



Norwood City Schools

HB 64 Joint Testimony

House Subcommittee on Primary and Secondary Education

Cary Furniss – Treasurer, Reading Community City Schools

Robert Amodio, Superintendent, Norwood City School District

March 19, 2015

Chairman Cupp, Ranking Minority Member Phillips, and members of the committee, my name is Cary Furniss and I am Treasurer of the Reading Community City School District and have served in that role since 2006. I have also served as Treasurer at Norwood CSD, the District Mr. Amodio represents in joint testimony with me today. Our Districts are similar in location, demographics and income and by our joint testimony we hope you can appreciate the difficulties we face if the provision to eliminate the Tangible Personal Property Tax (TPPT) is maintained in House Bill 64.

The Reading Community City School District is a first ring suburban district in Cincinnati Ohio. The student population is approximately 1,700 students that are served in 3 school buildings ranging in age from 99 years to 63 years old. The District has already experienced significant revenue losses due to the elimination of TPPT. The elimination of TPPT has resulted in a 20% permanent reduction to its tax base. Levies since 2005 and any levies going forward must be 20% higher due to the TPPT losses. In 2005 45% of the tax base was comprised of residential property. Due to the elimination of TPPT, residential property now comprises 58% of the districts local property tax revenue capacity. The elimination of TPPT has clearly shifted the existing local share of school funding to homeowners and increased further shares of funding a community might consider. That notion is also supported by evidence the Districts tax payer effort is 109% of the state average using ODT's methodology. The support provided by our community is at a median income of \$29,255 which is 10% lower than the state average. *Simply, our taxpayers cannot afford the shift.*

The Reading Community City Schools operate in a conservative manner in financial terms. The Districts per pupil spending is \$9,132. This is approximately \$1,100 less than the 5 most similar districts to Reading. The districts expenditures are averaging an annual DECREASE of 1.21% over the past 5 years. The district has experienced an enrollment growth of 4.6% while staffing has increased by less than 1% since 2009. This data is designed to demonstrate the District has

made numerous efforts to streamline costs and increase efficiency to offset the losses experienced from TPPT elimination.

In fiscal year 2005, the districts TPPT revenue generated nearly \$1,679; by 2014 Ohio's reimbursement was only \$832 per pupil, a reduction of \$847 per pupil. During the same time period state foundation revenue only changed by \$285 per pupil. The Executive Budget proposes to further reduce the reimbursement to \$554 per pupil by fiscal year 2017. At some point our voters will have to replace funds they have already approved. *Simply, our taxpayers cannot afford the shift.*

When House Bill 66 was passed the legislature promised to make good with new revenues to offset the TPP losses and that has not happened. Since 2009 we have seen the SF-3, PASS, Bridge and the SFPR. The Executive Budget proposal will be the 5th funding mechanism in the past 8 years if approved in this legislative cycle. The continual change in the formula makes it challenging to plan financially and has left the district without the necessary revenue to offset the loss of TPPT.

Another challenge or unintended consequence of the elimination of TPPT was the impact on the districts capacity to raise capital for facility improvements and replacements. The District has 3 educational facilities ranging in age of 99 years to 63 years of age. The buildings have significant asbestos, no modern climate controls, limited safety systems, very little handicap access and no fire suppression. The district lost bonded debt capacity and tax base diversity with the elimination of TPPT. The change in tax base also had an impact on how credit agencies viewed the school district and had a negative impact on the credit worthiness of the district. The replacement payments continue to be a drag on the districts credit outlook due to the temporary status of the replacement payments and the significance the payments in relation to the overall finances of the district.

The Reading Community CSD has taken cost reduction initiatives to address the revenue shortfalls. The District eliminated 24 full-time positions in 2007 to address the initial gap between TPPT revenue and the initial replacement payments. In 2008 the Board of Education opened its door to open enrollment for the first time to attract students to gain efficiency and to generate revenue to maintain programs and services. Currently, the district has in excess of 300 open enrollment students from 15 districts in the Reading CCSD. The district has reached a maximum level of open enrollment based on the facilities and services available. Open enrollment has been a positive initiative for the district and we routinely have to turn down 50-75 students annually. The overwhelming interest from students from other communities say as much about the work we do and the product offered as any state mandated report card could disclose.

