Ohio | Department of Education

John R. Kasich, Governor
Paolo DeMaria, Superintendent of Public Instruction

MEMORANDUM

To: Members of the 132nd General Assembly
From: Paolo DeMaria, State Superintendent of Public Instruction
Date: March 6, 2018
RE: Compensation for Decrease in Valuation of District Public Utility Personal Property

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Under House Bill 49 of the 132nd General Assembly, the following section was amended into law:

Sec. 3317.27. (A) In any fiscal year, if a city, exempted village, local, or joint vocational school district experiences at least a fifty per cent decrease in valuation of public utility personal property, as certified to the department of education under division (A)(2) of section 3317.021 of the Revised Code, from the tax year immediately preceding the most recent tax year for which data is available to the most recent tax year for which data is available, the department shall develop a payment structure to recommend to the general assembly that would provide additional state funds to the district to compensate the district for a percentage of that decrease in valuation. This payment structure shall take into consideration the effect the valuation decrease has on the amount of state foundation aid received by the district under this chapter and any temporary transitional aid or payment limitations imposed by the general assembly that apply to the district.

(B) Annually, the department shall submit to the general assembly, in accordance with section 101.68 of the Revised Code, the recommended structure for each district to which division (A) of this section applies for the current fiscal year.

This memorandum serves as the Ohio Department of Education's recommendations as required under section (B) of 3317.27.

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The value of property in a district serves as a significant measure of a school district's capacity to raise local revenue. It also serves as the basis for calculating a school district's state share index — the primary distribution method used by the state in allocating state foundation funds.

In recognition of these sometimes rapidly changing public utility values, the recently passed state budget (Am. Sub. House Bill 49) included several provisions to provide assistance to districts facing sudden and significant changes in public utility values. First, rather than using a trailing three-year average of assessed valuation to calculate a school district's state share index, school districts with power plants that recently have been devalued have a state share index calculated based on the lower single year (Ohio Revised Code 3317.017 (F)). For several districts this fiscal year, using a one-year snapshot of values rather than a three-year average has led to a higher state share index and additional calculated state aid. Second, if the public utility value for a school district certified to the Ohio Department of Education by the Department of Taxation at the end of the fiscal year changes by more than 10 percent compared to the prior year, the Department of Education recalculates state funding for the school district (ORC 3317.028). These two provisions can impact a school district in the following ways:

Assume a power plant in a school district saw its assessed value decreased by more than 20 percent in Tax Year (TY) 2016 compared to TY15. If that devaluation led to an overall decrease in total assessed value by 10 percent or more, the Department would calculate the school district's state share index for Fiscal Year 2018 (FY18) using TY16 values rather than a three-year average of TY14-16. This would likely lead to increased state aid. Assume that same school district then saw its public utility value again fall more than 10 percent in TY17 compared to TY16. The Department would recalculate the district's state share index and state funding in FY18, carrying over that new state share index calculation in FY19.

The purpose of these two adjustments is to reflect a school district's changing capacity more quickly and rebalance the amount of state aid calculated for the district compared to the reduced capacity of the district's local tax base.

The third provision included in the state budget related to school districts facing more significant reductions in public utility value is the purpose of this correspondence. ORC 3317.27 requires the Department to submit a payment structure and recommendations to the General Assembly in cases where the Department of Taxation certifies a decrease of at least 50 percent in public utility valuation. While the Department of Taxation has not certified TY17 public utility values to the Department of Education (this must occur by May 15, 2019), draft values indicate two districts in the state are likely to meet the trigger in ORC 3317.27. Manchester Local School District in Adams County and Benton-Carroll-Salem Local School District in Ottawa County both have seen their TY17 values drop more than 50 percent compared to their TY16 values.

For Manchester Local School District, the devaluation of the coal-fired power plant is the second year of public utility loss. The district is currently benefiting from the use of TY16 values for the calculation of the FY18 state share index and is projected to see an increase in FY18 funding at the end of the year following the 3317.028 adjustment. For Benton-Carroll-Salem Local School District, the significant devaluation of the Davis Bessie Nuclear Power Station will occur for the first time in TY17. Benton-Carroll-Salem, therefore, did not meet the threshold for the first state share adjustment. While the school district will meet the criteria for the ORC 3317.028 adjustment at the end of FY18, the district's position on the guarantee is not likely to cause any additional state aid to flow to the district under the adjustment. As of the February #2 payment, Benton-Carroll-Salem received approximately $3.6 million in state foundation funding, with more than $1 million of that amount from transitional aid guarantee funding. Even with a significant loss of public utility value, the ORC 3317.028 adjustment is not projected to yield additional state aid for the district. The impact of the adjustment will only reduce the amount of funding received through the transitional aid guarantee. In discussions with the district, the loss of local tax revenue is projected to approach $4.6 million. Total FY17 revenues reported on the district's most recent five-year forecast totaled $21.4 million. A loss of $4.6 million equates to a loss of more than 20 percent of revenues.

In this situation, it is reasonable to consider options for supplemental transitional aid beyond the two current adjustments available to school districts with declining public utility values. The guarantee of state funding based on prior years is not a new concept to school funding, as Benton-Carroll-Salem has benefited from this policy. Similarly, the state has guaranteed the loss of local revenues when a change in state law has reduced or eliminated a revenue source previously available to local school districts, such as the elimination of the tangible personal property tax. However, this recommendation constitutes a supplement of state resources that are not directly related to a change in state policy. The

Department of Education believes the following guiding principles are important when considering providing additional state resources to a district.

1. Total resources – In considering additional state funding, the General Assembly should consider the total resources of a district. The concept of total resources was used when determining the phase out of tangible personal property reimbursements in prior budgets. Total resources provide a more complete view of a district's revenues rather than an isolated or marginal view of changes to local property taxes or state foundation funds. Total resources should include state foundation funds, TPP reimbursements, TPP supplement funds, local property and income taxes, and Ohio casino revenue. Looking at total resources over a period of time may provide a better view of revenue trends for a district. The Department does not recommend funding at 100 percent of total resources, as this supplemental funding should not be viewed as a hold-harmless provision.
2. Student population – The number of students who reside in the district should be a factor in any additional funding provided by the state. This is consistent with the most recent state budget, which reduces the guarantee base of a school district that is serving fewer students today than prior years and allows for larger increases in funding for growing school districts. Using a revenue-per-pupil measure would allow the General Assembly to account for a district that is not only changing in terms of its local tax base but also the number of students it serves.
3. Timing – Any supplemental funding should be calculated third, after which time both provisions discussed previously may provide some additional assistance to the district. While unlikely, additional state foundation funding through a modified state share index calculation or an ORC 3317.028 adjustment should occur and be accounted for before any supplemental payment is made.
4. Temporary – Any additional assistance should be short term. A guarantee for an undefined number of years may lead to a dependence on additional state support and allow a local school district to avoid the new reality of its local tax base. A district facing such significant change in revenue may need time to make reductions in operations, seek additional revenues from local taxpayers or a combination of both. The provision of supplemental state funding should be viewed as a transition and not as ongoing operational support.

The Department of Education recommends these four guiding principles be considered by the General Assembly when providing supplemental state funding. Finally, regardless of any additional state aid, the Department always is willing to make area coordinators and fiscal consultants available to meet with any districts to discuss opportunities for operational efficiencies.