

4

What is House Bill 920 and why does it affect schools so much?

House Bill (HB) 920 prevents school districts from recouping inflation when property values rise as a result of reappraisals or updates. A levy is passed, essentially, for a fixed amount of dollars. As the district's property value increases, the tax rate is reduced so that the district can't collect more than the original fixed amount of dollars.

Example: School district "A" passes an 8.0 mill levy in 2006.



In 2007, district A's valuation increases 10% to \$110,000,000. The County auditor must figure out the new "effective tax rate," keeping the amount of money fixed at \$8,000,000. The new effective tax rate is .073 or 7.3 mills, a reduction of 0.7 mills.



This example simplifies many of HB 920's complexities, but conveys the basic principle of how it works. Over the years, Olentangy's cumulative combined bond and operating levy rates have been reduced from 62 voted mills to 35.67 effective mills because of HB 920⁷.

Taxpayers are affected by the offsetting forces of increasing property valuations and decreasing millage rates. Every three years, property will be reappraised or updated, usually leading to an increase in valuation. The valuation of some properties rises more than others.

However, all properties in the district will receive the same decrease in millage. Because of the non-uniform valuation increases, the net impact of the revaluation combined with the millage reduction will vary for each property.

Since HB920 prevents school districts from recouping inflation, it is a major reason why school districts put operating levies on the ballot.

5

How does all of the new home construction in Olentangy affect the schools?

New home construction has pros and cons for our schools. On the plus side, new construction brings in new school taxes not subject to HB920 for a few years.⁸ On the down side, the school taxes from a typical home cover only a fraction of the cost to educate just one student.⁹ (Remember that property taxes fund other government agencies aside from schools – obtain a copy of your tax bill for the breakdown.) **When you consider all factors, new construction costs the district more than it gains in tax revenue.**

Housing density (the number of houses per acre) and the mix of residential/commercial construction also determine the impact of new construction on the district. For single-family homes, higher density usually means more students entering our schools and a greater expense for the school district. Lower-density housing usually results in fewer students and a lower expense for the district. Condos, although high-density, often house few students. Commercial development brings in taxes without direct expenses.

This publication was produced by the Olentangy School Board's School Funding Action Committee (SFAC). SFAC was formed in May 2004 for the purpose of educating Olentangy taxpayers on school funding issues and advocating for Olentangy taxpayers. This document was designed as a quick primer for Olentangy residents on school funding so to promote a better understanding and more advanced dialogue with the state as the school funding issue in Ohio continues to unfold.

For more information on the SFAC, visit www.olentangy.k12.oh.us/district/board/sfac/index.html

(Due to limited space on this brochure, endnotes providing additional detail are available on the district's web site at www.olentangy.k12.oh.us/district/board/sfac/index.html)

Ohio School Funding and Olentangy:

The Answers to 5 Frequently Asked Questions

- 1 How are Ohio schools funded currently?
- 2 How does commercial development (for example, Polaris Parkway) affect school tax revenue?
- 3 Why is Olentangy on the ballot so frequently?
- 4 What is House Bill 920 and why does it affect schools so much?
- 5 How does all of the new home construction in Olentangy affect the schools?

1

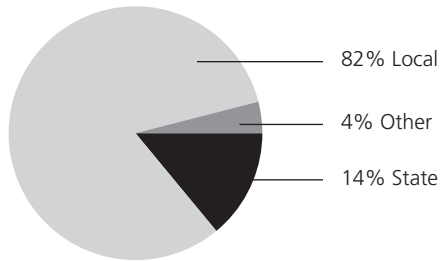
How are Ohio schools funded currently?

Funding for Ohio's public schools comes primarily from local property taxes and state income taxes. The amount of each district's funding that comes from the state is based on a formula that evaluates each district's property valuation. Low wealth districts receive more state funding than high wealth districts.

