Public Schools – a $20.5 Billion Business
(FY 2011)

Federal 9.9%

State 45.5%

Local 44.6%

Source: Legislative Service Commission
Conceptual School Funding Mechanism

1. Compute district “assured available amount”
2. Subtract expected local contribution (charge-off)
3. Difference is state funding amount
4. Plus or minus additional adjustments (guarantees, caps, protection mechanisms, etc.)
Local Revenue – Two Sources

- Property Tax: $8.6 B
- Income Tax: $311 M

Source: Legislative Service Commission
Definitions

- “Mill” is 1 per 1000.
- True Value is the market value of property.
- Assessed Value is the value of property used in tax liability computations. It reflects true value multiplied by an assessment percentage (an amount less than 100%).
- Exempt property is government, religious, or other property not subject to the property tax.
- Reappraisal – the process of redetermining the value of property for tax purposes – 3 year updates, 6 year comprehensive.
Tax Liability – Basic Computation

• Conceptually
  • Property Value \times \text{Tax Rate} = \text{Liability}

• More Specifically
  • \((\text{Assessed Value} \times \text{Effective Rate}) - \text{Adjustments} = \text{Liability}\)
Adjustments – In Ohio

• Rollbacks
  – 10% for all property
  – 2.5% additional for owner-occupied residential
  – Available to all – regardless of wealth

• Homestead Exemption
  – Senior citizens; permanently/totally disabled
  – Exempts 1st $25,000 in valuation from taxation

• Helpful to taxpayers – districts are neutral
Constitutional Provisions

- Ohio Constitution Article 12, Sec. 2
  - “one percent of its true value” -- 10 mill limitation without a vote of electors
  - Additional taxes “approved by a majority of electors”
  - “Land and improvements thereon shall be taxed by uniform rule”
  - Except for defined homestead exemptions
Constitutional Provisions

• Article 12 Sec. 2a
  – “Laws *may* be passed that provide *all* of the following”
    • Two classes – Res./Ag. and all other
    • The amount of taxes imposed in the current year shall be reduced so that the amount charged in the current year shall equal amount charged in the preceding year exclusive of property not taxed in the preceding year.
Constitutional Provisions

• Article 12 Sec. 2a
  – Laws may be passed that limit reductions such that sum available to taxing district does not fall below a uniform percentage. (20 mill floor)
  – Does not apply to:
    • Inside mills
    • Taxes that produce a specified dollar amount
    • Debt service taxes
H.B. 920

- District won’t raise any more dollars than when levy originally passed – except for new construction.
- Taxpayers may see taxes go up or down – depending on individual parcel valuation change vis a vis the average of all property
- All residential taxes could go up or down depending on relative valuation change vis a vis agricultural property
- Can insulate a district when values fall.
Levy Types

• **Current expenses** (traditional operating)
  – Expressed as number of mills
  – Reduction factors apply (unless inside mills)
  – Continuing or time limited (5 years)

• **Permanent improvement**
  – Expressed as number of mills
  – Restricted to capital assets (5 yr. life)
  – Reduction factors apply (unless inside mills)
  – Continuing or time limited
Levy Types

• **Emergency**
  – Expressed as dollars (converted to mills)
  – Reduction factors do not apply
  – Always time limited (up to 5 years)

• **Bond Levy**
  – Restricted to debt service over life of bonds
  – Reduction factors do not apply
Levy Types

• **Incremental**
  – Mills; includes an original millage amount and up to five increments
  – Reduction factors apply
  – Continuing or time limited (up to 10 years)

• **Levy Increasing by Dollar or Percentage**
  – Dollar amount; with specified increases expressed as dollars or percentage
  – Reduction factors do not apply
  – Time limited only (up to 10 years), but renewal can be continuing
Levy Types

• **Renewal**
  – Continues in place an expiring time-limited levy at its current *effective* rate

• **Replacement**
  – Re-imposes an expiring time-limited levy with a new levy at the original *voted* rate

• **Repeal**
  – Reduces the rate of a previously adopted levy
Levy Types

• County-wide Sales Tax
  – Limited to permanent improvements
  – Must be approved by co. commissioners

• Jt. Municipal – School. Dist. Income Tax
  – Must have substantial coincidence of territory
  – Few districts are eligible; infrequently used
Levy Types

