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House Bill 49 Testimony

Dr. Howard Fleeter
Ohio Education Policy institute

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Chairman Cupp, Ranking Member, Miller, members of the Subcommittee, thank you for the opportunity to testify here this morning. My name is Howard Fleeter and I am an economist and consultant for the Ohio Education Policy Institute (formerly ETPI). I have been conducting research on school funding in Ohio for more than 25 years. I am here today to discuss the Governor's proposed Fiscal Year (FY)18-19 school funding formula, provide a review of how property values have changed over the past five years, and discuss several other issues including the Tangible Personal Property tax (TPP) replacement payment phase-out and evolving issues relating to electricity generation property valuation.

A. The FY18-19 Funding Formula Proposed in the Executive Budget

The FY18-19 school funding formula proposed in the Executive budget largely follows the blueprint laid down by the current FY16-17 school funding formula. The following are the salient features of the Governor's proposal:

1. The State Share Index (SSI) is updated so that it is based on Tax Year (TY) 2014, 2015 and 2016 property values as opposed to the current SSI which is based on TY12, TY13, and TY14 values. Median Income and Federal Adjusted Gross Income per pupil are also updated to incorporate the most current available data. The FY18-19 SSI decreases in 373 of Ohio's 610 K-12 school districts.
2. The per pupil amounts for the Core Opportunity grant, Special Education weighted amounts, Career Technical Education weighted amounts, Limited English Proficient (LEP) weighted amounts, K-3 Literacy funding, Economically Disadvantaged Aid and Gifted student funding are all frozen at FY17 levels in FY18 and FY19.
3. Targeted Assistance and Capacity Aid, both of which are based on each district's property valuation will both be recomputed in FY18 and FY19.
4. The minimum state share of Type 1 & Type 2 Transportation funding is reduced from the current level of 50% to 37.5% in FY18 and to 25% in FY19.

5. For districts whose funding is limited by the Gain Cap, the annual increase in funding is set at 5% in FY18 and FY19. The gain cap percentage in FY16 and FY17 is 7.5%.
6. For districts on the Transitional Aid Guarantee, guarantee payments will be reduced if a district on the guarantee has had more than a 5% reduction in enrollment from 2011 through 2016. Details of this reduction will be discussed later in this testimony. It is important to note that state funding will be reduced only for districts with more than a 5% enrollment loss that are also on the guarantee. Districts on the formula or limited by the gain cap that have experienced more than a 5% reduction in enrollment will NOT lose funding.
7. Tangible Personal Property Tax (TPP) replacement payments will be phased out according to the schedule provided in SB 208 which calls for annual reductions in TPP payments equivalent to the revenue raised in each district by 5/8th of a mill of property taxes until TPP payments reach zero in all districts.
8. The TPP Supplement, which was vetoed by the Governor for FY17, but restored at 96$^{\%}$ strength in SB 208 is not included in the Governor's FY18-19 budget. The purpose of the TPP supplement was to provide additional revenue to school districts who were experiencing reductions in TPP replacement payments and whose state aid was insufficient to cover the loss.

Table 1 provides an overview of the Governors' proposed FY18-19 school funding formula including computed formula funding, the transitional aid guarantee and the gain cap in FY17, FY18 and FY19.

Table 1: FY17-FY19 State Formula Funding Summary – Governor's Budget Proposal ($ in Millions)

	FY17	**FY18 Gov**	**FY19 Gov**
Computed Formula Funding	$8,167.2	$8,209.8	$8,215.9
Transitional Aid Guarantee Amt.	$104.4	$181.2	$196.8
# of Districts on Guarantee	133	315	321
Gain Cap Reduction	-$492.9	-$465.7	-$358.7
# of Districts on Gain Cap	151	130	103
Net State Foundation Funding	$7,778.7	$7,925.3	$8,054.0
Annual Change in Funding		**$146.6**	**$128.8**
# of Districts Receiving Funding Increase		**N=256**	**N=255**
# of Districts Receiving Funding Decrease		**N=346**	**N=46**
Districts With No Change in Funding 1 Year to the Next		**N=4**	**N=309**

Source: Data in this table are based on the OBM spreadsheets released with the FY18-19 budget

The main findings from Table 1 are:

1) The # of districts on the transitional aid guarantee as well as the amount of the guarantee increase from FY17 to FY18, and again from FY18 to FY19.