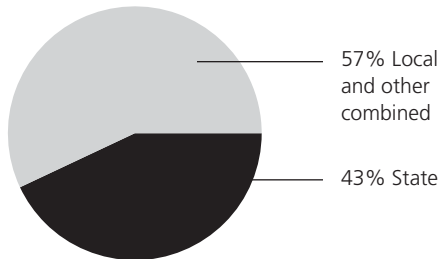
Olentangy is considered a high wealth district by the state, therefore our district:

- Receives only 14% of its funding from the state, compared to 43% for an average district (see graphs below)¹
- Uses local taxes to provide 82% of its funding. Of these local property taxes, 86% are residential and 14% are commercial
- Doesn't receive any state funds to build schools²

OLSD School Funding Sources for 2005-06



State Average School Funding Sources for 2005-06



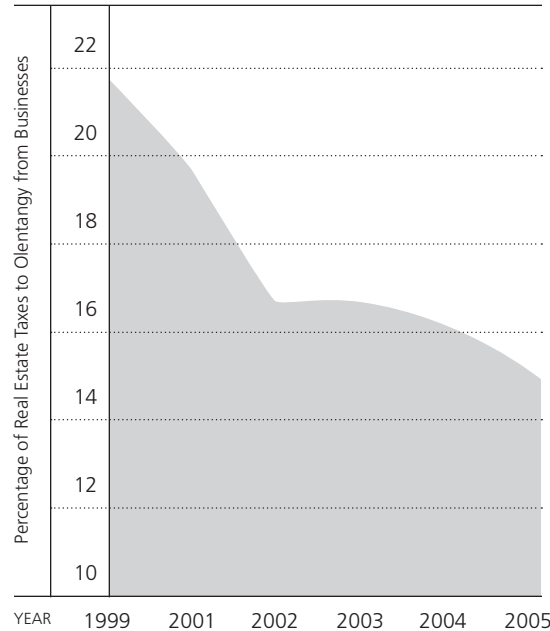
2

How does commercial development, such as Polaris, affect Olentangy's tax revenue?

Commercial development benefits the district by bringing in tax revenue without the direct expense of educating students. Indirectly, some commercial development brings employees that move into the Olentangy district. If those families have schoolchildren, the district incurs expenses to educate them.

The graph below shows that as Olentangy has grown, commercial property taxes provide a decreasing share of Olentangy's school funding. Commercial growth has not kept pace with our explosive residential growth. Also, in 2005 the Ohio General Assembly changed the commercial tax structure. In the future, Olentangy will probably receive less money from commercial taxes.³

Annual Downward Trend of Commercial Real Estate Taxes to Olentangy



3

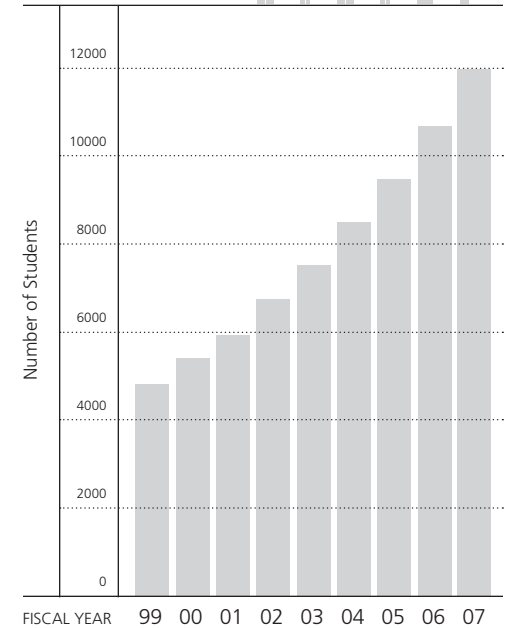
Why is Olentangy on the ballot so frequently?

Under Ohio's school funding system, Olentangy and similar suburban school districts typically ask voters to approve additional taxes every few years⁴ because:

- property taxes, in general, can't grow with inflation (House Bill 920)⁵
- growth may lead districts to incur additional expenses
- changes to state laws may reduce tax revenues and state funding for school districts⁶:

Even fiscally-responsible districts need to recapture inflation, fund growth, and offset reductions in state funding.

