & Analysis



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ETPI Membership — what does it mean to your school district?

Every year we kick off the ETPI membership drive with a complimentary copy of our quarterly newsletter sent to all school districts in the state, regardless of whether or not they are members of the organization. We think the Education Tax Policy Institute (ETPI) is such an integral and important part of the

education community that membership deserves consideration by all school districts. ETPI proved especially valuable in 2009 and we hope you take a serious look at renewing your membership or joining for the first time.

In the days when ETPI was first

established, Utility Tangible Personal Property Taxes were a big issue with Utility Deregulation. In fact, this research arm of the education community was formed to help protect school districts and local governments when those taxes were being lowered. If it had not been for the hard work

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The ETPI Website — new and improved!

ETPI is proud to announce that our website has been updated to provide members the most up to date information on the work of ETPI and other pertinent state government information. The domain name will remain the same at: www.etpi-ohio.org

It had been many years since the website was updated and it was in need of a major overhaul. The new site was created keeping in mind our

mission as Ohio’s resource for reliable data and analysis, as well as our members’ need for

accurate and timely information. It allows visitors

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The screenshot shows the ETPI website homepage. At the top, the ETPI logo is displayed with the tagline "Ohio's Resource for Reliable Data & Analysis". Below the logo is a navigation menu with links for Home, What is ETPI, Research & Reports, Publications, Newsroom, How to Join, and Additional Resources. A main article titled "Electric Deregulation: ETPI's First Major Challenge" is featured, with a sub-headline "The emergence of electric utility deregulation as a public policy issue threatened to drive thousands toward its property tax payers for schools and local governments. To meet this challenge ETPI..." and a list of bullet points including "Accumulated data about the impact of electric utility property tax reductions" and "Assisted in the development of constructive revenue replacement procedures". On the right side, there are sections for "DOWNLOADS" with a link to "ETPI Brochure", "ETPI OFFICERS" listing Barbara Shanic, President; Tom Ish, Vice President; Michelle Francis, Treasurer; and Maryse Gonzalez, Secretary.

ETPI Membership — what does it mean to your school district?

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of the ETPI consultants and officers back then, there would have been no replacement mechanism or phasing out of the tax. Schools and local governments would likely have lost that revenue immediately with no protection. Instead, there was a replacement mechanism and phase-out period for those payments. Still today, the districts who were the most heavily reliant on the Utility TPP tax still qualify for some replacement dollars. We believe this would not have been possible without the ETPI research.

But today is a different story. With so many districts impacted by both state and local funding issues, ETPI serves a much broader constituency than in those days of Utility Deregulation. The research and projects undertaken in this new

environment in many cases affect all school districts. The work by the ETPI consultants give the education community – education organizations and school districts — the tools we need to be more effective. We can utilize their research to influence State policy, and their reputation and credibility has given us access to State leaders more than ever before in recent months.

This past year when the State biennial budget was being formulated, the ETPI officers and consultants played a big role. Problems with the first version of HB 1 were ironed out with the advice and counsel of Howard Fleeter, of the firm Driscoll and Fleeter and ETPI consultant. We utilized feedback from ETPI members and others to help make the bill better – ETPI worked with

the governor's office and the House and Senate leadership throughout the process. While the State's revenues were less than desirable, education was spared the severe cuts that other agencies experienced and the final version of HB 1 was much improved over the "as-introduced" version.

As you will see in this newsletter, projects for the coming year will be important to all school districts: Where are we headed with TPP?; How will the OEBM play out in the next biennium?; and A Look at Ohio's Revenue Capacity. All of these issues will have an impact on school funding in the future. Please join us as we support this crucial work! Become a member of ETPI today!

Barbara Shaner
ETPI President

The ETPI Website — new and improved!

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to navigate with ease and includes links to:

- ETPI research library
- ETPI Research and Reports,
- newsletters and much more.

Those that are unfamiliar with ETPI that happen to find the website via

a web search can learn more about ETPI on the comprehensive "What is ETPI?" link. There is also a link where school districts interested in becoming a member of ETPI can find out how to join.

We hope that you will find the

website to be a useful communication tool and enjoy the new sleek and modern design. Feel free to let us know what you think by emailing Marcella Gonzalez at mgonzalez@ohioschoolboards.org. ■

Conversion levies

HB 1 created a new kind of school tax levy called a “conversion levy.” The new levy takes existing levies above the 20 mill floor and converts them into a kind of “super” emergency levy.