2) The number of districts on the gain cap as well as the dollar amount decreases from FY17 to FY18 and again from FY18 to FY19.

3) The Governor's budget proposal results in a net increase of formula funding of $146.6 million in FY18 and $128.8 million in FY19. However, not all districts receive increases in formula funding.

4) In FY18, **346 districts receive less formula funding than they received in FY17**, 256 districts receive more formula funding than in FY17, and four districts receive the same amount of funding. 134 of the districts receiving less state formula funding in FY18 than in FY17 receive a decrease of less than ½%. 161 districts receive a state aid decrease of more than 2%.

5) In FY19, 46 districts receive less formula funding than they received in FY18, 255 districts receive more formula funding than in FY18, and **309 districts receive the same amount of funding in FY19 as in FY18.**

B. Why Are There So Many Districts on the Guarantee and Why Do So Many Districts Receive Funding Cuts Under the Governor's Proposed FY18-19 Formula?

The most significant finding deriving from Table 1 regarding the school funding formula proposed by the Governor for the FY18-19 biennium is that the number of districts on the transitional aid guarantee more than doubles from FY17 to FY18 and the cost of the guarantee increases by 74%. This significant increase in the guarantee in FY18 and FY19 is even more remarkable when the Governor's enrollment based reduction of the guarantee is considered. In fact OEPI analysis of the Governor's formula estimates that **prior to the enrollment-based guarantee reductions, 363 of Ohio's 610 school districts (59.5%) would be on the guarantee in FY18 at a cost of $227.1 million**.

Furthermore, the increase in the guarantee in FY18-19 is in direct contrast to the pattern followed by the guarantee during the current FY16-17 biennium when both the guarantee cost and the number of districts on the guarantee fell in both FY16 and FY17. Table 2 below provides a summary of the number of districts on the guarantee and the total cost of the guarantee from FY15 through FY19.

Table 2: Number of Districts and Cost of Transitional Aid Guarantee, FY15-FY19

Year	# of Districts on Guarantee	Cost of Guarantee (Millions of $)
FY15	188	$165.9
FY16	174	$123.6
FY17	133	$104.4
FY18	315	$181.2
FY19	321	$196.8

Source: FY15-17 data from ODE, FY18-19 data from OBM

While the data in Table 2 is quite clear, the reason behind the sharp divergence in the pattern of the guarantee the FY16-17 biennium vs. the FY18-19 is less so. Thus, the natural question to ask when reviewing the data in Table 2 is "what is the difference between FY16-17 and FY18-19?" Before this question can be answered, it must be understood that four circumstances could place a district on the guarantee in FY18:

1. The district was on the guarantee in FY17 and remains on the guarantee in FY18
2. The district's SSI decreased from FY16-17 to FY18-19
3. The district's transportation funding decreased because of the reduction in the minimum transportation state share from 50% in FY17 to 37.5% in FY18 and 25% in FY19.
4. The district's Targeted Assistance or Capacity Aid decreased from FY17 to FY18-19.

In contrast, only one circumstance could bring a district that was on the guarantee in FY17 off the guarantee in FY18 – being one of the 237 districts whose SSI increased from FY17 to FY18.

OEPI analyzed the conditions that have placed districts on the guarantee in FY18 (prior to the 5% enrollment loss reduction in the guarantee amount). The findings from this analysis are:

- Of the 133 districts on the guarantee in FY17, 125 remain on the guarantee in FY18. The eight districts that come off the guarantee in FY18 all have their SSI increase in FY18-19.
- 239 districts are not on the guarantee in either FY17 or FY18. These districts are either on the formula or limited by the gain cap.
- Thus, 238 "new" districts that were not on the guarantee in FY17 end up on the guarantee in FY18 (prior to the 5% enrollment loss reductions).
- 223 of these 233 "new" districts on the guarantee in FY18 had their SSI decrease from FY16-17 to FY18-19.
- 13 of the remaining 15 new districts on the guarantee in FY18 had their transportation funding decrease due to the decrease in the minimum state share for transportation from 50% to 37.5%. (85 districts had both their transportation state share decline and their SSI for other funding components decrease.)
- The other two "new" districts on the guarantee in FY18 experienced a decrease in Capacity Aid from FY17 to FY18 that was large enough to offset any increase in their SSI.

