Joint Committee on Property Tax Review and Reform

April 24, 2024

Co-Chairs Blessing and Roemer and members of the Joint Committee on Property Tax Review and Reform, thank you for the opportunity to testify today representing public school districts. My name is Michael Barnes, and I am the superintendent of the Mayfield City School District in Cuyahoga County.

Mayfield is located in the eastern suburbs of Cleveland. The school district can be easily accessed by Interstate 271 which runs parallel to the district. This convenient accessibility has resulted in the development of two industrial parks, and the world headquarters of two Fortune 500 companies – Progressive Casualty Insurance Company and Parker Hannifin Corporation.

Mayfield City School District serves over 4,000 students in a wide array of academic programs, the students who represent diverse backgrounds, both socio-economically and ethnically. Much like the student population, the school district comprises four distinctive communities: the cities of Highland Heights and Mayfield Heights and the villages of Gates Mills and Mayfield containing a variety of housing opportunities for our families.

I am joined today by a group of exceptional leaders in their school districts and in their communities. Joining me are Tony Thomas, Superintendent, and Ann Ferraro, Treasurer/CFO of the Northmont City School District in Montgomery County; Matt Bunting, Treasurer for the Athens City School District in Athens County; Philip Wagner, Superintendent of the Johnstown-Monroe Local School District in Licking County; and Jenni Logan, Treasurer of the Sycamore Community School District in Hamilton County.

Collectively, we represent a diverse sector of school districts representing various typologies including a district at the 20-mill floor, a district on the funding formula's guarantee, a district funded according to the state formula, and a district experiencing rapid growth.

Our testimony today will focus on our individual district experiences with (1) the state and local elements of school funding, (2) the 20-mill floor, (3) cash balances, five-year forecasts and levy cycles, (4) a shift in the school tax base, and (5) the growth of economic development tools.

Ohio's system of funding for K-12 education calls for a shared responsibility between the state and each local community. This results in school districts relying on two primary sources of revenue to operate: a local share that is most commonly raised by local property taxes, and a state share that is determined by the state's school funding formula. The General Assembly has provided record funding to school districts through the new Fair School Funding formula. We are thankful for this unprecedented level of support, and we look forward to the final phase-in of the plan in the next biennium.

At this time, I would like to yield to Tony Thomas and Ann Ferraro, who will build upon many of the concepts introduced by Mike Sobul in his opening remarks.

Superintendent Tony Thomas and Treasurer/CFO Ann Ferraro, Northmont City Schools

Co-Chairs Blessing and Roemer and members of the Joint Committee on Property Tax Review and Reform, thank you for allowing us to speak with you today, I am Tony Thomas and this is Ann Ferraro. I serve as the Superintendent and Ann serves as Treasurer for Northmont City Schools in Montgomery County. We are a district that would be considered a 50/50 district. 50 percent of our income comes from our community and 50 percent comes from the state and we are a formula district. This is a change for us from last year because we were on the guarantee. So, we thank you for increasing the inputs in the formula which helped us come off the guarantee. The trend for us is that the state is paying less and less over time to this percentage. We are a district composed of 3 cities, 1 township, and 1 village. We look rural in the northern part of the district, suburban in the middle, and fairly urban to the south where we border Dayton. We are a great cross-section of Ohio's demographic. While the majority of our population is Caucasian we have a diverse population, racially, culturally, and religiously. The recent re-evaluation in our county (which was 36 percent) will result in a loss of state funds making us more dependent on local property taxes. While we had traditionally seen great support from our community with the passage of renewals, bonds, and operating levies in the past, unfortunately, that support has not been there for us in the last year, as we have failed two levies in the last two elections.

Mr. Sobul's explanation of how the state distributes funding to school districts is relevant to this committee because of the impact property values play on a district's state funding. When property values increase, a district appears wealthier in the formula, and its capacity to pay more is adjusted upward, resulting in less state aid. The property valuation reappraisals and updates in the 41 counties last year illustrate the real-time impact valuation increases have on districts' state funding. Since we are not at the 20-mill floor, House Bill 920 reduces the effective tax rate of our levies, and we will see no growth in funding from our voted mills. Therefore, the 36 percent increase in property values will increase our property tax revenue on our inside mills by $1,518,000. While we appreciate the increase in property tax revenue, the effect of the increase in property valuations will reduce the State funding we are projected to receive by $1,183,000. The net effect will be less than a 1 percent increase in revenue. This does not keep pace with inflation and results in fewer services for our students. We have always been an outstanding district but will not maintain these ratings at the pace we are cutting services.

On a side note, regarding House Bill 920, because of the real estate bubble back in 2008, our district's effective mills on two of our levies increased back to the originally voted mills but the property values were lower than when the levies were voted on causing the property tax monies that we receive to be lower than what was originally voted. We have lost $579,303 each year since 2012 for a total loss of property tax funding of $6,951,636.