Olentangy's Annual Student Enrollment



Ohio School Funding and Olentangy: The Answers to 5 Frequently Asked Questions – Footnotes

¹ The average Ohio school district receives 43.34% of its total revenue from the state according to the Ohio Department of Education, Center for School Finance – Simulation, Foundation and Analysis, for the fiscal year 2005.

² You may have heard that the state of Ohio is funding construction of many new schools. The 2000 “Rebuilding Ohio Schools” program calls for the expenditure of over \$24 billion for school construction and renovation. (Source: The Ohio School Facilities Commission web site www.osfc.state.oh.us.) So far, \$4.84 billion has been spent to build or renovate 469 new schools in more than half of Ohio’s districts. (Source The Columbus Dispatch, “Taft’s pride”, 12/6/06.) However, Olentangy has not qualified for any state funds to build new schools because the state considers Olentangy a high wealth school district.

³ Future commercial tax revenues will possibly decrease because the state is phasing out personal property taxes on business equipment and inventory. Olentangy collected \$4.4 million from this tax in 2005 (about 5% of the budget), but will collect zero dollars by the year 2017. Some of these lost tax dollars, which were collected locally, may be replaced by the new state-collected commercial activity tax (CAT) but it is unclear if the state will pass any of the CAT revenue back to school districts.

⁴ On average, most Ohio school districts are on the ballot every few years. The table below shows the frequency with which districts were on the ballot for the last five years:

School Operating & Capital Levy Totals, By Year (1984-2005)
Education Tax Policy Institute – October 2006

Year	Total Number of Issues	Total Number Passing	Total Percent Passing	# of Operating Issues	# of Oper. Issues Passing	% of Oper. Issues Passing	# of Capital Issues	# of Capital Issues Passing	% Capital Issues Passing
2000	446	310	69.5%	214	149	69.6%	232	161	69.4%
2001	344	214	62.2%	169	109	64.5%	175	105	60.0%
2002	372	220	59.1%	198	121	61.1%	174	99	56.9%
2003	439	229	52.2%	270	145	53.7%	169	84	49.7%
2004	618	279	45.1%	433	186	43.0%	185	93	50.3%
2005	534	275	51.5%	354	177	50.0%	180	98	54.4%
Totals	2,753	1,527	55.3%	1,638	887	54.2%	1,115	640	57.4%
Averages	459	254	55.3%	273	148	54.2%	186	107	57.4%

Source: Education Tax Policy Institute (www.etpi-ohio.org).

Using the total number of passing issues, the 2005 data would indicate that an average district would pass a ballot issue every two years (614 districts divided by 275 passing issues). Some of those issues may have combined both an operating levy and a bond issue. Since that level of detail is unavailable, the number of operating issues that passed would be a more conservative figure to use. Using that data, 614 districts passed 177 operating levies in 2005 and the average district was on the ballot about every three and one-half years (614 districts divided by 177 passing operating levies). Of course, some districts will be on the ballot more often, and others less often as the needs of each district vary.

⁵ Technically, property taxes can grow with inflation on the first 10 mills (called “inside millage”) of property taxes. In Olentangy, 5 of the first 10 mills fund schools. When properties are reappraised or readjusted upward every three years, House Bill 920 forces the the school district to decrease its mill rate (see brochure question #4 on House Bill 920) – except for the first 5 mills. In the following example, a home with a \$200,000 appraised value is reappraised at \$220,000 and the impact of the first 5 mills (.005) of taxes is shown. Remember that taxes are paid only on assessed home value, which is 35% of appraised value.