Since 223 of the "new" districts that are on the guarantee in FY18 had their SSI increase, it seems logical to presume that the recomputation of the SSI and the underlying change in property values at its basis are the reasons for the marked increase in the guarantee in FY18. However, this conclusion is erroneous. The reason that this conclusion is erroneous is that when the FY14-15 SSI and the FY16-17 SSI are compared, **389**

districts saw their SSI decrease when the SSI was recomputed for the current FY16-17 biennium. Nonetheless, both the number of districts on the guarantee and the guarantee amount decreased from FY15 to FY16 (and again in FY17).

This point should make it clear that the primary difference between the FY16-17 biennium and the FY18-19 biennium is not the change in the SSI, but rather the failure to increase the per pupil amounts in the formula in FY18 and FY19. This is because the annual increases in the funding formula parameters provide a "safety valve" which works to offset changes in property valuation over time. **Thus, while the Administration has emphasized the point of not wanting to pay districts for "phantom students", in fact it is the failure to update the parameters of the formula itself that is the primary cause of the explosion in the guarantee in the upcoming biennium**.

Tables 3 and 4 clearly show the difference between how the works in the current biennium as opposed to how it works in the FY18-19 biennium.

Table 3: FY15-17 Formula Funding by Component

Funding Component	**FY15 (ODE)**	**FY16 June #2 (ODE)**	**FY17 Jan. #1 (ODE)**
Core Opportunity Aid	$4,829.8	$4,919.6	$4,990.9
Targeted Assistance Tiers 1 & 2	$760.6	$836.8	$911.6
Special Education	$771.4	$807.6	$822.8
Limited English Proficient	$26.6	$29.2	$30.9
Disadvantaged Pupil Aid	$414.2	$420.3	$429.8
K-3 Literacy	$104.1	$109.0	$112.8
Gifted	$81.3	$81.1	$81.2
Career Technical Education*	$49.7	$52.4	$57.7
Base Transportation	$489.8	$469.7	$472.1
Computed Formula Aid	**$7,527.5**	**$7,725.8**	**$7,909.6**
Capacity Aid ($ Per Mill) Tier 3*	$0	$143.1	$174.4
Transportation Supplement*	$0	$31.3	$54.8
Graduation Rate Bonus*	$0	$19.6	$20.0
3rd Grade Reading Bonus*	$0	$16.2	$8.4
Total Supplements (outside the cap)	**$0**	**$210.2**	**$257.6**
Total Formula Funding Before Cap & Guarantee	**$7,527.5**	**$7,935.9**	**$8,167.2**
Guarantee	$165.9	$123.6	$104.4
# of Districts on Guarantee	*188*	*174*	*133*
Gain Cap Reduction	-$669.2	-$603.9	-$492.9
# of Districts on Gain Cap	*237*	*188*	*151*
Total State Formula Aid	**$7,024.2**	**$7,455.6**	**$7,778.7**

* These components are exempt from the Gain Cap. (Career Technical Education funding is computed "outside" of both the gain cap and the guarantee only in FY17).

