

Testimony to Senate Finance Primary and Secondary Education Subcommittee

Good afternoon Chairman Hite, Vice Chairman Sykes, and members of the subcommittee. My name is Jack Thompson and I serve as the Superintendent of the Perry Local School District in Lake County, Ohio. I appreciate the opportunity to give this testimony relative to our school district.

Perry Local School District is a small rural school 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 workers with a median income that sits at around \$39,000. While the median income is slightly higher than the state average, our community's average income is approximately \$60,000, which is slightly lower than the state average. 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 boundaries. 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.

Prior to agreeing to take on the risk of having a nuclear plant built, the Perry School District was so poor we had to close mid-year and cease operations due to insufficient funds. Since that time, and primarily due to the lack of capacity to raise revenue, the citizens of Perry agreed to allow a nuclear power plant to be built in the district along with a promise that by assuming this risk, their funding woes would be gone forever. This came at a time when other districts rejected this opportunity due to the radioactivity fears 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 the entire state. With that revenue, the promise of fiscal stability and the tax laws in place, the school district began construction on a school district facility of its own. The facility included a single one campus K-12 solution which included an indoor pool, a field house, a turf field stadium, and a performing arts theatre; all of which

opened for students in 1992. The large cash influx we were receiving quickly changed when tax structures and laws were passed that disseminated the revenues associated to the transmission of electricity throughout the state.

Later, changes to the laws included the deregulation of public utilities, the phase-out of tangible personal property taxes, and the continuous devaluation of the Perry plant for both real and personal property. All of this served to end the revenue stream that had been promised to the Perry community. As a result, a public utilities tax reimbursement was provided to hold Perry harmless that now continues to be phased out without any new capacity for revenue in Perry.

As we turned the century, Perry still sat 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. In fact, the formula is so skewed that districts spending \$20,000 per year per student continue to gain in the formula, but Perry, whose valuation has been nearly cut in half over the past 18 years, cannot gain revenues at the pace they are being phased out.

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 cited the presence of a nuclear power plant as the main deterrent.

From a revenue standpoint, the property valuation and revenue of the Perry Local School District from 1995 to the present, along with the current projection of the next two years, continues to slide further behind. Under

current scenarios from the Governor and the House, Perry is unlikely to realize any gain because the decline of state revenues far exceeds any potential gain due to a 5.5% gain cap. This has been, and continues to be, the trend with Perry. This projection only gets worse if the real and or public utility tangible property from the Perry Power plant decreases due to a valuation challenge or complete shutdown of the power plant. If such a possibility were to become reality the results would be catastrophic to the school district.

- 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).
- We have just reduced, through attrition or a reduction in force, 10 positions at our board meeting earlier this week in order to balance the budget for FY18.
- We are currently showing a (763,000) deficit for FY19, that will have to be balanced by more staff cuts at this time next May.

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 a more significant percentage if the power plant does indeed seek to reduce its valuation.

Comparisons

As we have 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%. 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.
- In the simulations released through OSBA, districts with higher valuations per pupil, higher income tax returns, and higher costs per pupil, all receive additional funding over the next two years.
- The Governor has increased funds by over \$50 million for education, and the House another \$100 million from there. Perry General Fund revenue falls over each of the next two years in both scenarios.

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 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 attracted to the area such as hotels, restaurants, etc. which in turn generates 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 eventually will end up 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 creates a wealth effect to offset tangible losses and district wealth is balanced 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 of the plant to continue current operations provide for temporary revenue to the district tax rolls. Other businesses move elsewhere outside of the shadow of the tower.

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

The foundation formula must take into account that the nuclear power plant districts lack the ability to grow real property and that there is a false wealth of those districts.

I ask today, that when making a determination on how to distribute educational funding; start by freezing the districts that are losing funding and not taking away from them and spread the new revenue to the rest.

We are not asking for additional funds, we are asking to be frozen, so that we can establish a ground zero and determine our educational programs from there.