

House Primary and Secondary Education Subcommittee of Finance
Wednesday April 10, 2019

Good afternoon Co-Chairmen Cupp and Patterson and members of the Finance Subcommittee on Primary and Secondary Education. Thank you for allowing me to testify today on the proposed education budget in our State and the Perry Local Schools District. My name is Lew Galante and I serve as the CFO/Treasurer for the Perry Local School District in Lake County, Ohio.

Perry Local School District is a small rural school district in Eastern Lake County that serves approximately 1,650 students.

Within the community we have only four (4) businesses (including the school district) that employ over 60 people, and eight (8) that employ over 30 people.

The largest employer, the Perry Nuclear Power Plant represents over 20% of total employment of the school district. The Perry Local School District is the second largest employer within our territory.

Since the inception of the plant in the early 1990s, the Perry Local Schools had been blessed by the revenue that the power plant provided over the years.

As we turned the century however, Perry sat in a precarious situation. We had a beautiful facility to provide great educational opportunities for children, but we also faced decreasing declining local tax valuation due to deregulation legislation. Because the valuation of the plant sat in a rural community with low population density, the valuation per pupil remained high and prevented the school district from being able to make up for lost revenue under the state foundation formula.

The Ohio General Assembly however, created the Kilowatt-Hour tax in 2001 (SB3) to replace the public utility excise tax on electric and rural electric companies. This tax when enacted was "designed to replace revenues lost from the reduction of assessment rates on electric and rural electric tangible personal property."

The Kilowatt-Hour tax provided for an allocation to all the local entities statewide who lost revenue due to the tax assessment rate change -- including the State of Ohio. This tax incidentally, brought in \$544 million in state revenue last year.

In 2007, the State of Ohio under HB119 increased the kWh tax share to the General Revenue Fund (GRF) to 63%.

In 2011, under HB153, the GRF share was increased to 88% from 63%, and established a plan for reducing local school district payments.

In 2015, HB64 altered the revenue distribution again. Now, 100% of the Kilowatt-Hour Tax was scheduled to go to the GRF; the remaining school districts who still received some share of their tax losses got combined in with the TPP districts; the phase-out of those remaining funds continued through the General Fund.

Also, in the 2015 budget bill, both the House and Senate recognized disservice to the nuclear power plant districts and approved an amendment that provided for the reimbursements to the nuclear power plant districts be frozen. This item was vetoed by Gov. Kasich.

This provision has again been placed into Gov. DeWine's budget for FY20 and FY21. We are again asking that this provision again be approved by the House and Senate, but that this change be extended beyond FY21, as the existence of a nuclear power plant in a school district cripples a districts ability to create new growth to offset these tax losses (now state reimbursements).

Since that time, the Perry Nuclear Power Plant was able to reduce their Tangible Property Tax values from \$162 million down to \$77 million dollars. They have also had their real property values reduced causing local commercial tax rates to increase by 25%. These changes to our valuation reduce both our local tax revenue by \$3.6 million, and our capacity to raise additional revenues due to the Class II rates having already increased by 25%.

The district during this time has reduced 7 teachers, 2 administrators, 3 custodians, 1 maintenance worker, 1 food service employee, 1 tutor, and 1 educational associate.

Current Ohio Revised Code section 3317.028 helps us to recover a great deal of these revenues through a recalculation of the state foundation due to the huge public utility tangible loss, and we are asking for an amendment to 3317.029 which was approved last year for the Benton-Carroll Salem Schools to also include the Perry Local School District – as we are the only two school districts in the state with a nuclear power plant. This law provides for a temporary bridge to offset local losses not covered by the foundation for a nuclear power plant district that loses 50% of that valuation in a single year 2016 to 2017. Our State Representative will be submitting an amendment to include Perry Local Schools which has lost over 50% over the two-year period 2016 to 2018.