Table 4: FY17-19 Formula Funding by Component

Funding Component	FY17 Jan. #1 (ODE)	FY18 (LSC)	FY19 (LSC)
Core Opportunity Aid	$4,990.9	$5,028.0	$5,028.0
Targeted Assistance Tiers 1 & 2	$911.6	$952.8	$974.9
Special Education	$822.8	$832.0	$832.0
Limited English Proficient	$30.9	$32.2	$32.2
Disadvantaged Pupil Aid	$429.8	$429.8	$429.8
K-3 Literacy	$112.8	$113.2	$113.2
Gifted	$81.2	$81.2	$81.2
Base Transportation	$472.1	$430.2	$410.2
Computed Formula Aid	**$7,851.9**	**$7,899.3**	**$7,901.5**
Capacity Aid ($ Per Mill) Tier 3*	$174.4	$170.1	$174.0
Career Technical Education*	$57.7	$57.9	$57.9
Transportation Supplement*	$54.8	$54.6	$54.6
Graduation Rate Bonus*	$20.0	$19.9	$19.9
3rd Grade Reading Bonus*	$8.4	$8.4	$8.4
Total Supplements (outside the cap)	**$315.3**	**$310.9**	**$314.8**
Total Formula Funding Before Cap & Guarantee	**$8,167.2**	**$8,210.2**	**$8,216.3**
Guarantee	$104.4	$174.5	$189.9
# of Districts on Guarantee	*133*	*315*	*316*
Gain Cap Reduction	-$492.9	-$466.3	-$359.2
# of Districts on Gain Cap	*151*	*131*	*103*
Total State Formula Aid	**$7,778.7**	**$7,918.4**	**$8,047.1**

* These components are exempt from the Gain Cap.

Table 3 shows that from FY15 to FY16 and then again in FY17, the main components of the funding formula (Core opportunity aid, targeted assistance, and special education experienced significant increases in funding. Additionally, the additions of Capacity Aid and the Transportation Supplement along with the graduation rate and 3rd grade reading bonuses also provided over $200 million in additional funding.

However, Table 4 shows that in FY18 while Core Opportunity aid increased slightly (about 1/3rd the increase in FY16 and FY17) and Targeted Assistance increased by roughly $40 million, the rest of the components of the formula remained at FY17 levels. Furthermore, only targeted assistance increases appreciably in FY19, while transportation funding decreases in both years.

C. Property Valuation Changes

The FY16-17 SSI is based on the three year average valuation per pupil for Tax Years 2012, 2013, and 2014. The FY18-19 SSI will be based on the three year average value per pupil for Tax Years 2014, 2015, and 2016. Tables 5 through 8 below provide a summary of how property values have changed in Ohio from TY 2012 through TY 2016.

Table 5 provides a summary of Class 1 (Residential and Agricultural) real property values from TY12 through TY16. Table 1 shows that agricultural real property value increased by $6.5 billion (49.3%) over this five year time frame. Over the same time period residential real property value increased by $3.9 billion (2.4%). Overall, Class 1 valuation increased by 5.9% from TY12 through TY16. 62% ($6.5 billion) of the $10.4 billion Class 1 valuation increase from TY12-16 is due to Agricultural property.

Table 5: Class 1 Real Property

Tax Year	Agricultural Value	Residential Value	Total Class 1 Real Value
TY12	$13,128,473,720	$161,899,420,005	$175,027,893,725
TY13	$14,342,742,480	$161,841,225,270	$176,183,967,750
TY14	$18,136,403,919	$161,881,599,686	$180,018,003,605
TY15	$19,215,231,500	$164,385,763,000	$183,600,994,500
TY16	$19,592,413,003	$165,791,689,330	$185,384,102,333
$ Increase TY12-16	**$6,463,939,283**	**$3,892,269,325**	**$10,356,208,608**
% Increase TY12-16	**49.3%**	**2.4%**	**5.9%**

Source: Ohio Department of Taxation

Table 6 provides a summary of Class 2 (Commercial, Industrial and Mineral) real property values from TY12 through TY16.

