

HISTORY OF OHIO PUBLIC SCHOOL FUNDING

By Jayne Geneva, Chair, Lay Finance Committee (May 17, 2016)

Public school funding in Ohio is financed from three main sources:

- A small amount comes from the federal government;
- The state gives each school district some money, and
- The largest share comes from local sources in every district.

The most complicated is the state share. Primary and secondary education is one of the largest expenditures in the Ohio state legislative budget. A complex primer on the system of funding of Ohio's Public Education system would take too long but an overview of the public school funding scenario is necessary for understanding the continuing levy demands Ohio school boards must make on their residents.

Property Tax, 1825

When Ohio became a state in 1803 the settlers did not have an education system. Parents paid for their children to attend the few schools that existed. The settlers realized that an educational system would have a civilizing effect on the territory. In 1822, Caleb Atwater was successful in convincing the governor and legislature that a commission should be formed to study the creation of a state educational system to further the value of common schools for Ohio's future education of its citizens.

The committee's proposal was opposed by the legislature, but popular pressure from the citizens forced the legislature to reconsider the importance of educated citizens to the growth of the state. In 1825, the Ohio government created a common system of schools and financed public education in Ohio with a half-mill property tax.

Currently, about 2/3 of all property taxes levied in the state go to fund education. The remainder of property tax money is divided among local governments.

Sales and Use Tax, 1934

Having educated citizens of the state has remained an important tenant of Ohioans throughout the state's history. But in 1934, following the Depression, residents were often not able to pay their property taxes. The state instituted a State Sales Tax of 3% on certain goods in order to help pay for education. This tax has changed at least 25 times over the years, expanding and contracting the goods and services to which it applies. Even the rate has risen and fallen. But one major change over the years is that the money collected is no longer used for the sole purpose of education as the tax was originally designed.

Ohio Lottery, 1975

Attempting to minimize the direct tax burden on its citizens, the legislature created another money-raising system in 1975: the Ohio Lottery. Under the Ohio Constitution, the lottery's "net proceeds...are paid into a fund of the state treasury that shall consist solely of such proceeds and shall be used solely for the support of elementary, secondary, vocational, and special education programs."

In the 41 years of the lottery's existence, over \$20 billion dollars has been recorded in profits. What has happened to this money? Have the schools seen a great increase in their funding? No. Because, although the profits have gone into the state education budget, they have only replaced dollars that were then removed from the education budget and placed into the state general fund. Thus, dollars in, dollars out; it is a wash for Ohio's 612 school districts.

Additionally, the *Columbus Dispatch* reported that although more lottery money is going to education, education's percentage of total lottery cash has steadily declined, from 40 percent the first year to 29.8 percent in 2013.

The legislature then expanded this form of money-raising to include racinos and lottery machines during the 2008 and 2009 property value decline. But no increase in funding accrued to the school districts.

Then in 2009 the state expanded the use of lottery profits to also include casinos. Again the prospect of funding education was a selling point in this ballot issue. The scheme has not been particularly helpful to schools, however, as they collect about \$50 per student from these businesses.

House Bill 920, 1976

In 1976, due to other economic pressures, education funding took another hit. The House Bill 920 statute froze property taxes at the amount they were assessed in the original year of assessment. So even if a piece of property rose in value—with inflation—the tax levied remained at the original lower rate. Property taxes did not increase with the increase in value of the property. The dollar amount a levy raises is frozen at the initial dollar amount over time.

This law is one of the major reasons that school districts are forced to put levies on the ballot periodically. There is no built-in inflation factor for running school districts. Cities and counties, on the other hand, are usually run on income taxes which rise with inflation.

These taxing and funding policies in Ohio have had the effect of making Ohioans face more school tax levies than any other state: 5,946 from 2001-2015! The CH-UH District has voted 139 mills, but we can only collect taxes of 71.2 mills—the effective millage rate—due to HB 920.

Rollbacks

Since 1971 the taxpayer has not paid all of the taxes charged for residential and agricultural real estate taxes. A discount of 10% was given to all properties and an additional 2.5% discount was given to residential property tax payers. These discounts were called “rollbacks.” The state provided money to pay for these taxpayer rollback amounts to the school districts. In addition another discount was granted to seniors over 65 regardless of income under the homestead exemption of \$8.75 per mill of tax. Unfortunately, the state has eliminated the 10% and 2.5% rollbacks for new and renewal levies as of 2013. The homestead exemption now will only be granted to new applicants with an income figure of \$30,000 or less.

The picture gets more and more bleak for public education...more and more of the dollars that the state used to provide to districts now must come directly out of local citizens' pockets as the state revises the funding rules for public education and reduces the amount it will put in its budget to educate Ohioans.

Tangible Personal Property Tax (TPP)

Taxes based on general business, telephone and telecommunications, and railroad properties were also to be used to benefit public education in Ohio. But in the push to help the economy of the state and add jobs and create more businesses, the legislature began to subtly change these tax policies in the 90s.