Prior to the re-evaluation, Northmont was projected to receive a base cost per student of $3,943. Unfortunately, the formula took money away from the district after the re-evaluation as we will now receive $3,679 per student, a loss of $264 per student which totals $1,183,543 in an unexpected shortfall. The district was proactive in May of 2023 knowing that a loss could be on the horizon by cutting 30 positions across the district. We also closed one of our elementary buildings to save the district a million dollars a year. This year we have continued to make 21 more cuts through attrition. The result is fewer services for our students and larger class sizes in our classrooms. I understand that members of the General Assembly passed a budget that increased funding across the state and we are thankful, but unfortunately for Northmont, those dollars are not reaching our school buildings and we are doing more with less. Inflation continues to eat away at our budget. In our situation revenue is not increasing and expenses hit us hard just like everyone's household has witnessed. All the while our residents are saying we are sending money to Columbus, but it is not returning to our community, and while they have supported us for many years by passing levies we have now failed two levies. They know the base cost to educate a child is $8,100 and that they are being asked to pay $4,421 and they are asking why. Why is a district like ours so heavily dependent on the local taxpayer when it appears the state budget is healthy? Please help the local homeowners by relying less on local property taxes and more on state funding.

Because the state forces districts to rely on property values to fund schools, we continue to rely on the community to fund the schools. While property values continue to increase at rates that outpace the income that we receive and the subsequent decrease in state funding the students in our district will receive fewer services as we are forced to reduce them. While the 36 percent increase in property valuation does not translate to a 36 percent increase in property tax income, it does artificially increase how property "rich" the state believes we are. This artificial increase in wealth will only continue during the 3-year property tax valuation average increases in formula in turn increasing our local capacity to pay, lowering our state funding. By year three and using a conservative growth in property tax valuation of 8 percent, we could lose $1,947,239 in state funding. The Committee's goal is to reform property taxes in Ohio. Please adequately fund schools at the state level and decrease our reliance on local property taxes to fund schools. Thank you for your time.

At this time, I will yield to Matt Bunting from Athens City School District, who will discuss the 20-mill floor.

Treasurer/CFO Matt Bunting, Athens City Schools

Co-Chairs Blessing and Roemer and members of the Joint Committee on Property Tax Review and Reform, my name is Matt Bunting, the CFO/treasurer of the Athens City School District. When I came to the district in August of 1998, it was obvious the district needed a sustained way to generate more revenue since they were getting little to no increases in school funding and only slight increases on 4.00 inside mills once every three years. By that I mean when more funding was needed, they asked voters to pass a new fixed-rate tax levy, and they did that over and over again. They asked voters to pass property tax levies for operating dollars in 1972, 1973, 1976, 1980, 1982, 1984, 1986, 1989, 1990, 1993, and 1994.

When House Bill 920 went into effect in 1976, the district had 29.1 voted mills for operations plus 4.00 inside mills. From that date to 1999, they passed an additional 22.3 fixed-rate mills for operations.

Yet, all those mills are currently collecting (for residential property) 20-mills, the “floor” for school districts. That is a loss of 63 percent of their original voted millage.

While voter support was outstanding, this was an unsustainable model for the future. Since House Bill 920, local property tax revenue has nearly flatlined. If tax revenue is not allowed to increase with property values, where would the revenue come from to keep pace with any level of inflation year-over-year? Please keep in mind that in the 20 years from fiscal years 2000 to 2019, the district was on the minimum funding, or “guarantee” for school funding and saw a TOTAL change during that time of $157,379.

The district needed a way for property tax revenue to keep pace with inflation other than constant and costly trips to the ballot for new levies. The only real solution was to get to the 20-mill floor and allow inflationary pressure to increase revenue once every three years. First and foremost, though, we needed to communicate with our voters, so they understood the need and the plan. Based on the Ohio tax law at the time, how could we get additional revenue but keep homestead and rollback credits for the taxpayer?

- <u>Emergency/Fixed Sum Levy</u> – A fixed sum levy millage does not count toward the 20-mill floor. In 2004 we had a 2.60 mill bond levy expiring. We asked the voters to pass a 7.78 mill 5-year Emergency/Fixed Sum levy. We demonstrated the need for additional operating revenue and that the 7.78 mills would result in a 5.18 mill increase to taxpayers. In November 2004 the voters approved the issue by 62 percent.

  The emergency levy/fixed sum levy was renewed in 2008, 2012, and made permanent in 2016, all with a passage rate exceeding 60 percent. Since a fixed sum levy millage is based on the tax rate needed to bring in the set dollar amount, this levy has a millage rate for TY2023 of 4.84, down nearly 3 mills from its original set rate.

- <u>Earned Income Tax Levy</u> – The earned income tax basis was fairly new in 2006 but using that basis would not impact those on retirement income, unemployment, etc... The district had a 5.8 mill current expense property tax that had been passed in May 1998 and had been replaced in 2002. In 2006, a one percent Earned Income Tax was roughly the same projected revenue as the property tax up for renewal. We asked voters to approve the Income Tax in November 2006 and promised if they did, we would allow the 5.8 mill operating levy to expire. Voters passed the 1.0 percent Income Tax by 56 percent and the property tax levy expired.

  The income tax was renewed in 2010, 2014, and in 2017. The last time for a 10-year term which passed by 65 percent.