Table 6: Class 2 Real Property

Tax Year	Mineral Value	Industrial Value	Commercial Value	Railroad Value	Class II Real Value
TY12	$214,284,790	$9,726,026,170	$40,339,542,300	$194,162,920	$50,474,016,180
TY13	$219,545,734	$9,715,078,470	$40,216,465,180	$215,856,270	$50,366,945,654
TY14	$344,681,175	$9,702,457,482	$40,312,739,943	$226,657,310	$50,586,535,910
TY15	$737,290,300	$9,747,322,310	$40,139,472,320	$232,380,200	$50,856,465,130
TY16	$1,076,124,099	$9,890,797,103	$40,716,836,226	$233,457,274	$51,917,214,702
$ Increase TY12-16	**$861,839,309**	**$164,770,933**	**$377,293,926**	**$39,294,354**	**$1,443,198,522**
% Increase TY12-16	**402.2%**	**1.7%**	**0.9%**	**20.2%**	**2.9%**

Source: Ohio Department of Taxation

Table 6 shows that mineral property value increased by $862 million (402%) from TY12 through TY16. This increase was 2.3 times as large as the $377 million increase in

commercial real property value, despite the fact that in TY12 commercial valuation was nearly 200 times larger than mineral value. When small increases in industrial and railroad values are considered, Class II real property valuation increased by $1.4 billion (2.9%) from TY12 through TY16.

60% of the increase in Class II valuation from TY12-16 was due to the dramatic increase in mineral property value. This increase is due to the increase in shale drilling over the past several years. While mineral valuation is not large in the context of overall property valuation in Ohio, the fact that it is concentrated in a relatively small number of districts makes it an important factor in those areas. The top seven districts (Harrison Hills, Carrollton, Noble, East Guernsey, Switzerland of Ohio, Union, and Barnesville) comprise 83.3% of all mineral valuation in the state. And the top 15 districts comprise over 90% of the total mineral property.

Table 7 provides a summary of all classes of property valuation in Ohio (Class I real, Class II real, and Public Utility Tangible Personal property) from TY12 through TY16. Table 7 shows that Public Utility TPP values increased by $4.8 billion (43.7%) from TY12 through TY16. As was the case with mineral property, shale drilling is one of the driving forces behind the increase in Public Utility TPP valuation. Increased natural gas production has increased gas pipeline activity as well as increased the valuation of natural gas fueled electric generating facilities. However, at the same time, coal fired and nuclear electric generating facilities are decreasing in value.

Table 7: Real & Public Utility Property

Tax Year	Class I Real Value	Class II Real Value	Public Utility TPP Value	Total Property Value
TY12	$175,027,893,725	$50,474,016,180	$10,940,261,030	**$236,442,170,935**
TY13	$176,183,967,750	$50,366,945,654	$11,704,044,068	**$238,254,957,472**
TY14	$180,018,003,605	$50,586,535,910	$12,681,245,847	**$243,285,785,362**
TY15	$183,600,994,500	$50,856,465,130	$13,881,423,142	**$248,338,882,472**
TY16	$185,384,102,333	$51,917,214,702	$15,723,285,232	**$253,024,602,267**
$ Increase TY12-16	**$10,356,208,608**	**$1,443,198,522**	**$4,783,024,202**	**$16,582,431,332**
% Increase TY12-16	**5.9%**	**2.9%**	**43.7%**	**7.0%**

Source: Ohio Department of Taxation

Table 8 provides a summary of property valuation change in Ohio from TY2012 through TY2016. This table shows that agricultural property was responsible for 39% of the total increase in value over this five year time period, while Public Utility TPP property was responsible for 28.8% of the increase and Residential property was responsible for 23.5%

of the increase. Mineral and other Class I real property was responsible foe the remaining 8.7% of valuation increase.

Table 8: Valuation Change TY12-16 by Type of Property

Class of Property	TY12-16 Valuation Change	TY12-16 % of Total Valuation Change
Agricultural Real	$6,463,939,283	39.0%
Public Utility TPP	$4,783,024,202	28.8%
Residential Real	$3,892,269,325	23.5%
Mineral Real	$861,839,309	5.2%
Other Class II Real	$581,359,213	3.5%
Total Valuation	**$16,582,431,332**	100%

Examining the change in property taxes received by school districts since TY2012 provides one final perspective on property valuation. Table 9 summarizes the change in school district property tax revenues from TY12 through TY15. Note that TY2016 property tax revenue data is not yet available from the Ohio Department of Taxation.

