



Education Tax Policy Institute

8050 North High Street, Suite 100
Columbus, Ohio 43235-6481
614-540-4000; 614-540-4100 (Fax)
www.etpi-ohio.org

FACTS & FIGURES, *WINTER EDITION 2007*

ETPI: THE SOURCE OF CREDIBLE, DATA-DRIVEN RESEARCH

For more than a decade, the Education Tax Policy Institute (ETPI) has been called upon for credible, understandable research about the complex workings of Ohio's revenue/expenditure system. ETPI taps the expertise of experienced consultants who generate data-driven independent analyses of how changes in tax policy affect public sector operations.

Last year, for example, ETPI released a 64-page report on the proposed Tax Expenditure Limitation (TEL) constitutional amendment and the havoc it would have caused Ohio schools across the state. (The TEL was withdrawn from the November 2006 ballot following a firestorm of criticism of its intent and consequences.)

In 2007, the tax consulting firm of Driscoll & Fleeter will be tackling these ETPI research projects:

- Develop an analysis of the 2008-2009 State of Ohio budget proposals, including school funding formula provisions, state tax revenue, proposed tax reforms and local property tax revenue, notably the impact of the tangible personal property tax phase-out.
- Construct a detailed examination and district-by-district analysis of state aid from 1992-1999 compared with 2000-2007, with focus on overall comparisons from one period to the next and the types of school districts that have done better or worse financially in each time frame.
- Expand the ETPI multi-year operating levy study to include school bond issues. (See the inside pages of this newsletter for highlights of the newly prepared *Analysis of Ohio School District Operating Levies 1994-2006*.)

Funding for ETPI is generated through memberships held by school districts and statewide organizations. A membership form for 2007 is included in this edition of the ETPI newsletter, which is being sent to school board presidents, treasurers, and school superintendents throughout Ohio.

Note: Congratulations to Richard Levin for his selection by Gov. Ted Strickland to serve as the Ohio Department of Taxation Commissioner. Mr. Levin was part of the tax consulting research team that served ETPI from its inception.

ETPI OFFICERS

Barbara Shaner	President
Tom Ash	Vice-president
Marcella Gonzalez	Secretary
Janice Smith, CPA	Treasurer

ETPI TAX CONSULTANTS

William Driscoll	Driscoll & Fleeter
Dr. Howard Fleeter	Driscoll & Fleeter



ETPI LOOKS AT LEVY RESULTS — OHIO REMAINS AT THE TOP IN THE BALLOT BRIGADE

The Buckeye State has a special place in the USA, but it is not a top ranking that calls for exultation.

Ohio relies on voter approval of tax levies to support public schools to a **greater extent** than any other state in the nation. Moreover, the types of school levies have grown substantially over the years, adding to the complexity of tracking and evaluating school funding measures.

It has been an ongoing project of the Education Tax Policy Institute (ETPI) to analyze the utilization rates of Ohio's many different types of operating levies from 1994. The data was updated following the 2006 fall election. Here are some of the key findings from the 19-page document prepared by Dr. Howard Fleeter, from the tax policy research firm of Driscoll & Fleeter:

TYPES OF SCHOOL LEVY PROPOSALS — A DIZZYING NUMBER

School officials have a large file to study when determining what type of operating levy is to be placed on the ballot. The Ohio Department of Education's levy summaries currently show 32 different types of school levies. To simplify things, the different school levy types can be grouped into four major areas (with total issues on the ballot from 1994-2006 listed):

- Emergency Property Tax Levies — 1,372 total issues
- Term Limited Property Tax Levies — 780 total issues
- Continuing Property Tax Levies — 747 total issues
- School District Income Tax Levies — 534 total issues

Term limited property tax levies, overall, fared the best with a 67.7% passage rate, followed by emergency property tax levies at 58.6%. If results for the four groupings are totaled for 1994-2006, voters approved 54.6% of all school levies (not counting construction bond issues).

WHEN IS THE BEST TIME TO BE ON THE BALLOT?

While the local environment at the time of the election often casts a shadow over voter acceptance of a school levy, there is little difference (3.4%) in the overall success rate between May primary and November general elections. Special levies in February are approved at a slightly lesser rate than issues submitted in primary or general elections. However, an issue placed before voters in August has a much tougher hill to climb, based on the statewide picture.

Time of Operating Levy	Number of Levies 1994-2006	Number of Levies Approved	Percent Approved
February special	207	105	50.7%
May primary	1,441	846	58.7%
August special	336	123	36.6%
November general	1,449	802	55.3%

ETPI ANALYSIS OF OPERATING LEVIES IS ONLINE

To view or download the entire Analysis of Ohio School District Operating Levies from 1994-2006, go to the Education Tax Policy Institute Web Site at www.etpi-ohio.org.