Background

Tax levies fall into two broad classes. Fixed rate tax levies always charge the same rate against the taxable value of property. Because HB 920 reduces the actual taxes charged by fixed rate levies, these taxes do not have a fixed *effective* tax rate. In this sense, the term fixed rate can mislead, but in comparison to fixed sum taxes, fixed rate levies operate more like a tax with a constant rate. In contrast, a fixed sum tax levy raises a specific number of dollars each year. Both the nominal tax rate and the effective tax rate change each year so that the tax levy charges a constant dollar amount of taxes. HB 920 tax reductions apply to fixed rate taxes. They do not apply to fixed sum taxes. (In fact, the application of tax reduction factors to fixed sum levies would result in a kind of non-sensical redundancy.)

Thus, constitutional and statutory law exempt taxes levied to produce a fixed sum of dollars (a.k.a. fixed

sum levies) from the operation of HB 920 tax reduction factors. In addition, these fixed sum levies do not count as operating levies for purposes of the calculation of the 20 mill floor. HB 920 defines the 20 mill floor because it sets a minimum effective tax rate of 2% or 20 mills below which tax reduction factors cannot lower effective tax rates for school operating purposes. Since the HB 920 reduction factors are not allowed to take a district’s fixed rate taxes for operating purposes below 20 effective mills, a district at the 20 mill floor will obtain tax revenue growth from its fixed rate levies for operating purposes when reappraisal raises valuation in the district. Revenue growth occurs in this situation because valuation increases, and no reduction in effective tax rates offsets the effect of that increased valuation.

In addition, the separate treatment of fixed rate and fixed sum levies has the effect of excluding fixed sum levies from the determination of the 20 mill floor. As a result, if the operation of HB 920 reduction factors has forced a school district’s effective fixed rate taxes to the 20 mill floor, the district can receive growth from those taxes, plus the school district can enjoy the revenue from any fixed sum levies it

has in addition to the taxes from those first 20 mills. Until now, emergency levies and bond levies were the only fixed sum levies.

The interplay of the 20 mill floor and emergency school levies has led to strategies by which school districts seek to maximize local property taxes by allowing HB 920 to reduce the district’s fixed rate taxes for current operating expenses to 20 mills while, at the same time, the district attempts to obtain approval for one or more fixed sum emergency levies to yield some revenue for the district above the 20 mill floor.

Purpose of Conversion Levies

A school district with its fixed rate levies on real property set at 20 mills receives the benefit of automatic revenue growth when increases in valuation cause increases in the school district’s State aid formula chargeoff. The enactment of the conversion levy option provides a method by which school districts can convert existing fixed rate taxes above 20 mills into a fixed sum levy in one ballot proposal.

Since roughly 400 school districts are currently at the 20 mill floor,

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Conversion levies

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the larger policy objective of the conversion levy option is to provide the other 200+ districts with a practical option for also reaching the 20 mill floor. In other words, the conversion levy offers a short cut by which a school district can reach the same 20-mill-fixed-rate-plus-fixed-sum-levy scenario with one ballot proposal rather than over a relatively long period of time.

By adopting a conversion levy, school districts would eliminate the effects of reappraisal phantom revenue by which increases in valuation translate into a higher chargeoff and lower State aid even though local tax revenue does not grow. Actually, in the short run, some small amount of reappraisal phantom revenue would continue to occur for these districts to the extent that the chargeoff rate will equal more than 20 mills. However, the complete phase-in of the new education model enacted in HB 1 will mean a chargeoff rate of 20 mills, a chargeoff identical to the minimum floor.

Details of Conversion Levies

The new conversion levy provision contains a number of details:

1) School districts have only five years (2010 - 2014) in which to propose a conversion levy, and such proposals only can appear on the primary (usually May) or general election (November) ballots.

2) The tax commissioner computes the amount (fixed sum) of a conversion levy by applying a uniform tax rate to the district's total valuation in the preceding year. The uniform tax rate equals the difference obtained by subtracting 20 mills from the effective tax rate on residential/agricultural property (Class 1 property) in the preceding year. For example, if the Class 1 effective rate equaled 30 mills, the fixed sum would equal 10 mills (30 mills minus 20 mills) times the total valuation. In the current year when the conversion levy first takes effect and in each subsequent year, the rate of the conversion levy would equal whatever uniform rate charged against all classes of property would equal the fixed sum

as originally computed by the tax commissioner. For example, if the tax base in the example above equaled \$100 million, a 10 mill effective rate would yield \$1 million. If the tax base increases to \$115 million, the conversion levy tax rate would fall to 8.7 mills.