Table 9: TY12-15 School District Property Taxes Change by Class of Property

Tax Year	Class I Real Taxes	Class II Real Taxes	Public Utility TPP Taxes	Total Property Taxes
TY12	$6,258,424,026	$2,186,777,409	$553,701,518	**$8,998,902,953**
TY13	$6,418,814,327	$2,224,967,541	$598,954,991	**$9,242,736,859**
TY14	$6,536,584,635	$2,261,825,177	$646,470,012	**$9,444,879,824**
TY15	$6,610,033,292	$2,272,378,531	$702,544,255	**$9,584,956,078**
$ Increase TY12-15	**$351,609,266**	**$85,601,122**	**$148,842,737**	**$586,053,125**
% Increase TY12-15	**5.6%**	**3.9%**	**26.9%**	**6.5%**

Source: Ohio Department of Taxation

Table 9 shows that from TY2012 to TY2015, property taxes received have gone up in all classes of property, with an overall increase of 6.5%. Class I taxes comprise 69% of school property tax revenues in FY2015 and were responsible for 60% of the increase in taxes from TY2012 through TY2015.

D. TPP Replacement Payment Phase-out and Its Impact

In addition to receiving state aid through the school foundation formula, 131 K-12 school districts and six Joint Vocational School Districts (JVSDs) currently receive Tangible Personal property tax replacement payments from the state. These replacement payments stem from a large reduction in the assessment percentage applied to public utility

property when electricity and natural gas markets were deregulated in SB3 in 1999 and from the HB 66 repeal of the business tangible personal property tax on equipment, inventory and furniture and fixtures in 2005. The HB 66 business TPP replacement payments were initially phased down in FY12 and FY13 and then again in FY16 and FY17. Business and public utility TPP payments were combined in FY16 as only 5 districts were still receiving Public Utility TPP replacement payments at that time. SB 208 (passed in October 2015) has now installed a new phase-down schedule in permanent law based on a payment reduction equal to 5/8th of a mill of property taxes beginning in FY18 and continuing annually until replacement payments reach zero in all school districts.

Table 10 provides an overview of TPP related payments to school districts from FY17 through FY19. TPP replacement payments will continue to phase-down in FY18 and FY19 according to the formula prescribed in SB 208. In addition, the FY17 TPP Supplement, vetoed by Governor Kasich in HB64 but partially reinstated in SB 208 will also be eliminated in FY18 and FY19. *Note that Table 10 does not show TPP replacement payments for bond, emergency and non-current expense levies. Because these levies function differently from regular operating levies they are governed by separate legislation.*

Table 10: FY17-FY19 Tangible Personal Property Tax (TPP) Replacement Payments and TPP Supplement ($ in Millions)

	FY17	FY18	FY19
TPP Operating Levy Replacement Payments	$180.5	$142.3	$111.2
# of Districts Receiving Payments	131	101	81
TPP Supplement	$43.9	$0	$0
# of Districts Receiving Supplement	75	0	0
# of Districts Receiving Either or Both TPP Related Payments	158	101	81
Total State TPP Payments	$224.4	$142.3	$111.2
Change from Year to Year		-$82.1	-$31.1

Source: FY18 and FY19 TPP replacement payments and FY17 Total TPP Replacement + TPP Supplement amounts are from LSC. FY17 breakdown of TPP replacement and TPP Supplement payments computed by Howard Fleeter based on most current Ohio Dept. of Education and Ohio Dept. of Taxation data.

In FY17 TPP Operating Levy Replacement payments were $180.5 million and the TPP Supplement (which assured that no district lost more than 4% total funding compared to FY15) is estimated at $43.9 million.

However, in FY18 TPP operating levy replacement payments under SB 208 are estimated to fall by $38.2 million to $142.3 million. TPP replacement payments are then estimated to decrease by an additional $31.1 million in FY19 to $111.3 million.

Table 11 combines the effects of the data shown in Table 1 from page two of this testimony and Table 10 above.