In addition to the multiple ballot trips for operational dollars, a 2.90 mill Permanent Improvement Levy was passed in 1991. The Permanent Improvement Levy was subsequently passed as a Replacement Levy in 1996, 2001, 2006, and 2011, before being renewed, rather than replaced, in 2016. The renewal option, while it meant less revenue than the replacement option, kept the full residential taxpayer credits that would have been lost due to changes made by the Ohio Legislature.

This levy would have needed to be renewed in 2021, however, the district was now at the 20-mill minimum/floor for both residential and commercial property. Rather than renew the Permanent Improvement Levy again, gaining no revenue for a second 5-year term, the district held the two required meetings to allow public input. With no opposition from the community, the Board voted to move inside mills to a dedicated permanent improvement fund. At that time, the effective rate of the Permanent Improvement Levy had been reduced to 2.62 mills, and that was the millage moved.

While the district could have moved up to the 4.0 inside mills it has, moving the effective rate ensured that there would be no increase to taxpayers over the current rate. This gain for the district revenue increases for permanent improvement projects since inside mills grow with inflation. It also preserved the residential taxpayers homestead and rollback credits.

After 28 trips to the ballot for operational or permanent improvement levies since 1976, the district has only the 1.0 percent income tax as a renewable levy. Each time a levy is on the ballot there is a cost. The cost deducted from our tax settlements for election expenses, the cost of legal fees to prepare the ballot issues, the cost of time for the district to calculate the type of levy needed, decide on the issue size, and how to communicate to the taxpayers, and maybe the biggest cost of all, is the cost of taxpayer fatigue. Most taxpayers believe that even a renewal levy adds revenue to the district. Even now at the 20-mill floor, property tax revenue only increases every three years as values go through the Ohio required triennial update and sexennial reappraisal cycles.

Had House Bill 920 not become law in 1976, the district would still be collecting taxes based on 29.10 operating mills it had at that time. Today, the effective rate, including the emergency/fixed sum levy, is 24.07. That means in 48 years, 28 additional ballot trips, and full millage increases of more than 27 mills, the district is collecting a 5.03 *LESS* effective tax rate than in 1976. On today's valuation, that is a drop of $3.5 million, which the income tax has offset (it collected about $5 million last fiscal year).

As this committee considers the current property tax system, please keep the experiences of Athens City Schools in mind. While there are multiple reasons a district is at the 20-mill floor, what I have described to you is not unique to my district. Many others have gone through similar processes, going to the ballot repeatedly to offset the impacts of House Bill 920 while working to find ways to receive sustainable tax revenues and avoid the need to constantly go to the voters just to keep up with inflation. The increases in taxes we have seen this year are an anomaly. Valuation increases of this magnitude have not been seen since the 1970s, when House Bill 920 was first enacted. We are concerned that changes to address this issue, which after the next year or two is not likely to be repeated for decades, may bring back the very conditions which Athens City Schools has been combating over the past two decades.

Thank you for the opportunity to be here today. I am now going to turn things over to Philip Wagner.

ATHENS CITY SCHOOL DISTRICT FUNDING

FY	Basic Aid	Guarantee *	Total	$ Change	% Change	Funding	
2000	$ 7,006,457	$ 452,889	$ 7,459,346			SF3	
2001	$ 7,468,438	$ -	$ 7,468,438	$ 9,092.02	0.1%	SF3	
2002	$ 7,903,762	$ -	$ 7,903,762	$ 435,323.59	5.8%	SF3	
2003	$ 7,992,735	$ -	$ 7,992,735	$ 88,972.76	1.1%	SF3	
2004	$ 7,152,967	$ 715,745	$ 7,868,712	$ (124,022.58)	-1.6%	SF3	(1)
2005	$ 6,448,032	$ 448,939	$ 6,896,971	$ (971,741.37)	-12.3%	SF3	
2006	$ 6,974,007	$ 444,192	$ 7,418,199	$ 521,228.77	7.6%	SF3	(2)
2007	$ 7,047,529	$ 358,089	$ 7,405,618	$ (12,581.42)	-0.2%	SF3	
2008	$ 7,004,480	$ 357,958	$ 7,362,438	$ (43,179.95)	-0.6%	SF3	
2009	$ 7,450,451	$ 58,150	$ 7,508,601	$ 146,162.66	2.0%	SF3	
2010	$ 5,191,186	$ 2,036,030	$ 7,227,216	$ (281,385.01)	-3.7%	PASS	
2011	$ 5,390,670	$ 1,735,942	$ 7,126,611	$ (100,604.23)	-1.4%	PASS	
2012	$ 7,236,273	$ 61,403	$ 7,297,677	$ 171,065.28	2.4%	Bridge	
2013	$ 7,611,525	$ -	$ 7,611,525	$ 313,848.32	4.3%	Bridge	
2014	$ 7,369,094	$ 253,189	$ 7,622,283	$ 10,757.69	0.1%	SFPR	
2015	$ 7,638,688	$ -	$ 7,638,688	$ 16,405.45	0.2%	SFPR	
2016	$ 7,211,309	$ 426,379	$ 7,637,688	$ (1,000.00)	0.0%	SFPR	
2017	$ 7,256,907	$ 379,395	$ 7,636,303	$ (1,385.54)	0.0%	SFPR	
2018	$ 7,117,385	$ 519,341	$ 7,636,725	$ 422.73	0.0%	SFPR	
2019	$ 7,077,529	$ 539,197	$ 7,616,725	$ (20,000.00)	-0.3%	SFPR	
			Total $ Change over 20-Years	**$ 157,379.17**	**2.2%**		

* All Guarantee Types
(1) When asked voters to pass the Fixed Sum/Emergency Levy.
(2) When we asked taxpayers to pass a 1% earned Income Tax and allow a 5.80 mill levy to expire.

