

House Finance Primary and Secondary Education Subcommittee  
House Bill 64 Testimony  
Dr. William Harbron, Superintendent  
West Muskingum Local School District, Muskingum County

The West Muskingum Local School District expresses its appreciation to the Committee for the opportunity to present written testimony on the proposed school funding formula. My name is Dr. William Harbron; I am the Superintendent of the West Muskingum Local School District. It is my goal to present testimony as constructive feedback and provide recommendations. The district recognizes the many hours invested in developing a formula, and hearing testimony that can improve the funding for all Ohio public schools.

## **OVERVIEW – Background Information**

This correspondence is presented on behalf of rural Ohio Appalachian School Districts in Muskingum and surrounding counties for the purpose of addressing the potentially unintended financial consequences which the school districts will experience as a result of the proposed school funding formula. There are examples specific to Muskingum County and the West Muskingum Local School District that are used in the document for reference purposes.

West Muskingum Local School District is located in Muskingum County and is included in the region of Ohio known as Appalachia. Muskingum County and the corresponding school districts located within county boundaries are located approximately 55-70 miles east of Columbus along Interstate 70. Muskingum County is situated west of the Appalachian area which has experienced recent increased property valuations and job opportunities based upon the shale drilling industry.

Within the last 20 plus years, manufacturing companies have exited the Muskingum County community migrating to other states and regions. The loss of manufacturing job opportunities left a group of experienced, skilled and motivated manufacturing workers, underemployed or unemployed. Understanding the importance of jobs in Ohio, the Zanesville-Muskingum County Port Authority proactively initiated the task of economic development within the city and county.

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Small industrial parks were developed and an aggressive attempt was made to offer economic enhancements in order to entice companies to relocate and build a foundation within our communities. Distribution companies became the entities which were intrigued by the location, based upon the county's proximity to Interstate 70. The newly developed distribution companies brought the desperately needed job opportunities to the community, with the corresponding income at average or below average state income level, based upon the required skill sets.

The median hourly wage in Muskingum County is \$13.90 per hour compared to Columbus Metro median hourly wage at \$17.00 per hour and United States median hourly wage at \$16.89 per hour.

As a result of the recent recession, an additional economic crisis occurred in Muskingum County which created double digit unemployment rates. One of the largest employers in the area, Longaberger Company, experienced a significant decrease in workforce. Over the last two years, unemployment rates have improved; however the current unemployment rate for Muskingum County still ranks the county with the 15<sup>th</sup> highest unemployment rate in the State of Ohio, at 8.1%.

West Muskingum is a small, rural district, and based upon median resident income levels, the high unemployment rate and the job opportunities which exist in the community, one would feel that the capacity measure for the residents of the West Muskingum Local School District would be a relatively small number. However, the proposed funding formula has generated a capacity measure of 1.43, which places the district in the top 15% of the wealthiest districts in the State of Ohio. The district asks the question, does the current and proposed formula function in a way that properly places districts in their respective quintiles of wealth?

When evaluating the proposed funding formula, the focus must be on the accuracy of the capacity calculation in order to efficiently and effectively distribute resources to school districts throughout the State of Ohio. The following discussion provides further review and discussion on capacity and assessed property valuation.

## **CAPACITY - Determining local taxpayer wealth**

The interpretation of a wealthy district is based upon the capacity indicator which calculates property valuation per pupil. The misconception is that high per pupil valuation coincides with local taxpayer ability to pay a higher share of school funding. What has been omitted from the proposed calculation for capacity is the geographic diversity which can exist within school districts.

As referenced in the preceding overview, rural school districts have varying economic situations, which may create an appearance of wealth, when using valuation per pupil calculations as a sole indicator. In many rural Ohio communities, an anomaly of wealth is created by the funding formula indicators. Wealth by district cannot be determined by valuation per pupil alone.

A realistic solution to appropriately defining a district's local taxpayer wealth is to continue to use the combination of valuation per pupil calculation and median Ohio adjusted gross income for all school districts throughout the State of Ohio. Median Ohio adjusted gross income was used as an indicator in the prior bien-

nial education budget, however the proposed funding formula has eliminated median income from the capacity calculation for districts whose ratio of median income to state median income is lower than the district's valuation index. It is our belief that this has misrepresented rural Ohio local taxpayer wealth in the capacity measure.