Table 11: FY18 & FY19 Changes in State Funding Formula Only and Including Tangible Personal Property Tax Payments* ($ in Millions)

	Formula Funding Only		Formula Funding + TPP Replacement	
	FY18	**FY19**	**FY18**	**FY19**
# of Districts Losing Funding	346	46	390	109
Total Amount of Funding Loss	-$47.8	-$2.4	-$105.8	-$15.0
# of Districts Gaining Funding	256	255	216	219
Total Amount of Funding Gain	+$194.3	+$131.1	+$170.3	+$112.7
# of Districts Same Funding	8	309	4	282
Net Funding Change	**+$146.6**	**+$128.8**	**+$64.4**	**+$97.7**

Table 11 shows that when only formula funding is considered, 346 school districts receive less funding in FY18 than in FY17, with a total reduction of -$47.8 million. 256 districts receive increases in funding totaling $194.3 million. The net formula funding increase from FY17 to FY18 is $146.6 million ($146.6 million = +$194.3 million for the districts receiving more funding, minus the -$47.8 million lost by districts receiving less formula funding).

However, when the reduction in TPP replacement payments and the elimination of the TPP Supplement are factored in, ***390 districts now receive less total state formula + TPP funding in FY18 than they did in FY17***, with a total reduction of -$105.8 million.

Similarly, the number of districts that gain state funding when TPP changes are factored in falls from 256 to 216, with the net increase in state funding also falling from $194.3 million when just formula funding is considered to $170.3 million. ***Thus, the net funding increase from FY17 to FY18 when the TPP changes are included is only $64.4 million*** ($64.4 million = +$170.3 million for the districts receiving more formula + TPP funding, minus the -$105.8 million lost by districts receiving less formula + TPP funding).

A similar pattern occurs from FY18 to FY19 when the TPP changes are included, with the net increase in funding falling from $128.8 million when formula funding only is considered to $97.7 million when the continued phase-down of the TPP replacement payments are included. The impact on funding from including the TPP payments is not

quite as extreme from FY18 to FY19 as from FY17 to FY18 because the TPP Supplement is not in place in either FY18 or FY19.
Finally, Table 12 provides an overview of TPP school operating levy replacement payments from FY11 through FY27. Estimates from FY18 through FY27 are based on the provisions of SB 208.

Table 12: TPP School Operating Levy Replacement Payments FY11-FY27

Fiscal Year	TPP Operating Replacement Payments ($ in millions)	# of Districts Receiving TPP Payments
FY11	$985.9	610
FY12	$651.8	421
FY13	$420.3	260
FY14	$420.3	260
FY15	$420.0	259
FY16	$281.7	202
FY17*	$180.5	131
FY18*	$142.4	101
FY19*	$111.3	81
FY20*	$89.9	67
FY21*	$72.5	55
FY22*	$59.1	43
FY23*	$47.6	40
FY24*	$38.9	33
FY25*	$31.7	27
FY26*	$25.8	22
FY27*	$21.3	19

* FY17 estimate is based on ODE data through TPP payment #1 in November 2016. FY18-FY27 figure are estimates prepared by Howard Fleeter based on LSC SB 208 analysis and property tax data through Tax Year 2015.

E. Electric Utility Generation Issues

As shale drilling and other economic factors reduce the price of natural gas, the economics of electricity generation in Ohio has shifted significantly. Natural gas fueled power plants are becoming more and more economical and hence their value is rising. At the same time coal-fired and nuclear electric generating plants are finding it harder and harder to remain competitive. The 2016 sale of Duke Power's generating facilities to Dynegy resulted in a drastic reduction in the market value of the power plants. This reduction in market value translated directly into lower valuation of the power plant's property effective in TY2016. Furthermore, in the wake of the Dynegy purchase, AEP has filed appeals of the 2016 valuations of its coal-fired power plants, and most recently First Energy has significantly lowered the book values of the Perry and Davis-Besse nuclear power plants which is likely to lower the 2017 taxable values of these facilities.

Table 13 provides an overview of the power plants (and associated school districts) whose valuations changed the most from TY15 to TY16.