Source: Ohio Department of Education Final Funding Reports

Superintendent Philip Wagner, Johnstown-Monroe Schools

Co-Chairs Blessing and Roemer and members of the Joint Committee on Property Tax Review and Reform, thank you for the opportunity to testify today representing public school districts. My name is Philip Wagner, Superintendent for the Johnstown-Monroe Schools. This is my thirteenth year in Licking County. Prior to the Johnstown-Monroe Schools, I was superintendent for the Licking Heights Schools. My partner for today's testimony is Jenni Logan, the Treasurer/CFO of Sycamore Community Schools in Hamilton County Ohio. We will be discussing the topics of tax exemptions, shifts in the school tax base, and cash balances.

Property Tax Exemptions

Considering that school districts predominantly rely on property taxes to raise local funds, it is not surprising that the highest millage rates in a community are typically school levies, which may include both operating and capital purposes. In contrast, while cities and counties can levy property taxes for specific purposes, they rely predominantly on income and sales taxes, respectively. The result is that any property tax exemption has the greatest impact on school districts and the students they serve.

Tax-exempt parcels are not included in our total assessed valuation for state funding purposes, so our local capacity calculation remains unaffected. However, school districts must carefully assess any proposed exemptions for their impact on state and local revenue as well as potential direct impacts such as increased enrollment and capacity challenges in school buildings. It's crucial that school districts are involved in these discussions early on.

Intel's arrival within the Johnstown-Monroe School District has resulted in historical levels of economic development. Intel's commitment of a $20 billion investment into their two new fabs has been the catalyst for over 100 businesses expected to locate within Central Ohio. The Johnstown-Monroe Schools includes 52 square miles, and we educate over 1,700 students in four school buildings. We have developed a model to scale all facets of district operations to triple the current student enrollment. Such planning includes significant capital, staffing and academic enhancements to meet growing needs.

Our planning, that includes a close relationship with our municipal partners, is focused in three areas:

- Development of a strategy to fund growth that includes positive and predictable school district revenues
    - Funding growth – The Johnstown-Monroe School Board has a longstanding history of fiscal conservatism. Such conservativism has resulted in a moderate broad and balanced tax base with an excellent educational environment. This enduring practice is being expanded to include public private partnerships.

- Provide enhanced educational experiences that meets business and industry needs
    - Enhanced educational experiences – Our students continue to refine their post high school preparation into one of three pathways: Enrollment in a 2- or 4-year college/university, Enlistment as a member of our armed forces, or Employment – especially to keep talent in Ohio by providing the best possible workforce.

- Enhance or create partnerships with local school districts and regional partners
    - Enhancement of partnerships – In addition to numerous area partnerships, our school district is focused on enhanced public and private partnerships and is committed to help scale operations that benefits the region.

<u>Shift in the School Tax Base</u>

Like the state and local partnership to fund schools, another partnership exists at the local level among homeowners, farmers, and businesses. Separated into their own classification of property, each classification shouldered a relatively equal share of property taxes paid to school districts up until 1991. The partnership, that was once balanced and stable, began to skew out and imbalance beginning in the 1990s. The table below shows the share of school taxes paid by type of property from 1975 through 2022.

Type of Property	1975	1983	1991	1999	2007	2011	2015	2022
Class 1 Real % of Taxes	**46.1%**	47.1%	47.5%	52.4%	65.0%	69.9%	**69.0%**	**66.1%**
Class 2 Real % of Taxes	18.8%	18.6%	20.4%	20.3%	22.3%	24.3%	23.7%	22.0%
Total TPP % of Taxes	35.1%	34.4%	32.1%	27.3%	12.7%	5.7%	7.3%	11.9%
Business TPP % of Taxes	23.2%	22.3%	19.2%	17.7%	8.0%	0.0%	0.0%	0.0%
PU TPP % of Taxes	11.9%	12.0%	13.0%	9.6%	4.7%	5.7%	7.3%	11.9%
Total Business Property % of Taxes	**53.9%**	52.9%	52.5%	47.6%	35.0%	30.1%	**31.0%**	**33.9%**

Two major themes are evident from this data: 1. Ohio homeowners and farmers are paying a larger share of total property taxes for schools and 2. commercial property owners are paying a lesser share. This shift in the tax burden further complicates the challenges schools face when asking voters to support school levies. We are not here today to comment on the policy rationale behind this shift and we understand the importance of having a business-friendly climate in our state, but we do believe it is important to highlight and understand the shift and its implication for local property taxes. As a superintendent, I can attest our local taxpayers, who pay residential and agricultural property taxes, have felt this shift and regularly share their concerns about their property tax bills.