3) A school district can submit to the voters a rate designed to yield a lesser amount than the maximum permissible conversion levy rate. This means that in the example above, the district could choose to have the conversion levy millage be 8 mills instead of 10. This would result in a reduction of revenue to the district and a tax decrease for voters. Presumably, this option would only be pursued in order to make the conversion levy more attractive to voters.

4) Conversion levies can apply as a fixed term levy for up to 10 years or as a continuing levy.

5) As a school district imposes the conversion levy, it must reduce its fixed rate tax levies. The reduction occurs levy by levy on Class 1 property until the district has

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reduced its Class 1 rate to 20 mills. These reductions proceed from the most recent levy backwards according to the levy approval date. If a school district must reduce only a part of a levy to reach exactly 20 mills on Class 1 property, the reduction in the partially reduced levy's rate on public utility personal property and Class 2 business real property occurs proportionately.

6) Because Class 1 effective tax rates are almost always less than the originally authorized (voted) rate and typically less than the effective Class 2 tax rate, the removal of tax levies for conversion will tend to cause a net loss of revenue. For example, if a school district qualifies for a 10 mill conversion levy, its removal of 10 Class 1 effective mills may require the simultaneous removal of 15 mills on public utility personal property and 12 mills on Class 2 real property.

7) The removal of public utility and Class 2 taxes above the amount recovered from the conversion levy would operate as a disincentive to the adoption of conversion levies.

In order to offset this disadvantage, HB 1 provides that the State will reimburse the loss in a declining amount over 13 years. Each year, the preceding year's reimbursement would be reduced by one-half of any growth from Class 1 tax revenue in the preceding year.

8) Generally, the repeal of a tax levy disqualifies a school district from tangible personal property tax replacement revenue with respect to that levy. However, when tax levies eligible for personal property replacement revenue convert to a conversion levy, the entitlement to

replacement revenue not only remains, but is extended indefinitely beyond 2018 as long as the conversion levy remains in effect. This serves as an incentive for districts to place conversion levies on the ballot.

Are Conversion Levies a Good Idea?

The evaluation of the conversion levy option appears to require a series of computations and policy decisions. School districts in different circumstances might reach different conclusions about the

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Conversion levies

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merits of the levy based on their specific situation. For example, a school district with a large difference between its Class 1 and Class 2 effective tax rates might find the loss of revenues involved in the conversion too high. Similarly, the disincentive might appear negligible to a school district with only a small difference in effective tax rates. Other relevant factors might include the relative importance of Class 2

real property or public utility personal property in a given school district's tax base. For example, a power plant school district probably would lose more than it would gain from the adoption of a conversion levy.

Finally it is important to note that the new conversion levy would work exactly the same as an emergency levy. One implication of this is that any growth from new construction will result in a rollback

of the conversion levy millage rate. In this regard, the conversion levy option allows the district to realize increased growth in tax revenue from valuation increases, but at the same time the district will experience less growth in revenue from new construction. Therefore, school districts with significant amounts of new construction activity may find that the conversion levy would offer a less attractive option. ■

Election Law “Reform” Threatens Local School Funding Options

The Ohio General Assembly recently passed two election law reform packages - a House version in H.B. 260 and a Senate version in S.B. 8. The houses of the legislature now will attempt to reconcile conflicting provisions in the two versions.

Generally, most of the changes in both pieces of legislation affect the process of voter registration and the conduct of elections. These changes do not have any specific impact on school tax levy elections. However, a few provisions of these legislative proposals would have affected either the cost incurred by

a school district to take advantage of a special election to propose a school tax levy or even the ability to use special elections at all.

As introduced, HB 260 would have eliminated both the February and August special elections. Strenuous objections by school organizations ultimately resulted in an amendment to withdraw this provision. However, as passed by the House, the current version of HB 260 would have three direct impacts on school special tax levy elections:

1. The bill would increase the kinds of direct costs incurred by the board of elections in conducting

an election which the board may pass on to a school district. The new obligations would require a school district with a tax levy proposal on a special election ballot to pay for the “preparation” costs associated with the election. These costs would include overtime pay earned by employees of the county board of elections during the period when the special election preparations occur.