Table 13: Largest Power Plant PUTPP Valuation Changes TY2015 to TY2016

School District	Power Plant Name	Fuel Source	TY15 to TY16 $ Change in PUTPP Valuation	TY15 to TY16 % Change in PUTPP Valuation
Manchester Local	Stuart & Killen	Coal	-$59,204,560	-27.9%
New Richmond EVSD	Zimmer	Coal	-$51,821,270	-27.6%
River View Local	Conesville	Coal/Oil	-$25,582,768	-18.1%
Three Rivers Local	Miami Fort	Coal/Oil	-$11,215,520	-15.9%
Northeastern Local	Richland	Gas/Oil	-$9,396,680	-14.7%
Vinton County Local	Rolling Hills	Natural Gas	$14,839,890	12.9%
Tri-Valley Local	Dresden	Natural Gas	$21,736,520	36.5%
Wolf Creek Local	Waterford	Natural Gas	$23,744,620	29.5%
Benton Carroll Salem	Davis-Besse	Nuclear	$24,929,280	13.3%
Buckeye Local	Cardinal	Coal	$31,487,492	18.8%
Edison Local	Sammis	Coal	$58,948,918	50.3%
Fort Frye Local	Washington	Natural Gas	$75,235,770	91.2%
Rock Hill Local	Hanging Rock	Natural Gas	$120,444,620	85.4%

Source: Data compiled by Howard Fleeter

With exception of the Cardinal (owned by AEP & Buckeye Power) and Sammis (FirstEnergy) coal-fired power plants, the power plants with the largest decreases in value from TY15 to TY16 are all coal plants and the plants with the largest increases are natural gas. As mentioned above, the Davis-Besse nuclear plant is expected to see a drastic decrease in valuation in 2017.

From the perspective of the Ohio school districts in which the coal and nuclear plants are located, the decrease in valuation will obviously result in a dramatic reduction in local property tax revenue. While this reduction in valuation will eventually result in an increase in the SSI, because of the three year averaging of property values, this increase in state aid will occur immediately. In the case of New Richmond, Manchester and Three Rivers, all of whom have already seen reduced property tax payments as of January 2017, the FY18-19 SSI will be comprised of two years of "old" pre-Dynegy purchase valuations (TY14 and TY15) and only one year of the new lower valuation (TY16). A provision that allows districts suffering from large single-year decreases in valuation to have their SSI based on only the most current tax year valuation as opposed to the three-year average valuation which address this problem.

F. Conclusions (and possible adjustments to the formula)

The FY18-19 school funding formula proposed by the Governor more than doubles the number of districts on the guarantee in FY18 and FY19 compared to FY17 This occurs despite the Administration's proposal for reducing the guarantee in school districts that have had more than a 5% reduction in enrollment from 2011 to 2016.

While the Administration has defended its reduction in the guarantee by stating that it reduces the funding of "phantom students", this reasoning suffers from two flaws. First, the Administration's fervor to reduce the guarantee is independent of any judgment as to whether these districts were adequately funded in the first place, regardless of how many more or fewer students attend school in the district currently. Second, the reason that so many more districts are on the guarantee is not because of changes in property valuation or the number of students over the past two years, but rather because the per pupil components of the school funding formula have been frozen at FY17 levels in FY18 and FY19.

While the recent failure of FY16 and FY17 GRF tax revenues to meet forecast levels has placed state revenues at a premium in the FY18-19 biennium, there are still several options for adjusting the school funding formula that can be explored. These options include:

- Modifying the reductions in the guarantee proposed by the Governor.
- Increasing formula funding components that target resources to districts most in need. These components include Targeted Assistance, Capacity Aid and Economically Disadvantaged student funding. Each year the Local Report Card results reaffirm the significant achievement gap between students in high poverty school districts and those in lower poverty districts.
- Modification of the SSI to more appropriately include income as a factor. The current SSI formula rewards districts based on how their income ratio compares to their property value ratio, not districts whose income levels are low in an absolute sense (i.e. below the statewide average).
- Consider once again the chargeoff based formula included in the House version of the FY16-17 state budget.

Thank you again for the opportunity to testify this morning. I will be happy to answer any questions that the committee might have.