Testimony to House Finance Sub-Committee on Primary and Secondary Education

Good afternoon Chairman Cupp, Ranking Member Miller, and members of the subcommittee. My name is Lew Galante and I serve as the Chief Financial Officer of the Perry Local School District in Lake County, Ohio. I appreciate the opportunity to give this written testimony relative to our school district.

Perry Local School District is a small rural district in eastern Lake County that serves approximately 1,800 students. Our district is made up of a hardworking mixture of blue and white collar families with an average income slightly lower than the state average, at approximately $60,000. 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 Perry Nuclear Power plant represents over 20% of total employment within the school district. The Perry Local School District is the second largest employer within our territory. The Perry Joint Fire District is the 7th largest employer in the community as a larger than normal safety force is needed to serve to the Nuclear Power Plant.

Historically, prior to agreeing to take on the risk of having a nuclear plant built, Perry had the dubious distinction of being the only district in Ohio to ever close its doors mid-year and cease operations due to insufficient funds. Since that time, and primarily due to the capacity to raise revenue, the citizens of Perry agreed to allow a nuclear power plant to be built in the district. This came with a promise that by assuming this risk their funding woes would be gone forever. It is worth noting that other districts rejected this opportunity due to the radioactivity concerns of such a plant.

After the plant was constructed for over $6 billion, it began generating electricity in 1987. The valuation and the taxes the plant generated became an enormous windfall for Perry and the entire state. With that revenue, the promise of fiscal stability and the tax laws in place, the school district began construction on a state-of-the-art school of its own. The facility included a single one campus K-12 solution, which includes an indoor pool, a field house, a turf field stadium, and a performing arts theatre; all of which opened for students in 1992. Such a large cash influx to a single entity quickly lead to changes in tax structures and laws which saw revenues associated to the transmission of electricity be shared throughout the state.

Later changes to public policy included the deregulation of public utilities, the phase-out of tangible personal property taxes, and the continuous de-valuation of plant real and personal property. All of this served to end the revenue stream that had been promised the Perry community. As a result, a public utilities tax reimbursement was provided to hold Perry harmless. The law has since included this in the phase out of TPP.

As we turned the century, Perry was still in a precarious situation. We had a beautiful facility to provide great educational opportunities for children both academically and athletically, but we also faced decreasing revenues due to an impending phase out of our tax replacement payments, and declining local revenue. In addition, because the valuation of the plant sat in a rural community, the valuation per pupil remained high and prevented us from being able to make up for lost revenue under the state foundation formula.

This really is where the problem began.

From an economic development standpoint, Perry has tried for years to work with our local government entities to entice businesses to build a home in Perry. We have thousands of acres, historically used for agriculture that are available for other development. Time and time again, the school board, along with our local officials, have agreed to tax abatement offers for perspective businesses; only to have them matched by another community who didn't have the backdrop of a nuclear power plant. Many entities have sited the presence of a nuclear power plant as the main deterrent. The fact is, our school system is the only reason anyone, when given a choice would come to Perry.

From a revenue standpoint, Exhibit A represents the property valuation and revenue of the Perry Local School District from 1995 to present, along with an optimistic perspective for the next five years. This is optimistic because, as you see in the attached Exhibit, we project a 5% Gain Cap in the next two years of funding, of which Perry is unlikely to realize due to the reality of a 1.5% average increase over the past 20 years. We've projected a historic decrease to local revenue but are not taking into consideration the current reality of a more significant decrease due to a valuation challenge or complete shutdown of the power plant. If this possibility were to become reality, more significant decline in revenues would occur.

- In fact, total revenues for the school district have fallen over 19% ($29.1 million to $23.7 million) from state and local tax revenue for the 20-year span 1995-97 average revenue to the 2015-17 average revenue.

Over the next 5 years, the district may lose an additional 10%-20% of existing revenue if current state foundation formulas and projected collections remain the same and if the power plant does indeed reduce its valuation.

Comparisons

When we compared Perry to other districts throughout the state since 2000 we notice some interesting facts.

- Income tax returns in Perry have grown at a rate 46% below that of the state average indicating a declining capacity to increase taxes.

- According to District Profile Reports provided by the Ohio Department of Education, the Perry poverty rate has increased 568%, nearly four times the rate of the State of Ohio as a whole. This fact supports the slower income growth, and again indicates a declining capacity to increase taxes.

- Total property valuation for the school district has decreased 39.6% while the state of Ohio has risen nearly 20%.

- In fact, since 2000, only 1 district in the state has experienced a greater local property tax percentage decrease than Perry. That district's student population has decreased 17% while their foundation has more than doubled and they receive 1000% more per student from the foundation formula than Perry.

Conclusion:

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 (Perry Nuclear Power Plant) in a district represents a large portion of a district valuation, it creates a skewed representation of true wealth in a community. Such wealth is even further accentuated when that valuation is represented by a company that converts real property to an un-taxable depreciating, tangible piece of property. Further compounding the problem, is a nuclear power plant that has a reverse growth effect on other businesses. In districts where large businesses exist, other businesses such as hotels, restaurants, etc. generate 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. Left without a better solution, the Perry Local School District will continue a trend of increased poverty rates, declining valuation and local revenue, and will eventually end up back where it began in the 1970's.

Solution

The current funding formula is calculated using income and property wealth metrics and a three year valuation of a district to determine wealth. Several TPP districts have argued the inequities of the TPP phase-out. These districts are generally held harmless over time as other economic development drives increases to real property which, in turn, drives additional revenue to the schools. This offsets tangible losses and stabilizes district wealth due to several types of business and industry in the community.

In a Nuclear Power Plant District, the entire community wealth is driven by the business of a single nuclear power plant. The plant depreciates with age, and real property around the plant depreciates which creates less tax revenue. Only improvements to the plant to continue current operations provide for temporary revenue to the district tax rolls.

The formula currently calculates Perry to be funded at a 25% state share index. Due to the guarantee (tied to the perceived wealth), however, we have never received additional funding as we lost local revenues due to loss of valuation, TPP phase-out, or increases to poverty.

We feel strongly the foundation formula should take into account that the nuclear power plant districts lack the ability to grow real property and that there is inflated wealth utilized within the formula for those districts.

As such, if for foundation formula purposes, nuclear power plants were recognized at 50% of true valuation and those two districts were exempt from gain caps and guarantees; they would then be appropriately funded under the formula. There is no reason to go backwards in time as we recognize that the inflated values of revenue from the past were always unsustainable. The districts future losses would be mitigated in the new formula to ease the burden of local losses to valuation. As the foundation adjusts over time for inflation, the districts revenue could adjust as well or be adjusted to property losses or gains. In addition, those districts could also lose state foundation funding should the plants increase valuation through plant improvements, hence, not forcing a guarantee that would cost the state additional dollars. Such a solution would ensure the proper checks and balances are in place to properly fund the districts.