**Recommendation:** To include both per pupil valuation and median income to measure capacity for all school districts.

## **PROPERTY VALUES for determining Capacity**

Proponents of the guarantee phase down assert that changes in school, district circumstances are causes for a district receiving transitional funding. Examples which have been presented include loss of students and increasing property values. House Bill 920 is also a significant contributor in generating the guarantee line item which is generated from formula to formula.

HB920 has created phantom local revenue and the resulting guarantee funding line item for districts throughout the different school funding formulas. By using assessed valuation as the base calculator to determine per pupil valuation, and the corresponding capacity indicator for local wealth, the proposed funding formula distorts local revenue.

As inflation drives up the value of property (assessed valuation) the school millage rate is reduced so schools do not receive additional revenue and taxpayers are not levied additional tax dollars. This newly calculated school tax rate is referred to as the effective tax rate. Key to the concept is, as inflation drives up the value of property, the assessed valuation is no longer the base in calculating revenue. School Districts in older, rural communities which are currently near the 20 mill floor are impacted significantly by the assessed valuation calculation as a wealth indicator because HB920 does not allow increased dollars to be imposed on the local taxpayer as the assessed valuation increases.

**Recommendation:** An inclusion within the formula which makes the distinction on the revenue generating differences between actual and effective rates on assessed valuation.

## **TANGIBLE PERSONAL PROPERTY**

School districts in Muskingum County have worked collaboratively with city and county leaders to offer the necessary tax incentives in order to entice corporate relocations. These incentives include enterprise zones, TIF agreements, and 10-15 year tax abatements. All organizations, including local school boards, have worked together to offer the incentives, understanding the importance of job creation and the positive long term consequences it would have on our schools and our communities, despite the loss of revenues incurred by school districts, townships and municipalities.

In addition to tax incentives, Board of Revision (BOR) complaints and settlements have been filed at an unprecedented rate against valuations for residential and commercial property over the last five years within the boundaries of the West Muskingum Local School District. Commercial retail property BORs were filed in excess of \$35 million, in the West Muskingum Local School District alone. These BORs included shopping mall property, Kohl's Department Stores, Lowes, Tractor Supply, Kmart and other retail sales giants. The West

Muskingum Board of Education, understanding the importance to job opportunities, settled these BORs in a manner which would encourage these retail giants to remain in our communities.

School districts that have high commercial property ratios are the districts which have experienced the effect of lost tangible personal property taxes and the accelerated phase-out of TPP under HB153. Based on HB 66, the losses incurred by districts most heavily reliant on the TPP tax would be alleviated by a corresponding state funding increase due to the offsetting "formula" basic aid calculation. However, the methodology for the basic aid calculation has changed and the expected offsetting increase which was anticipated in state funding is no longer applicable. Furthermore, the loss in tangible personal property was not replaced with the anticipated revenues which were thought to be generated by the CAT tax.

The volatility of assessed valuation over the last three funding formulas has been significant, based upon the impact of the recession on commercial retail property, and downturn of the housing industry for residential property. When valuation per pupil is calculated, it is based upon unadjusted figures. During a time when BORs were filed and approved in significant dollar amounts, the corresponding school district valuation calculations do not accommodate the reductions. BOR reductions reflect retroactive adjustments to local revenue, however state revenues are unadjusted.

**Recommendation:** Based upon these circumstances, it is recommended if there are to be reductions in TPP and PUTPP replacement payments, these reductions be offset by increases in state aid or a modification of the proposed phase-out which is not as impactful to year one.

West Muskingum Local School District is receiving a 1% reduction in transitional aid and 2% reduction in TPP revenue in FY16 based upon the new funding formula, which translates into a 3% reduction in total state and local revenue in 2015-2016.

In conclusion, the West Muskingum Local School District applauds your dedication to providing the resources needed to provide all Ohio students with high quality and effective schools. As a local school district, we are committed to reducing costs, pooling expenditures and performing our due diligence to maintain an economically feasible, quality education for the students and communities we serve.

The school district also recognizes the limitations of the community's capacity to provide additional revenues through property taxes that could be detrimental to the family's welfare. The West Muskingum School also believes that all Ohio public school students should have the same resources available and educational opportunities as the most economical advantage students. Children do not control the income levels of their families or the location of their homes.

The task you face in providing for the needs of all students through a state school formula appears overwhelming as you consider a variety of viewpoints from different school districts, professional organizations, and individuals. It is the hope of our children that you will find a way and means for supporting viable educational opportunities in all Ohio public schools.