I will now pass the remainder of the testimony to Jenni Logan.

Treasurer/CFO Jenni Logan, Sycamore Community Schools

Good morning. I am proud to be here representing the Sycamore Community Schools as their Treasurer/CFO. Sycamore Schools educate approximately 6,000 students in seven (7) school buildings with an annual budget of $100 million. I joined this excellent high achieving school district in August of 2023. Prior to this I spent over eleven years as the Treasurer/CFO of Lakota LSD in Butler County, so I will be including relevant data from Lakota as well as Sycamore when appropriate. I have also been a member of the Fair School Funding Plan WorkGroup for the past six plus years.

School districts aim to strike a balance between promoting economic development and ensuring sustainable education funding. Sycamore schools have successfully achieved this balance with partners such as the City of Blue Ash, Montgomery, and the townships of Sycamore and Symmes. With approximately twenty TIF (tax increment financing) districts generating $6 million annually in PILOT (payments in lieu of taxes) payments, constituting around six percent of total general fund revenue, our district has benefited. In my previous role at Lakota, managing over 20 TIF agreements and several Enterprise Zone abatement agreements, we generated approximately $19 million annually, amounting to one percent of total general fund revenue.

Throughout my tenure, I've encountered various revenue sharing agreements, many based on a "no harm, keep whole" principle for schools. Some agreements deduct annual debt payments before school compensation, while others involve more complex coverage ratio calculations. Managing over twenty agreements with different distribution arrangements, especially those requiring the school district to invoice for their share of PILOT payments, can pose challenges. Early involvement and transparent communication are essential for successful revenue sharing agreements that benefit both the community and the schools.

Cash Balances, Five-Year Forecasts, and Levy Cycles

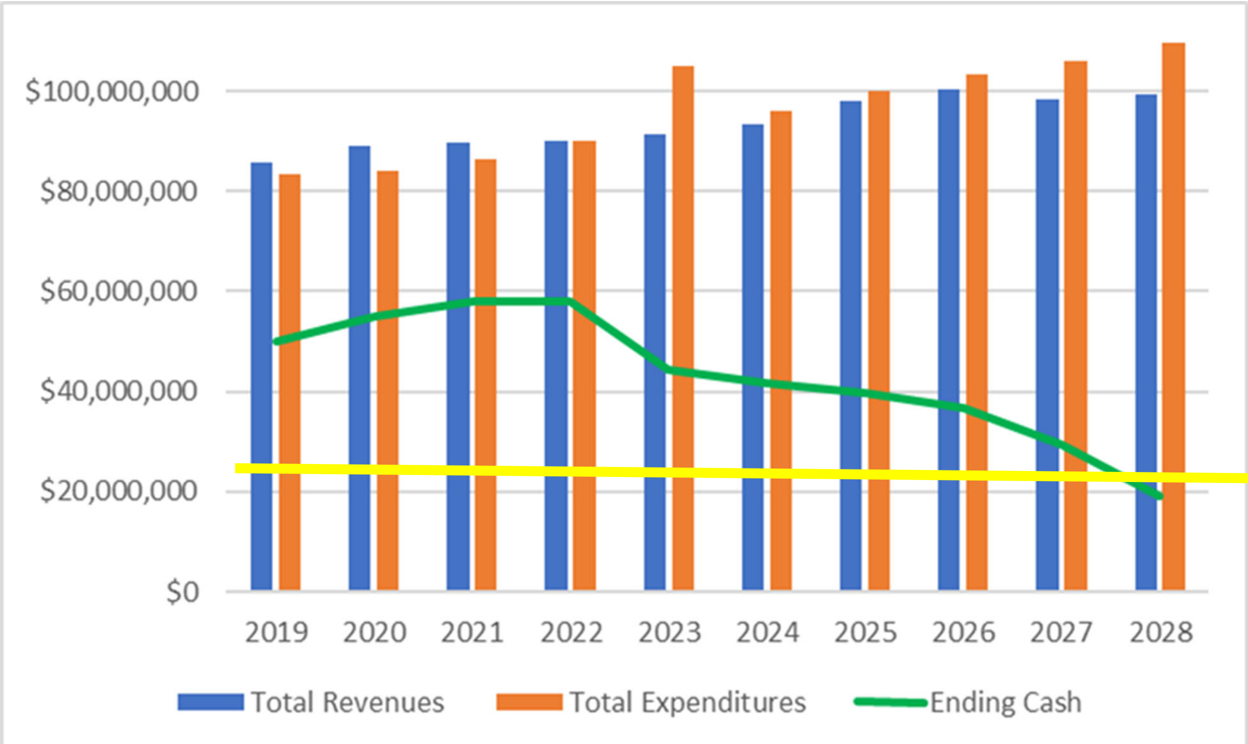
All school districts in Ohio must have in place a five-year forecast, which includes three years of historical data, five years of projections, and a summary of key budgeting assumptions. Also included in the district's five-year forecast is a prediction for how long the district will maintain a cash balance. Cash balances have been unusually large recently, which is a function of conservative budgeting amid a global pandemic, uncertain funding, and influx of one-time federal pandemic funding. In addition to conservative budgeting, school districts, especially those at the 20-mill floor, have benefited from historic valuation increases. Our treasurers, superintendents and school board members understand the need to use strong business practices in the operations of school districts. Maintaining a healthy cash balance is a key part of conservative long-term financial planning that is in the interest of the taxpayer and allows the district to maintain fiscal solvency.

