



*Perrysburg
Schools*

**Board of Education
Administrative Offices**

140 East Indiana Avenue
Perrysburg, Ohio 43551

419-874-9131
Fax 419-872-8820

Treasurer
Fax 419-872-8832

**Testimony to K-12 Education Sub-Committee
of the House Finance Committee**

Thank you Chairman Cupp, Vice-Chairman Derickson, Ranking Minority Member Phillips and members of the K-12 Education Sub-Committee of the House Finance Committee for allowing me the opportunity to testify today. My name is Tom Hosler and I am Superintendent of Perrysburg Schools, a school district with about 5,000 students in Wood County. I have been a school superintendent for over 15 years: eight years in Michigan and over seven with Perrysburg Schools. I am also Vice-Chair of the Alliance for High Quality Education.

The two key points of my testimony today are the importance of maintaining a healthy cash balance and the unintended consequence of 1976's House Bill 920 as the committee considers House Bill 64 and its impact on school funding.

First, I would like to provide a little background. In 2014, Perrysburg Schools earned 9 "A's" and 2 "B's" on the 11 district indicators found on the State Report Card and was named an "Excellent School District" by The Ohio Department of Education for the 12 years before that. Perrysburg High School was named a 2014 National Blue Ribbon School.

According to the Ohio Department of Education, Perrysburg Schools spent \$8,991 per pupil in 2013, well below the state average of \$10,445.61. State revenue accounts for 26% of our per-pupil funding. The state average is 42%. Perrysburg has 71.65 voted mills and 36.34 effective mills designated for the general fund.

Perrysburg recently added a development director to its staff to raise private funds for the school district and is having great success in engaging donors. Also, one-third of Perrysburg teachers and all administrators participate in a true performance-based pay system, abandoning the traditional salary schedule.

We are grateful in that in November 2014, after a long and resource-intensive campaign, voters approved a bond issue to construct a new school building to accommodate our steady growth. Treasurer Matt Feasel and I traveled to Moody's Investors Service in Chicago this past February in hopes of upgrading our district's rating for the bonds we are issuing to construct the school. Our rating on previous bonds was Aa3 and we were excited to share our story and hopefully be upgraded to the Aa2 rating. After reviewing our request, Moody's shared:

The district's administration and Board of Education demonstrates strong management practices. Additionally, the district's favorable

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ratios of expenditures per pupil and administrative costs per pupil points to efficient district operations. Although the district's community has shown support for additional tax increases, management has actively worked to reduce costs in recent years.

Despite this favorable acknowledgement of our operations, Moody's confirmed our Aa3 rating. We were very disappointed and asked what more could we have done. The response was immediate: in order to obtain a higher rating, our cash reserves would have to increase to 25% of our annual operating budget. For us that would mean an \$8 million cash balance. At the close of fiscal year 2014, our cash reserve was \$3.78 million, or 8.7%.

Rating agencies such as Standard & Poor's and Moody's pose a standard question as to whether school districts have a formal or informal cash balance policy. They are not alone on demanding healthy cash balances from public schools. According to the Government Finance Officers Association, public entities should have enough money available to cover 60 to 90 days of expenses, generally 17 to 25 percent of their operating budgets.

We found another strike against the district while meeting with Moody's: our school district is located in Ohio, where districts must increasingly go to voters for operational dollars. This is deemed an unstable form of funding.

As stated earlier, we were very fortunate to pass our bond issue this past November. There were 158 school ballot issues on November 4, 2014 in Ohio. One-third of the levies that passed won by 5% or less. 66% of new money issues failed and 60% of bonds issues failed (9/15). Our bond issue in 2014 passed by 6.5%, or 659 votes.

Perrysburg will be on the ballot again this November to ask voters to renew a Permanent Improvement levy and again in November 2016 because our four-year operational levy will be expiring. This expiring levy provides 27% of our annual operating budget.

Our current system forces districts to repeatedly return to fatigued voters. Schools count on property taxes for the lion's share of our funding, and tax growth is limited by the reappraisal of property values per 1976's House Bill 920. The effect of this slow growth is that schools cannot keep up with inflation. Districts cannot pass one continuing levy and have that cover them in the future; they must pass replacements every few years or add smaller levies repeatedly to make up for inflation. Voters are confused and frustrated with why we are always on the ballot, which adds to the volatility of the situation.

Suppose a school district receives voter approval to raise \$5 million through a 5-mill levy. The following year, after a reappraisal, property values have increased. House Bill 920 does not allow the school district to receive any additional revenue from this voted levy. The voted 5 mills will be reduced to a millage amount that will generate \$5 million, and each taxpayer will pay a lower "effective" tax rate. In order for the school system to raise more revenue, it must go to the voters for approval of another levy. It cannot "renew" that levy at 5 mills. It is only considered a renewal if it is for the adjusted millage, which keeps the dollars collected frozen in time.

On July 18, 2012, Dr. Howard Fleeter, Education Tax Policy Institute, testified before the Ohio

House Finance Extended Subcommittee on Primary and Secondary Education and stated: “The effect of House Bill 920 on school district finance is unique to Ohio. No other state in the country votes as often on school levies as we do.”

Ohio public schools have done their best to adapt to this unsteady funding situation. The idea that district funding from the state may be reduced based on the size of the district’s carryover would further diminish Ohio school districts’ standing in the financial marketplace and run contrary to what the State of Ohio practices for its own purposes. In the end, any changes like this will ultimately hurt taxpayers, communities and students. This coupled with the unintended consequence of 1976’s H.B. 920 will continue put Ohio school districts at a disadvantage when being evaluated by outside financial institutions.

Chairman Cupp, thank you for your time.