The Reading Community made conscious decisions to attract industry, believing the revenues from TPPT would offset the negative aspects of a heavy commercialization of its tax base. The District is home to a Chlorine reactor, a 30 year EPA Super Fund site and numerous brownfields. Elimination of the reimbursement for the remaining districts would be unfair. We would

respectfully request the reimbursement be made permanent and we will keep our Chlorine reactor, Super Fund site and brownfields.

At this time Mr. Chairman I would respectfully ask Mr. Amodio to present his remarks and at the conclusion we will be happy to address any questions you may have.

Mr. Chairman and members of the committee, I am Rob Amodio and I serve as Superintendent of the Norwood City School District. About eight out of ten of my 2,200 students are classified as economically disadvantaged and receive free or reduced lunch assistance. Of course the number is actually higher because many students do not apply, especially at the high school level. My district's taxpayers have a median income of \$28,102 which is several thousand dollars less than Ohio's. These same Norwood taxpayers provide a local school tax effort that is much greater than the state as whole.

Since 2009 my district's state funding has been reduced by \$1.6 million and while it was 53% of my total revenue in 2009 it is only 41% in 2014. To address the state's diminished investment in our students I've had to reduce our teaching staff by 21 teachers constituting 15 percent of our teaching staff, reduced 15 student aides equaling 50 percent of our student support aides, slashed building budgets by 25 percent and all employees had their pay and steps frozen for 4 years while paying an additional 5 percent of their health care premiums. Some of these cuts represent loss of service to my students. But that is not the end of the story. In addition to the budget cuts in response to the recession and state funding reductions to Norwood CSD, I had to ask my local taxpayers to increase their operating millage by over eight mills for a 25% increase in taxes. All of this provide kids with less than they once had. Fortunately, hard as it was, the local taxpayers agreed and slowed the budgetary slaughter of services.

Tangible personal property valuation, before state tax reform in 2005, represented 22% of my district's local property tax capacity. It was a very important part of our capacity to pay for the education of Norwood students. At the same time that the state's current funding formula and proposed formula fails to address and even proposes cuts in per pupil funding, the Executive Budget proposes to further reduce Norwood's funding by reducing its Tangible Personal Property (TPP) tax reimbursement.

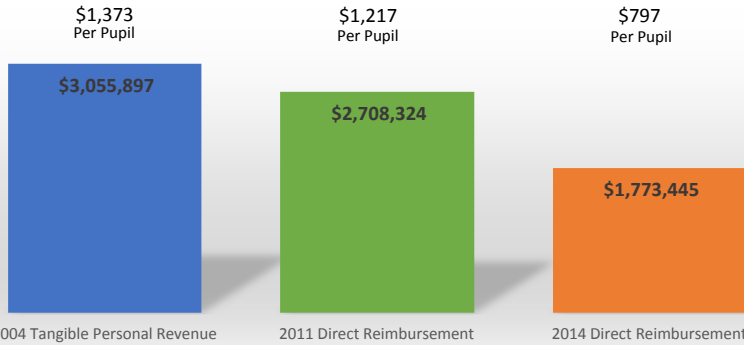
Norwood receives \$1,267,609 in TPP reimbursement for its fixed rate millage levies, and \$502,415 for its fixed sum (emergency/substitute) levies. The total of \$1,770,024 is about \$800 per pupil. If you eliminate this funding, and if our voters agree to replace this state's obligation then it will cost the average Norwood residential taxpayer \$350 per year. I cannot ask this of my taxpayers and I hope you will not.