In 2022 OASBO released the *General Revenue Fund Cash Balances – Management, Guidance, and Best Practices*, commonly referred to as the OASBO Whitepaper. This best practice document helps guide school districts in developing and establishing their own local cash balance policy.

In my current district our Board has established a policy which sets a cash balance goal of not less than 25 percent of the general fund operating expenditures, which essentially is 3 months or ninety (90) days. This is reviewed on a monthly basis as well as with each five year forecast approval.

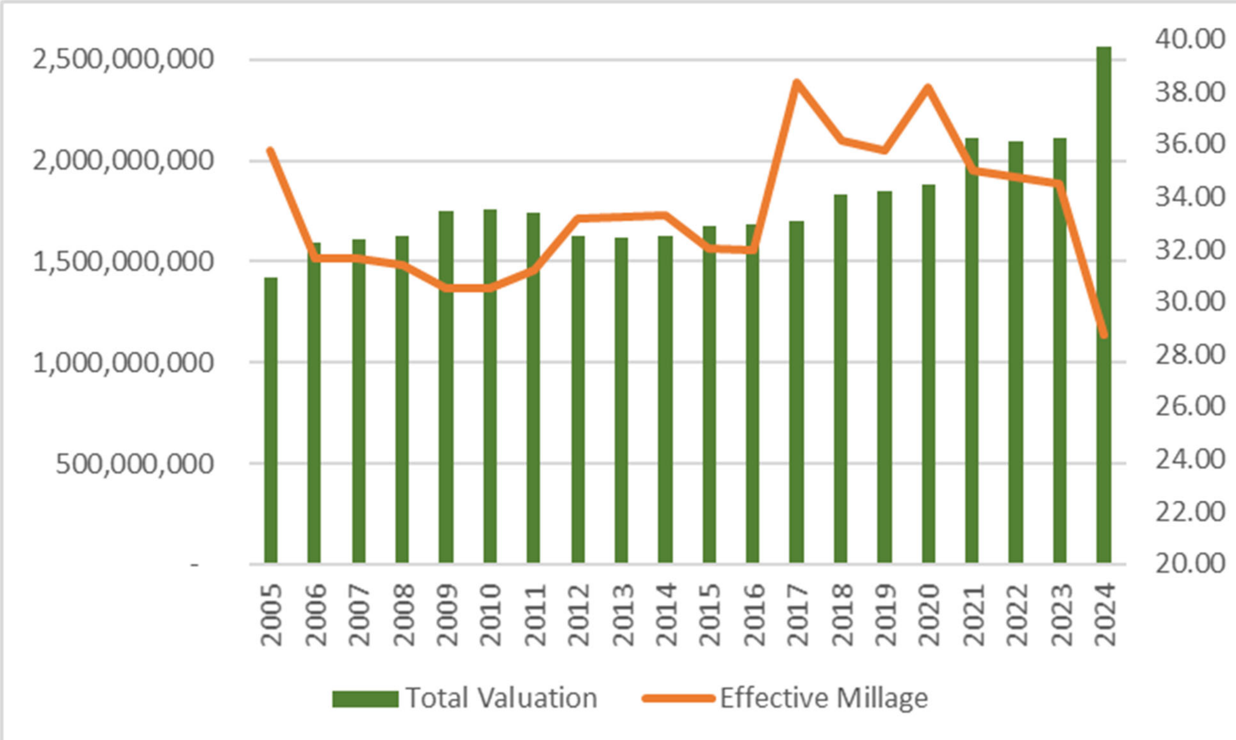
During my time at Lakota, the Board of Education adopted a cash balance policy which not only set a minimum cash balance goal of ninety (90) days but also defined a process when balances reached a threshold above one hundred fifty (150) days. We also set up a budget stabilization fund (rainy day fund) and adopted a policy related to adopting a structurally balanced budget.

For illustrative purposes, I've included the chart from Sycamore's November 2023, five-year forecast presentation. The yellow line indicates our cash balance goal established in policy. As you can see, while our cash balance is well above the line currently, we are predicting it will fall below the established goal in year four or five of the forecast. Our last operating levy was passed by our community in November 2016.



Every district is unique and extra care and attention should be used in developing the assumptions which generate the numbers on the five-year forecast. To understand the specifics of this chart you would need to understand the notes to the forecast, which include but are not limited to the fact that we are finishing a master facilities project and funding a portion from our general fund.

Hamilton County did experience a total reappraisal during calendar 2023 which impacted our taxpayers in 2024. In Sycamore we saw an overall increase of 22 percent of total valuation, with our residential AV increasing 25 percent. Our effective millage is not at the 20-mill floor so tax reduction factors did make an impact. Therefore, the increase in revenue estimated due to inside millage growth is approximately $2 million more annually, or two percent more in total general fund revenue. The chart below shows our total valuation history from 2005 – 2024, with the total effective millage (including bond levies).