Lastly, we wanted to offer our thoughts with respect to the Cupp-Patterson Ohio Fair School Funding Plan, we absolutely support all the hard work that has been completed by the House members and my colleagues from around the state and the results that have been released by the work group. This model and its phase in may not be perfect, but the new formula captures approximately 85% of the districts, rather than the current formula which captures only 15% of the districts. The plan is well designed, well intentioned by all parties included, and well thought out with respect to the details to each of the components of a great education. With respect to the cost associated to the model, please recognize that the costs associated to educating a child and preparing him or her to become a contributor to society is far less than the cost to support that adult down the road and for the rest of their life. The time to act on this is now, and a delay of this plan risks greater burdens down the road for the use of future state tax dollars.

Comparisons

As my district has compared Perry to other districts throughout the state; we have found some interesting facts.

Over the past 20 years:

- Income tax returns in Perry have grown at a rate 46% below that of the state average indicating a declining capacity within the community.
- According to District Profile Reports provided by the Ohio Department of Education, the Perry poverty rate has increased 568%. This fact also supports the slower income growth, and again indicates a declining capacity to increase taxes.
- Total property valuation for the school district has decreased 57% while the state of Ohio has risen over 30%;
- Since 2000, only 1 district in the state has experienced a greater local property tax percentage decrease than Perry.

The Perry Local School district is at a crossroads. Continuation of the decreases in our revenue has to be stopped or we risk getting into an uncontrollable deterioration of the entire district and the great education that we provide.

When a single tax payer in a district represents a large portion of a district valuation, it is an unreal representation of true wealth in a community. Further compounding the problem; is a nuclear power plant that has a reverse growth effect on other businesses. In other districts where large businesses exist; other businesses complement the one with supporting business and stimulates the economic cycle in and around where the businesses exist: e.g businesses stimulate the need for hotels, restaurants, suppliers, and retailers; which in turn generates additional economic development. In a nuclear power plant district, businesses avoid building in the presence of that plant. This drives down other property wealth and accelerates our downward spiral for which the residents do not have the capacity to counter.

Solutions

The Perry Local School District supports the Cupp-Patterson Ohio Fair School Funding Plan as the current funding formula is flawed and non-inclusive of most districts in the state.

A premise of this plan was also that no districts lost funds during the released simulations of the plan. I ask today, that when making determination on how to distribute educational funding; look not only at the formula for losses, but by making sure that those anomalies that exist statewide such as the legislation and tax losses associated to nuclear power plant districts are kept whole as well.

As such, we are not asking for additional funds, we are asking to be frozen, so that we can establish a ground zero and determine our educational programs from there by supporting the Governor's proposal to exempt the nuclear power plant districts from the continued phase out of funds, and to support the bridge for the Perry Local Schools by amending ORC 3317.029 to be included.

Again, thank you for allowing me to testify today, for your time, and for your consideration of our requests. I would be happy to answer any questions you have at this time.

Perry Local School District Valuation and Revenues

Fiscal Year	Total AV	Total Tax Local Revenue	Total State Revenue	Replacement Tax	Total Other Revenue	Total General Fund Revenue
1999	806,029,105	25,174,829	803,705		1,347,620	27,326,154
2002	471,359,812	17,573,140	876,658	5,080,922	757,140	24,287,860
2009	456,811,464	14,739,496	884,887	10,161,844	1,321,728	27,107,955
2013	463,872,620	13,222,869	836,215	9,133,950	798,689	23,991,723
2017	426,529,990	13,440,191	1,293,423	8,152,390	1,533,108	24,419,112
2019	344,461,400	11,250,140	3,691,942	7,446,876	1,255,600	23,644,558

Valuation Change since 1999
-57%

1st (partial) year of replacement funds

Valuation change after Deregulation

Full amount of replacement funds

Current Total Assessed Valuation after latest Public Utility Tangible Devaluation

Net change to Revenue over 20 years = (\$3.7 million)

Current Value of Replacement Funds