• **Combinations**
  – Various are allowed, typically combining bond or PI levy with operating

• **School District Income Tax**
  – Two types: All income or earned income
  – 0.25% increments up to 2.0%
  – Residents of school district
  – Continuing or time limited
Property Valuation Per Pupil

Source: FY 2011 Cupp Report
Districts at the 20-Mill Floor

School Districts Operating at the Twenty-Mill Floor, Fiscal Year 2012

Scale 1:2,000,000
Yes (302)
No (312)

Source: Ohio Department of Taxation
Income Wealth

Average Income Per Taxpayer by Quintile
By School District, 2009 Tax Year

Legend
- Under $37,820
- $37,820-$41,762
- $41,783-$45,725
- $45,726-$52,602
- $52,603 and up

Source: Ohio Department of Taxation
School District Income Taxes

Source: Ohio Department of Taxation
Ballot Frequency – 10 years
Tax Effort

- Measure of tax effort included on Cupp Report
- One way to identify the extent to which a community is willing to tax itself based on its income to support schools.
- Computed based only on class 1

Source: FY 2011 Cupp Report
Levies and Expenditures

Expenditure Line

Levy 1

Levy 2

Time

1

2

3

$
### Five Year Forecast

<table>
<thead>
<tr>
<th>Description</th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
<th>Year 4</th>
<th>Year 5</th>
<th>Year 6</th>
<th>Year 7</th>
<th>Year 8</th>
<th>Year 9</th>
<th>Year 10</th>
</tr>
</thead>
<tbody>
<tr>
<td>Excess Rev &amp; Own Financing Sources Over/(under) Exp &amp; Own Financing</td>
<td>399,471</td>
<td>372,186</td>
<td>1,973,092</td>
<td>(2,027,123)</td>
<td>(2,142,138)</td>
<td>(3,126,578)</td>
<td>(4,882,652)</td>
<td>(5,972,190)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7.010 Beginning Cash Balance</td>
<td>260,803</td>
<td>660,274</td>
<td>1,235,412</td>
<td>2,309,104</td>
<td>1,856,388</td>
<td>285,769</td>
<td>(3,444,148)</td>
<td>(7,906,979)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7.020 Ending Cash Balance</td>
<td>660,274</td>
<td>1,235,412</td>
<td>2,309,104</td>
<td>1,856,388</td>
<td>285,769</td>
<td>(3,444,148)</td>
<td>(7,906,979)</td>
<td>(13,582,167)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>8.010 Outstanding Encumbrances</td>
<td>319,893</td>
<td>378,593</td>
<td>380,855</td>
<td>650,000</td>
<td>650,000</td>
<td>650,000</td>
<td>650,000</td>
<td>650,000</td>
<td>650,000</td>
<td></td>
</tr>
<tr>
<td>10.010 Fund Balance June 30 for Certification of Appropriations</td>
<td>340,381</td>
<td>856,819</td>
<td>1,928,251</td>
<td>1,206,388</td>
<td>(935,769)</td>
<td>(4,094,148)</td>
<td>(8,556,979)</td>
<td>(14,232,167)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>12.010 Fund Bal June 30 for Cert of Contracts, Salary Sched, Oth Obligations</td>
<td>340,381</td>
<td>856,819</td>
<td>1,928,251</td>
<td>1,206,388</td>
<td>(935,769)</td>
<td>(4,094,148)</td>
<td>(8,556,979)</td>
<td>(14,232,167)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>15.010 Unreserved Fund Balance June 30</td>
<td>340,381</td>
<td>856,819</td>
<td>1,928,251</td>
<td>1,206,388</td>
<td>(935,769)</td>
<td>(4,094,148)</td>
<td>(8,556,979)</td>
<td>(14,232,167)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Ohio Department of Education
Mixed Signals

• A school district must ask for more than needed in a given year.
• A school district can’t ask for a levy when it has significant cash reserves on hand.
• When accumulating a reserve, district must discipline itself not to overspend – hard to say “we don’t have the money…” when it is sitting there. It is an easy target.
• A school district often must ask for a levy when it is in a structural deficit.
• A school district doesn’t get more from a levy from one year to the next – but this may clash with an individual taxpayer’s experience.
School Funding Basic Information Series
End of Part V