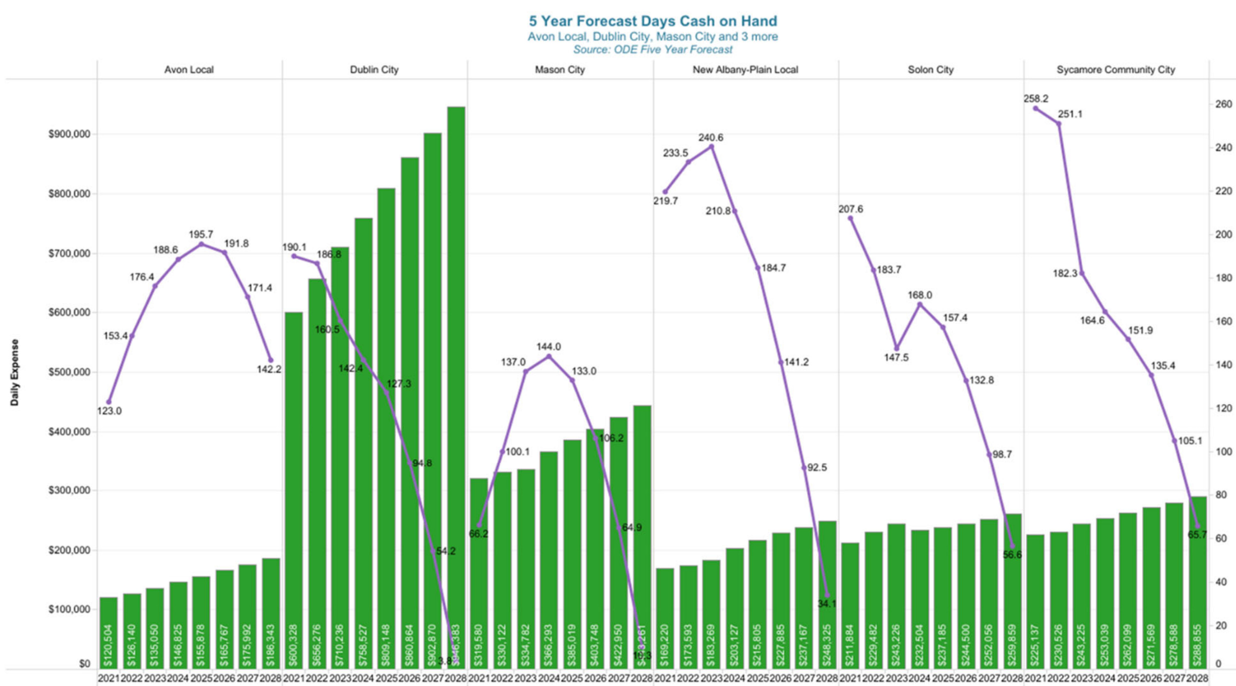
While we look at the impact of these historically high valuation increases, we must not forget the impact this has on state funding for districts as well. Our local capacity is based on property wealth (60 percent) as well as resident income (40 percent). As our local capacity increases, state share calculations will be impacted. Sycamore is already receiving the minimum state share (10 percent) and therefore, we will not see a further reduction to our state share. But, this will not be the case for others. During our annual conference last week, it was shared that fiscal year 2025 K-12 traditional district state funding is predicted to be significantly less than was estimated. This can be attributed to the increases in property values as well as lower student enrollment. This also highlights the need to update both sides of the equation for school funding: the local capacity as well as the cost inputs to make sure the distribution is appropriately measured.

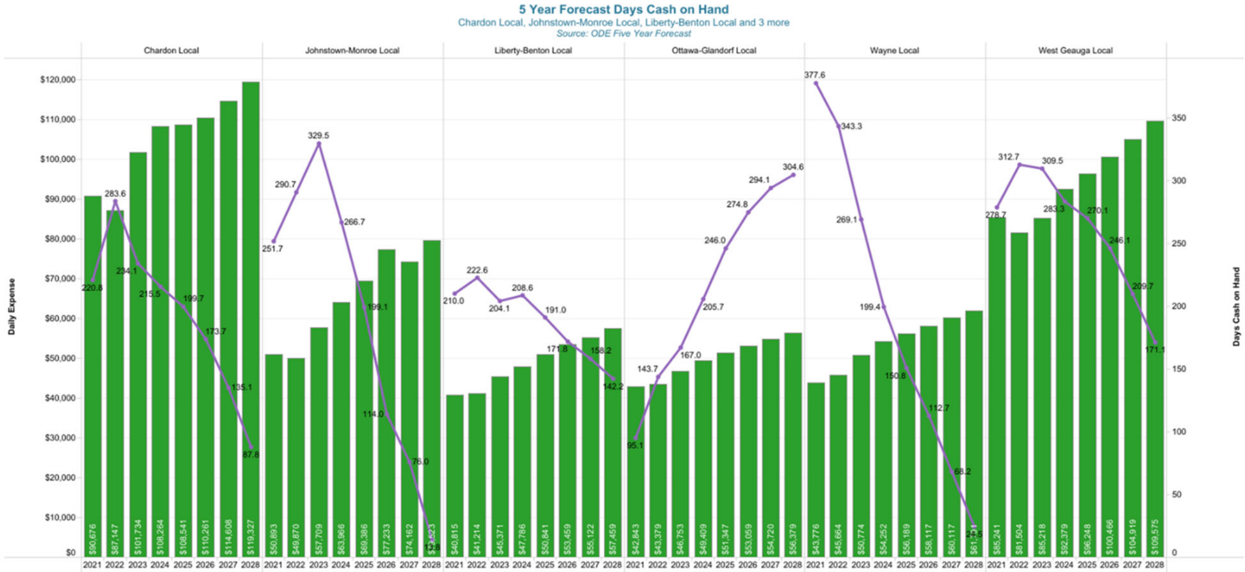
Since hundreds of Ohio school districts do not receive revenue growth from the reappraisal of property due to House Bill 920, tax revenues often do not keep up with ever-increasing operational costs, which typically increase 3-5 percent annually. Therefore, school leaders are often forced to ask voters to support levies at a more frequent cycle to keep up with inflationary increases in operating expenditures and other market demands. The passage of a levy also results in higher cash balances for an initial period of time as these funds are then spent down due to increasing expenditures, inflation, and the inability to benefit from inflationary increases in property values (i.e., House Bill 920). This then results in a need for another levy to replenish the funds.