The state's 2005 tax reform of tangible personal property and franchise business taxes removed 22% of Norwood's property values from local capacity. Every levy passed since the state's reform has had to be 22% bigger. Every levy going forward will need to be 22% bigger. And right now, with buildings that have an average age of 97 years, I am going to have to ask my voters for almost 9.0 mills to remodel these buildings – almost 2.0 mills more than it would have been before Ohio removed this important capacity from the Norwood community. In addition, because our district's valuations were reduced by tangible personal property values we are constrained on how much debt we can issue to address our antiquated buildings. Every levy I request of my taxpayers will be bigger and the reimbursement that is now almost half of the original tax amount doesn't address what is lost and certainly does not address the future.

I am asking specifically that you leave all forms of TPP reimbursement, both fixed rate and fixed sum (operating) at today's level and consider restoring the reimbursement from previous cuts.

Mr. Chairman and members of the committee, we thank you for your time today on this very important issue. At this time Mr. Furniss and I will make ourselves available to answer any question you or the committee may have.

Norwood City SD



Direct Reimbursement = Fixed Rate + Fixed Sum Operating Reimbursements

1. Tangible Personal Local Revenue Vs. State Replacement

(Direct Reimbursement)

Calendar year 2004 calculated local tangible personal property (TPP) taxes amounted to \$3,055,897. After Ohio eliminated the local tax, the replacement reimbursement revenue totaled \$2,708,324 at its highest point. By 2014 the direct reimbursement replacing the tax had been reduced to \$1,773,445.

This change in state-wide tax policy caused both a combination of loss of revenue, and a shift in tax burden with respect to local taxpayers.

Note: Direct reimbursement includes telephone property phase-out which is not part of the 2004 TPP calculation.

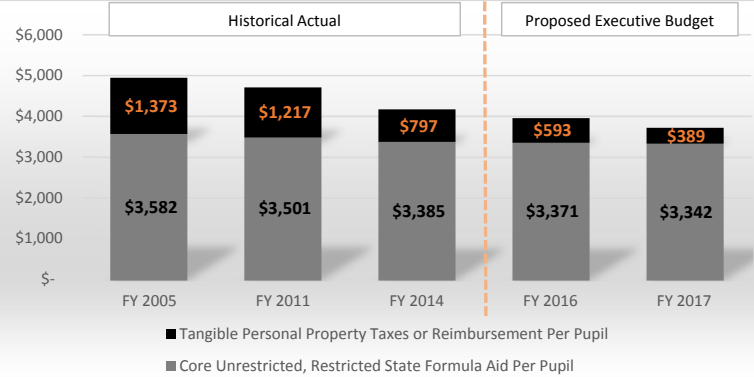
Source: Ohio Dept of Taxation, Ohio Department of Education 2015 ADM

2. TPP Revenue and Direct Reimbursement Per Pupil

Since fiscal year 2005 (includes CY 2004 taxes), the state has continued to reduce the reimbursement to Norwood City SD for the local loss of tangible personal property revenue while providing only minimal, if any, increases in state per pupil foundation funding.

In fiscal year 2005, the district's tangible personal property tax revenue generated nearly \$1,373 per pupil, and the state foundation provided \$3,582 per pupil. By 2014 Ohio's reimbursement for local tangible personal property taxes was only \$797 per pupil, a reduction of \$576 per pupil; while the state foundation revenue for the district changed by -\$197 per pupil. The Executive Budget proposes to reduce the district's TPP reimbursement to \$389 per pupil by fiscal year 2017.

Source: ODE 2015 ADM, ODT TPP Reimbursement, ODE Foundation Funding Reports (Annual)

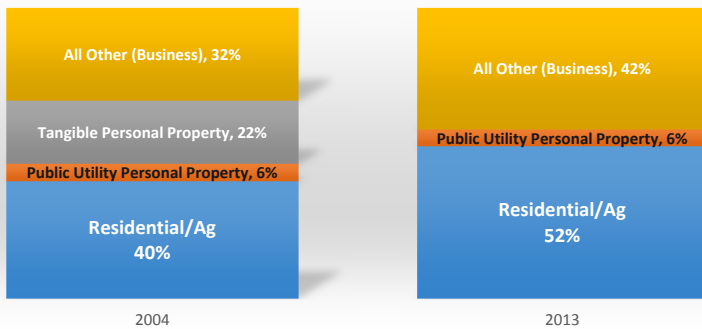


3. Change in Local Property Valuation Capacity

In calendar year 2004, 22% of the district's local property tax valuation was comprised of locally placed tangible personal property. By 2013 this valuation was eliminated, and residential valuation now makes up 52% of the district's local property tax revenue capacity.