BREAK OUTS OF LEVY SUCCESS BY CATEGORIES

Success rates for Ohio school operating levies vary widely, according to the type of the ballot proposal. Not surprisingly, renewals of existing levies recorded the highest level of voter approval. New emergency levies had the most difficult time at the polls. Here are selective levy totals from 1994-2006 by types of issues:

Type of Operating Levy	Number of Levies 1994-2006	Number of Levies Approved	Percent Approved
New Emergency Levies	714	241	33.8%
New Continuing Levies	681	308	45.2%
New Term Limited Levies	430	224	52.1%
New Term Limited Income Tax Levies	261	102	39.1%
Emergency Levy Renewals	658	563	85.6%
Term Limited Levy Renewals	225	214	95.1%
Continuing Property Tax Levies	747	342	45.8%
Emergency Term Limited Property Tax Levies	1,372	804	58.6%

2004 WAS TOP FOR NUMBER OF LEVIES; 2000 GENERATED HIGHEST APPROVAL RATE

Ohioans faced more school operating levies in 2004 than any other year, according to the Education Tax Policy Institute report, which studied election returns from 1994-2006. Of the five highest years in total levy proposals, three have come within the last three years. School levies had their best calendar year in 2000, when 69.6% of all levies gained approval.

Years with Most Tax Levies	Number of Tax Levies	Years with Top Approval Rates	Percentage of Approvals
2004	433	2000	69.6%
2005	361	1998	65.5%
1994	330	2001	64.5%
1995	320	1999	63.2%
2006	280	2002	61.1%

From 1998-2002, when the number of levies on the ballot was lowest, the passage rate was the highest. In contrast, the passage rate was the lowest in the three years with the most levies on the ballot (1994, 2004, and 2005).

Two trends: From 1994-1998, the number of operating levies on the ballot **decreased** each year, while the passage rate **increased** each year; from 2001-2004, the number of levies **increased** each year, while the passage rate **decreased** each year.

VOTING PATTERNS FOR JOINT VOCATIONAL SCHOOL ISSUES

From 1994-2006, Ohio voters approved 62.6% of all Joint Vocational School (JVS) operating levies.

About two-thirds of the JVS operating levy requests were submitted to the voters in November general elections. In those fall elections, 66.1% of the issues were approved, compared with 55.6% of the primary ballot issues.

Of the 60 JVS capital issues, 46.7% were approved in the 1994-2006 period.

TWO TYPES OF INCOME TAX PROPOSALS ARE NOW ON SCHOOL DISTRICT BALLOTS

The Ohio General Assembly in 2005 authorized a new funding option: the school district **earned income tax** levy. In contrast to the traditional school district income tax, which utilizes the state definition of Adjusted Gross Income as the base, the new school levy option taxes only earned income, similar to how Ohio's municipal income tax functions. The earned income tax option has some appeal to voters in that it exempts pension and investment income from the tax calculation.

Here is a chart showing a comparison of traditional income operating levies and earned income tax proposals since November 2005:

Election	Number of Traditional Income Tax Levies	Percent Passage of Traditional Income Tax Levies	Number of Earned Income Tax Levies	Percent Passage of Earned Income Tax Levies
November 2005	26	23.1%	7	14.3%
February 2006	3	66.7%	0	--
May 2006	25	60.0%	8	0.0%
August 2006	1	0.0%	0	--
November 2006	71	38.0%	33	27.3%

In all, 17 of 61 traditional income levies have been approved since November 2005; nine of 33 earned income levies were approved by voters.

At first glance, it would appear that traditional income tax levies do better than earned income tax proposals at the polls. But when the number of renewal issues is removed from the tabulation, the passage rates for new income tax levies are almost identical (27.9% vs. 27.3%).

BUILDING A BETTER COST-OF-DOING-BUSINESS FACTOR

The current State funding formulas for public schools include a cost adjustment based on the geographical location of each school district. The adjustment makes a small percentage increase in the school foundation payment based on the relative cost of school operations in each county.

In the current fiscal year, the cost adjustment, however, equals approximately one-third of the adjustment used two years earlier. When preparing its budget recommendations for FY 08-09, the State Board of Education assumed that the cost-of-doing-business adjustment will disappear entirely.

Over the last few months, the Education Tax Policy Institute has worked on a mechanism that could replace the present funding category. A new cost-of-doing-business adjustment, or simply "cost adjustment," uses four indicators of differences in school district costs to produce a percentage adjustment to school foundation payments. A new formula would average these four components:

- Wage costs
- Housing costs
- Pupils in poverty
- Remoteness

The adjustment would function within the SF 3 formulas in the same way as the fiscal year 2005 cost-of-doing-business adjustment with the new factor adjusting payments from zero percent to 7.5%.

A full report on the proposed new cost adjustment will be issued by ETPI upon its completion.