In 2005, under HB66 these taxes were to be eliminated over several years. At that end there would be no general tangible values left in the property tax base of school districts. The law provided, however, a “hold harmless” period—a phasing out-- during which time the districts would receive what they would have received had the taxes remained in place. That hold harmless period ended in 2013. A Commercial Activity Tax (CAT) was enacted in the restructuring which was to fund the replacement payments indefinitely, but these were vetoed by Governor Kasich.

The overall effect of this tax restructuring is that school districts first had their TTP tax amount reduced; second they now have a smaller tax base from which to generate future revenues; and third, the state general revenue stream for school districts was also reduced.

The Formula

Thus far, we have only talked about tax monies that were originally intended by the people of Ohio to go to education which largely have been distributed elsewhere. But, of course that is only part of the funding story.

The education money given to districts under the state formula itself is broadly supposed to take into account the characteristics of the district, including the capacity of the district to pay. And the formula is the basis for the state's funding mechanism to local schools, although it is too complex to decipher here. The base of the formula relies on real estate property taxes just as we saw in 1825, but with many layers of financial configurations on top. The Constitution provides that only 10 mills (known as inside mills) can be non-voted mills and these are to be divided among schools, counties, special districts, and cities. The remaining millage (outside mills—any millage over the first 10 mills) must be taxes voted by the residents. In our school district, these mills also cover the CH-UH Library.

Because of the many types of property in Ohio (agricultural, commercial, industrial, and residential), and the fact that the Ohio Department of Education uses one formula for all students, several court cases have been brought over the years maintaining a new system of financing public education must be created in Ohio.

In 1997, the Ohio Supreme Court declared Ohio's system of funding public education based on property taxes was unconstitutional, but the Court also said that the legislature would have to create a more equitable system. That new system has not been established to this date.

Thus, the fact that we live in a residential community with little commercial and industrial property means our home taxes are what must pay for our education of our young people. We do not have heavy trucks ruining our streets all the time, our air is not smoggy and we are not choking on factory waste spewing out of smokestacks. We have chosen to live in a peaceful residential place, and our residential property taxes are how we pay for our educational system according to current state law.

State Expenses/Unfunded Mandates

Additional state laws have affected school districts' funding as well. The legislature provided for tax abatements to real properties within school districts. In some places, the school districts have input on these abatements to their funding sources, in others they do not.

Tax increment financing, another economic engine used by the state, allows new commercial development to use their taxable real estate monies to fund site improvements. The effect is to reduce school monies to increase the flow of monies for economic development.

Also under state law, we, as a public institution, must admit ALL students between the ages of 6 and 18 who are considered residents in our district. We may not pick and choose; we educate all of them. Particular state mandates apply to students under various categories and not all of the costs of these are funded.

We are required by state law to bus any students in grades K-8 who live 2 miles or more from their schools, whether or not they attend our public institutions. In CH-UH we bus about as many private school students as we do public school students.

There are other mandates of the state, of course, and most do not come with dollars attached. State mandates such as the Third Grade Reading Guarantee, the Ohio Teacher Evaluation Program, and

the College Credit Plan are a few. These unfunded mandates must all be provided with local dollars.

Although the inflationary costs of education increase, the education funding is fixed and inflexible. Many costs are out of the control of the local school boards:

- consumer goods
- utilities
- legal requirements
- unfunded mandates
- expanded services wanted by the communities.

Education is a personnel intensive business—people teach our young citizens. We are not dealing with machines and widgets.

In Ohio, the funding for education is lower today than it was in 2008. In part, the decline in real property values is to blame for this situation, but each year we read about Ohio monies intended for public school education being diverted to charter and private school programs. In our district this amounts to millions of dollars.

Also another point to clarify: Operating funds are used to educate students. Tax monies collected for capital improvements, may only be used for capital expenditures. Those monies may not be used for operating the district. Money to run the district is voted as operating levy money.

In sum, our property taxes pay to educate our young citizens under the structure of finance established by the state whereby each community gets a say in how strong it wants its educational system to be. Historically each district must repeatedly go to its residents (usually about every 3 years) to reaffirm how important education is to the district. The levies enable the district to maintain its system, since there is no automatic inflationary increase. Yet inflation raises the costs of utilities, supplies, and labor.

Given the numerous studies conducted nationally as well as regionally, we know that education plays a strong part in lifting our economy and without valued education we will falter.

Education leads to jobs which lead to a strong community.

Note:

This article was originally written by Jayne Geneva Chair of the Lay Finance Committee for Cleveland Heights-University Heights City School District and has been provided with the permission of the Cleveland Heights-University Heights City School District Treasurer.

The original posting can be found on this District's website at <https://www.chuh.org/HistoryofOhioSchoolFunding.aspx>