2. The bill would require pre-payment of 65% of the estimated costs of special elections.
3. The bill also would assess

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In general, the frequency of school ballot issues does not result because the districts want to appear on the ballot so often but rather because they must appear repeatedly in order to obtain adequate funding.

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“depreciation” costs for the use of election equipment to the school districts with a special election ballot proposal.

SB 8, as passed by the Senate, does not contain any of the changes in HB 260 with a direct impact on the cost incurred by a school district when it proposes a tax levy at a special election.

The County Commissioners Association (on behalf of county boards of elections) pressed for the assessment of “depreciation” costs for the use of election equipment at special elections. In the alternative, the Association sought the legislative enactment of a task force to study the need for such “depreciation” assessments.

ETPI conducted its own research about the frequency of special

elections. This research reached two conclusions.

1) Special elections account for a very small percentage of total election activity.

ETPI selected a portion of the Southwestern CSD in Franklin County as a sample for election activity analysis. Specifically, the research focused on the four wards comprising Grove City, a location within the Southwestern district. (For readers outside of central Ohio, the Southwestern district’s efforts to pass a tax levy in three different elections in 2009 received considerable attention in the local media. Proposed levies failed in both May and August. A slightly reduced levy finally passed in November.)

The ETPI analysis obtained data from the Franklin County Board of

Elections about all ballot issues and election races over a four year cycle from 2006 through 2009. From these data, the analysis extracted the results registered in the four Grove City wards. A four year cycle includes races for almost all of the elective offices at the federal, state, and local level.

Including both primary and general election races and ballot issues in special and general elections, the Grove City wards posted about 200 different election items over a four year period. For example, the 2006 Republican gubernatorial race would count as one. The Democratic primary in the same race would count as one. And the general election race for governor would count as one. Thus, the governor’s office would account for three election issues of the 200,

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Election Law “Reform” Threatens Local School Funding Options

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and so on. Of those 200 races or ballot issues, school levy proposals in Southwestern CSD accounted for only 5 or 2.5%.

The proponents of the “depreciation” charge to schools for special election activity never produced any evidence to show that the additional 2.5% of election activity caused by school levy elections shortened the useful life of election equipment.

2) Most school tax levies require more than one attempt to obtain voter approval.

In a second analysis, ETPI specifically examined school tax levies at special elections in February and August. The analysis gathered special elections data for three most recent years: 2007, 2008, and 2009. In these three years, 124 school tax levies appeared on February and August special election ballots. Of those 124 levy proposals, 84 or two-thirds had failed on the immediately preceding election ballot. When the two most recent preceding elections were considered, 94 or three-fourths had failed at the preceding or the second preceding election.

It appears likely that the General Assembly will enact some version of election law reform in 2009 or early 2010.

Even casual observers of school finance in Ohio have no doubt noticed that school districts seldom succeed on the first try to pass a tax levy. In fact, districts often require a second or even a third attempt before voters finally approve a tax proposal. The results in the paragraph above clearly show that the vast majority of school levies on the ballot during special elections are there because district voters rejected a previous levy. In general, the frequency of school ballot issues does not result because the districts want to appear on the ballot so often but rather because they must appear repeatedly in order to obtain adequate funding.

The Ohio Supreme Court determined in the DeRolph case that the state’s school funding

system relies too much upon local property taxes. This reliance forces schools to raise money locally to pay for the costs of education. At the same time, the H.B. 920 system of property tax restraints forces school districts to obtain voter approval for additional taxes only to keep pace with normal growth in costs. Therefore, the entire school funding structure imposes the requirement of frequent resort to special election ballots to obtain constitutionally necessary school funds. In this context, attempts by county officials to assess arbitrary “depreciation” costs on school districts when they must resort to the ballot arguably violates the constitutional protection accorded to school funding.