Example of how inflation is allowed on the first 5 mills:

Before reappraisal: \$200,000 appraised home x 35% assessed value = \$70,000
 \$70,000 x .005 = \$350 tax on first 5 “inside” mills per year

After reappraisal: \$220,000 appraised home x 35% assessed value = \$77,000
 \$77,000 x .005 = \$385 on first 5 “inside” mills per year
 Increased Olentangy school tax on inside millage: \$385 - \$350 = \$35 per year

In this example, the school district would receive an additional \$35 per year in taxes from “inside millage” because of the reappraisal.

Ohio School Funding and Olentangy: The Answers to 5 Frequently Asked Questions – Footnotes

⁶First, House Bill 66, passed in 2005, will phase out tangible personal property taxes (PPT). As stated in endnote 2, Olentangy collected \$4.4 million from this tax in 2005 (about 5% of the budget), but will collect zero dollars by the year 2017. Some of these lost tax dollars, which were collected locally, may be replaced by the new state-collected commercial activity tax (CAT) but it is unclear if the state will pass any of the CAT revenue back to school districts. Until 2010, the state will reimburse Olentangy for lost tax revenue – at 2004 rates. However, if HB66 had not eliminated this tax, Olentangy would have seen growth in PPT revenue from its growing commercial base.

Second, House Bill 66 also impacted the state funding formula. Olentangy will receive less state funding because the state will no longer consider the higher expenses of doing business in Delaware County after that provision is phased out in 2007. Delaware County's "increase factor" was 5.28% in 2005, 3.52% in 2006, and will be 1.76% in 2007.

Third, beginning in fiscal year 2007, Olentangy will see some reductions in state aid because the value of tax incremental financing districts (TIFs) will be included in the state's aid calculation. Previously they had not been included.

Finally, the State changed its transportation allocation formula, starting in fiscal year 2006, resulting in reduced funding for Olentangy.

⁷This information is from the State of Ohio Corporate Reduction Factor Report for the Tax Year 2005. The following information is for the three most recent operating levies:

	Voted Tax Rate in Mills	Effective Tax Rate in Mills
2004 operating levy	10.5	8.78
1999 operating levy	7.2	4.21
1993 operating levy	7.9	3.08

The numbers above show that, over time, the rate taxpayers are actually charged for each levy decreases. As more people move into the Olentangy district, they expand the tax base and everyone pays a lower rate for the levies (which were passed, essentially, for a fixed amount of money).

⁸ New construction is taxed at its partially-completed rate as of January 1 each year and it's not subject to HB920 until the following year. For example, a house started in the summer of 2005 that was 30% complete on January 1, 2006 would not be subject to HB920 until January 1, 2007. At that time, the 30% carried over from January 1, 2006 would be subject to HB920. The remaining 70% would not be subject to HB920 until it, too, had been "carried over" from one January to the next.

An additional downside of new construction is that taxes are collected one year in arrears. A student may move into a new home before any taxes are paid on that home.

⁹ An average Delaware County home is appraised at \$300,000 (rounded). This \$300,000 home brings in \$3,745 in school taxes. Olentangy incurs \$8,214 in operating costs to educate each student, on average. (Source: Ohio Department of Education for school year 2005 – 2006). So the average home brings in less property tax revenue than it costs to educate just one student.

In addition, the district must build new schools when existing schools are filled. New school buildings are a capital cost that is funded with bonds (as opposed to operating levies which fund operating costs such as teacher salaries). Olentangy currently incurs an average capital cost of \$2,253 per year for each student.

When looking at the impact of new housing, you could add both the operating cost of \$8,214 per student and the capital cost of \$2,253 per student to get a total average cost of \$10,467 per student. This may give a truer cost because it reflects the fact that there's a cost to taxpayers to build new schools. On the other hand, this simple analysis has some limits. Both the operating cost and capital cost shown are averages – they don't reflect marginal costs applicable to just the new students.

When comparing cost-per-student averages between districts, Ohio Department of Education operating costs are typically used. Ohio does not collect capital (building) cost data from school districts. Therefore, total cost-per-student data cannot be calculated and districts cannot be compared accurately.