The district's general local property tax revenue capacity is forever diminished by this change in Ohio tax policy. All levies passed since TPP tax reform will be 22% higher than if the 2004 level of tangible personal property tax valuation still existed.

Source: ODT Valuation Data



4. Shift to Residential Taxpayers

Home Market Value of: \$125,000

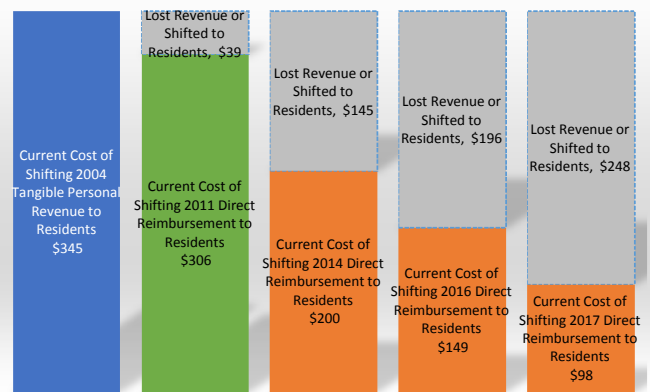
If TPP taxes had been shifted to the remaining taxpayers, then the residential taxpayer's current taxes would have increased by \$345 on a \$125,000 home. Agricultural and other tax payers would be similarly affected.

If the 2014 level of state replacement/reimbursement for local tangible personal property tax revenue was eliminated, and this revenue need was fully shifted to the remaining taxpayers, then residents would have expected to pay \$145 in additional taxes. This would occur only if the local taxpayers approved the necessary local tax levies.

Lost revenue resulting from the loss of tangible personal property tax revenue often is reflected in reduced services, or other cost savings measures at the district level.

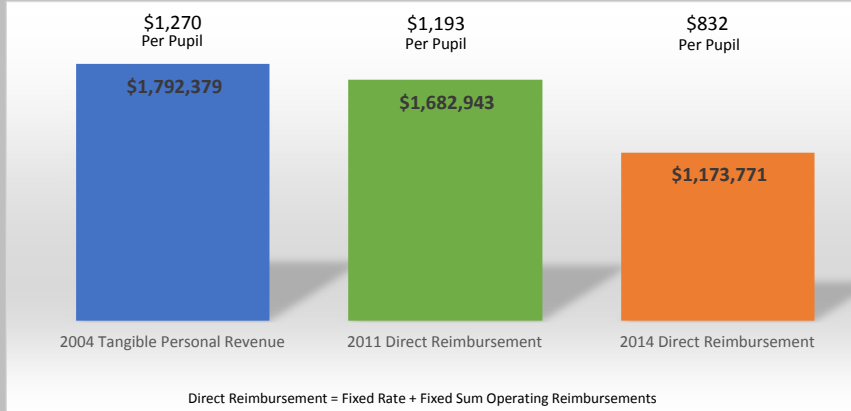
Based on the October, 2014 forecast Norwood City SD is expected to experience a revenue shortfall of -\$1,115,519 in fiscal year 2018.

Source: Ohio Department of Education filed Five Year Forecast Data, Ohio Dept. of Taxation, ODE 2014 ADM



Source: ODE Five Year Forecast and ODT Valuations and Tax Rates

Reading Community City SD



1. Tangible Personal Local Revenue Vs. State Replacement

(Direct Reimbursement)

Calendar year 2004 calculated local tangible personal property (TPP) taxes amounted to \$1,792,379. After Ohio eliminated the local tax, the replacement reimbursement revenue totaled \$1,682,943 at its highest point. By 2014 the direct reimbursement replacing the tax had been reduced to \$1,173,771.