Conclusion

It appears likely that the General Assembly will enact some version of election law reform in 2010. The elimination of special elections in February and August probably will not occur. Some additional costs for special election “preparation” may become part of the package. At present, the likelihood that the counties will succeed in charging equipment “depreciation” back to school districts remains uncertain. ■

ETPI to Study Ohio Evidence Based Model

Perhaps the most notable accomplishment in Ohio's FY10-11 biennial budget was the adoption of the Ohio Evidence Based Model (OEBM) for school funding. The OEBM represents the most extensive changes to Ohio's system state aid formula for school funding in roughly 30 years.



While the Fall 2009 ETPI Newsletter provided a brief summary of the mechanics of the new funding model, many questions have arisen regarding the model's implementation. Preliminary analysis of ODE data shows that in FY10 430 of Ohio's 614 school districts receive transitional aid, over 160 are subject to the gain cap, and fewer than 20 are actually "on the formula". With so many districts "off formula", many questions have arisen relating to the role of transitional aid, the gain cap, the phase-in of certain elements of the OEBM, and the impact of a fully phased-in OEBM on Tangible Personal Property

ETPI research will be used to further inform ongoing discussions with the Ohio Department of Taxation relating to TPP replacement payments.

(TPP) tax replacement payments in future biennia.

In order to answer these questions, the Education Tax Policy Institute has requested data from the Ohio Department of Education for the purpose of simulating the Ohio Evidence Based Model (OEBM) for school funding. This data will allow ETPI both to simulate the OEBM in the current biennium under different conditions (i.e. larger gain cap, different transitional aid parameters, full funding for all districts of all components of the OEBM), and to forecast funding levels on a district-by-district basis

in future biennia.

These simulations will provide insight into how the OEBM is working in the current FY10-11 biennium and what can be expected in the next biennium. In addition, ETPI research will be used to further inform ongoing discussions with the Ohio Department of Taxation relating to TPP replacement payments. ■

What is Ohio's Revenue Capacity?

“To continue our growth and prosperity as a state, the Strickland Administration believes the state of Ohio must focus its attention on one of the most important institutions in our society, public education.” These words reaffirming the link between public education and economic prosperity appeared in the P-16 education special analysis section of the Governor’s FY10-11 budget. For many years, supporters of public education have questioned whether state leaders have provided the

appropriate level of funding for public education in Ohio. Now, while K-12 education was largely spared from the severe cuts made to other areas of the state budget for the current biennium, the question arises as to whether the state’s revenue system has adequate capacity to properly invest in K-12 education without imposing severe negative consequences on long-term funding for other state services.

This concern suggests that now is the time to evaluate the long-term

structure an capacity of Ohio’s state and local revenue structure.

Questions about our current tax structure include:

- Are we taxing the right segments of our economy and at the right rates?
- Is our tax structure appropriate for a 21st Century economy?
- Would an increased investment in public education result in a stronger economy?
- What is the appropriate level of services (not including education) the state should be providing?

Where can you find the real facts?



The **Education Tax Policy Institute** (ETPI) continues to be the *only* organization in Ohio dedicated to research and analysis of education public policy issues.

Become a **member** of ETPI to help make future research possible. For more information, visit www.etpi-ohio.org.

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Ohio's Resource for Reliable Data & Analysis
ETPI

The current recession has created economic hardship for Ohio residents and businesses. It also has stressed the state and local public finance structure in unprecedented ways. The way out of these difficulties by no means appears clear. ETPI will attempt to illuminate these issues in 2010 as we join with other organizations to conduct research intended to help Ohio policymakers match improvements in the state’s tax and expenditure structures with the future course of the Ohio economy. In this process, we hope to draw upon nationally known experts to assist our analysis. We will update ETPI members as this work progresses. ■

EDUCATION TAX POLICY INSTITUTE

2010 MEMBERSHIP FORM

Please type or print clearly.

ORGANIZATION INFORMATION

Name: _____ County: _____

Address: _____

CONTACT INFORMATION

Please provide the name of the superintendent or treasurer only.

Name: _____

Superintendent Treasurer

Phone: _____ () _____

Local Government Other

Fax: _____ () _____

Email: _____

MEMBERSHIP LEVEL

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- | | | | |
|--------------------------|---------------------|-------------------|-------------|
| <input type="checkbox"/> | Category I | Under 1,000 ADM | \$ 500.00 |
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| <input type="checkbox"/> | Category III | Over 3,000 ADM | \$ 1,500.00 |
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Send membership form and payment to: ETPI, c/o OSBA, 8050 N. High St., Suite 100, Columbus, OH 43235

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