Essentially, the only option for local school districts to raise additional revenue becomes a new levy, which requires voter approval. This system of school funding is one reason that school districts often carry a cash balance, particularly after a successful levy issue. Commonly referred to as the “levy cycle”, the result is higher cash balances for an initial period of time that are then spent down due to increasing expenditures, inflation, and the inability to benefit from inflationary increases in property values (i.e., House Bill 920). This then results in a cyclical need for another levy to replenish the funds.

The need for school districts to be conservative in their spending and to build cash reserves has been further reinforced by inconsistent and inadequate funding formulas – which is now a vestige of the past based on recent historic legislative investments in education. Nevertheless, this uncertainty has resulted in building our cash reserves to help ensure the continuation of educational programming for students.

It is important therefore, to not only look at a current fiscal year cash balance of a school district, but to look at the predictions moving throughout the forecasted period. As an example, I am including a chart that shows Sycamore and Johnstown Monroe with their five most similar districts. These charts reflect the daily expenses in the green bar from 2021 – 2028 as well as the number of days of cash on hand during the same time period depicted with the purple line. As you can see in every district but one, the number of days of cash on hand is predicted to decrease over time. To understand the reasons and rationale you would need to know each school district's unique story. We appreciate the opportunity to share with you our districts' story.





Thank you for your attention and consideration to our testimony. I will now yield to Mike Barnes to conclude our testimony.

Superintendent Michael Barnes, Mayfield City Schools

Co-Chairs Blessing and Roemer and members of the Joint Committee on Property Tax Review and Reform, thank you again, for the opportunity to testify today representing public school districts.

Today you heard testimony from school district leaders who represent a diverse sector of school districts across our state. Every one of us in this room shares the same goal of providing an education of the highest quality for our children.

Earlier it was explained how the state distributes funding to school districts and why it is relevant to this committee. The stated reason was because of the impact property values play on a district's state funding. When property values increase, a district appears wealthier in the formula, and its capacity to pay more is adjusted upward, resulting in less state aid. The property valuation reappraisals and updates in the 41 counties last year illustrate the real-time impact valuation increases have on districts' state funding. Districts not at the 20-mill floor, will see the effective tax rate of their levies reduced because of House Bill 920, and consequently, will see no growth in funding from their voted mills. Northmont shared the following example: Their 36 percent increase in property values will increase their property tax revenue on their inside mills by $1,518,000. While they appreciate the increase in property tax revenue, the effect of the increase in property valuations will reduce the State funding we are projected to receive by $1,183,000. The net effect will be less than a 1 percent increase in revenue. This does not keep pace with inflation and will result in fewer services for their students. There are other districts throughout the state where this scenario would also apply.

We all understand that we are living in exceptional times, from pre-and-post pandemic to emerging from the great economic recession, where there was little to no increase to property values. Now, for the first time in 40 years we are experiencing exceptional growth in property values. The increases in taxes we have seen this year are an anomaly. Valuation increases of this magnitude have not been seen since the 1970s, when House Bill 920 was first enacted. We are concerned that changes to address this issue, which after the next year or two is not likely to be repeated for decades, may bring back the very conditions that districts like Athens City Schools have been combating over the past 20 years.

Additionally, and as Mike Sobul mentioned in his opening remarks, the Fair School Funding Plan was constructed based upon, and to work in concert with, the property tax system as it exists right now. Any significant changes in the property tax system could break this relationship and cause the Fair School Funding Plan to fail.

We emphasize the need to update base cost inputs so that the formula is working as planned, and not burden shifting from the state (who is paying less if inputs are not updated) to the local district.

Co-Chairs Blessing and Roemer and members of the committee, thank you for your consideration and attention to this important issue that affects all Ohioans. We appreciate the work of this committee and our organizations and our colleagues in the field stand ready to work with the General Assembly as we seek to make improvements to our state's property tax system. This concludes our testimony. We are happy to address your questions.