This change in state-wide tax policy caused both a combination of loss of revenue, and a shift in tax burden with respect to local taxpayers.

Note: Direct reimbursement includes telephone property phase-out which is not part of the 2004 TPP calculation.

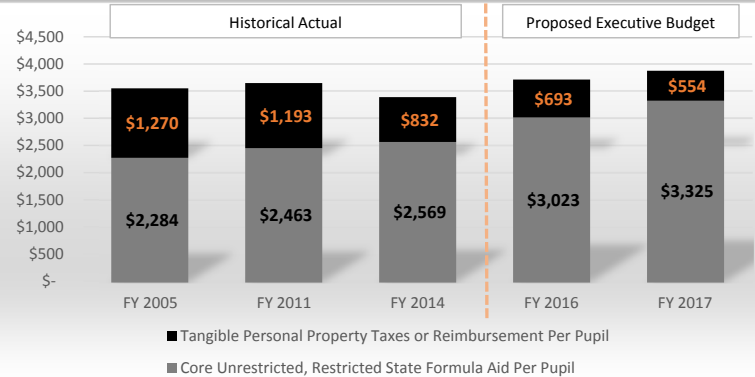
Source: Ohio Dept of Taxation, Ohio Department of Education 2015 ADM

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Source: ODE 2015 ADM, ODT TPP Reimbursement, ODE Foundation Funding Reports (Annual)



3. Change in Local Property Valuation Capacity

In calendar year 2004, 20% of the district's local property tax valuation was comprised of locally placed tangible personal property. By 2013 this valuation was eliminated, and residential valuation now makes up 58% of the district's local property tax revenue capacity.

The district's general local property tax revenue capacity is forever diminished by this change in Ohio tax policy. All levies passed since TPP tax reform will be 20% higher than if the 2004 level of tangible personal property tax valuation still existed.

Source: ODT Valuation Data

4. Shift to Residential Taxpayers

Home Market Value of: \$100,000

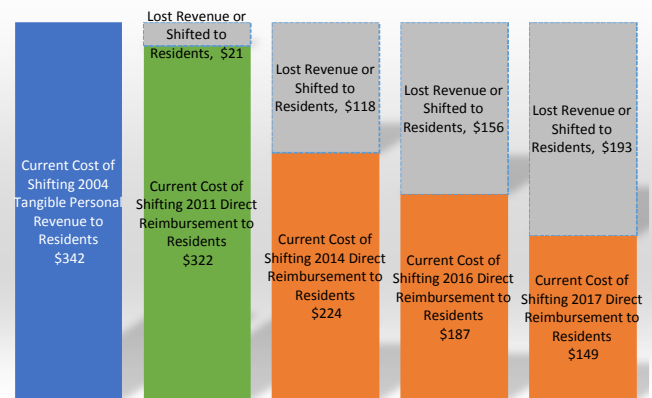
If TPP taxes had been shifted to the remaining taxpayers, then the residential taxpayer's current taxes would have increased by \$342 on a \$100,000 home. Agricultural and other tax payers would be similarly affected.

If the 2014 level of state replacement/reimbursement for local tangible personal property tax revenue was eliminated, and this revenue need was fully shifted to the remaining taxpayers, then residents would have expected to pay \$118 in additional taxes. This would occur only if the local taxpayers approved the necessary local tax levies.

Lost revenue resulting from the loss of tangible personal property tax revenue often is reflected in reduced services, or other cost savings measures at the district level.

Based on the October, 2014 forecast Reading Community City SD is expected to experience a revenue shortfall of -\$960,982 in fiscal year 2018.

Source: Ohio Department of Education filed Five Year Forecast Data, Ohio Dept. of Taxation, ODE 2014 ADM



Source: ODE Five Year Forecast and ODT Valuations and Tax Rates