

**Senate Finance Committee**  
**Interested Party Testimony – Senate Bill 313**  
**Dr. Howard Fleeter**  
**Ohio Education Policy Institute**  
**June 9, 2020**

Chairman Dolan, Vice Chair Burke, Ranking Member Sykes, and members of the Senate Finance Committee. Thank you for the opportunity to present testimony with regard to Senate Bill (SB) 313. My name is Howard Fleeter, I am the research consultant for the Ohio Education Policy Institute (OEPI).

In recent years a small subset of Ohio’s 610 traditional K-12 districts and of Ohio’s 49 JVSD districts have experienced significant decreases in their Public Utility Tangible Personal Property (PUTPP) valuation. The underlying reason for the valuation decreases is changes in Ohio’s energy market which have made it increasingly difficult for coal-fired and nuclear power plants to remain competitive with natural gas power plants. As a result, the taxable value of the coal and nuclear plants has been significantly lowered, and in several instances the plants have closed entirely (which reduces the PUTPP value to zero). In either case, the result has been significant reductions in local property tax revenue for the school districts where the power plants are located.

In FY18 and FY19 the Ohio Department of Education (ODE) “028 Adjustment” called for a recomputation of state foundation funding in districts that experienced a decrease in PUTPP value of more than 10% from either Tax Year 2016 to 2017 or Tax Year 2017 to 2018. However, because the state foundation funding formula has been frozen at FY19 levels in the current biennium, there is no 028 adjustment in FY20 or FY21. This means that districts that have experienced a loss in PUTPP valuation in Tax Year 2019 will not receive any additional state funding under current law to help offset their loss of local tax revenue. The same would be true for districts that experience a loss in PUTPP valuation in Tax Year 2020.

In addition, the FY18 and FY19 028 Adjustments also had a provision which “clawed back” state funding from districts that experienced more than a 10% increase in PUTPP valuation. In one of these districts (Felicity Franklin in Clermont County) it was later learned that the valuation increase was based on incorrect data.

SB 313 as introduced addressed the above issues by providing 2 types of supplemental funding for school districts. First, traditional K-12 school districts that have experienced more than a 10% reduction in PUTPP valuation from TY17 to TY19 would be eligible for supplemental funding in FY20. Additionally, districts that have experienced more than a 10% reduction in PUTPP valuation from TY17 to TY20 would be eligible to receive supplemental funding in FY21. Second, the negative 028 adjustments which occurred in FY18 receive a one-time reimbursement payment. 3 districts would receive this one-time payment.

At the request of the Ohio Education Policy Institute (OEPI) I conducted research examining the issues described above and reviewing the as-introduced version of SB 313. My complete report is attached at the end of this testimony.

My analysis recommends several modifications to the provisions contained in the as-introduced version of SB 313. These changes (none of which modify the 028 Adjustment repayment) would provide more comprehensive state support to the school districts impacted by declining power plant values caused by Ohio’s evolving energy marketplace. The recommended changes are:

- 1) Joint Vocational school districts also be eligible to receive supplemental funding based on their PUTPP valuation loss.
- 2) School districts are eligible for supplemental funding in FY20 if their PUTPP valuation loss is greater than 10% from *any of* TY17 to TY18, TY18 to TY19 or TY17 to TY19.
- 3) Similarly, school districts are eligible for supplemental funding in FY21 if their PUTPP valuation loss is greater than 10% from either FY19 to FY20 or FY17 to FY20.
- 4) To be eligible for supplemental funding a school districts must also have a power plant within its jurisdiction.
- 5) Districts that meet the above criteria will receive either their recomputed formula funding amount or a minimum amount of supplemental funding based on their amount of lost local tax revenue as a result of the decrease in PUTPP valuation (whichever amount is greater). My report suggests that the minimum replacement amount could be 50%, 75% or 100% of their local tax loss.

Cost of a Modified Version of SB 313 Using 50% Minimum Replacement of Lost Tax Revenues

The table below shows that the cost to the state of modifying the as-introduced version of SB 313 would be relatively modest.

**Table A: SB 313 Estimated Impact by School District**

District	County	Change in Property Taxes TY17-TY19	SB 313 Adjustment - As Introduced	SB 313 Modified (50% Replacement)	SB 313 Modified (75% Replacement)
<b>Recomputation of FY19 State Aid</b>					
Manchester Local SD	Adams	(\$1,337,022)	\$1,337,022	\$1,337,022	\$1,337,022
Perry Local SD	Lake	(\$1,492,559)	\$1,045,912	\$1,045,912	\$1,119,419
New Richmond Ex Vill SD	Clermont	(\$772,135)	\$293,667	\$386,068	\$579,101
Gallia County Local SD	Gallia	(\$805,300)	\$3,954	\$402,650	\$603,975
River View Local SD	Coshocton	(\$138,370)	\$0.00	\$69,185	\$103,778
U.S. Grant JVSD	Clermont	(\$172,167)	\$0.00	\$86,084	\$129,125
<b>.028 Adjustment Reimbursement</b>					
Felicity-Franklin Local SD	Clermont	N/A	\$400,266	\$400,266	\$400,266
Weathersfield Local SD	Trumbull	N/A	\$144,811	\$144,811	\$144,811
Lowellville Local SD	Mahoning	N/A	\$189	\$189	\$189
<b>Total Cost</b>			<b>\$3,225,821</b>	<b>\$3,872,186</b>	<b>\$4,417,686</b>

Table 1 shows that the as-introduced version of SB 313 is estimated to cost the state \$3,225,821. Modifying the as-introduced version of SB 313 with a 50% minimum replacement level would increase the cost to the state by \$646,365 to \$3,872,186. Implementing a 75% minimum replacement level would increase the cost by \$1,191,865 to \$4,417,686.

Thank you again for the opportunity to provide testimony. I would be happy to answer any questions that you might have.

[Complete OEPI analysis attached below on following pages]



## Power Plant District Supplemental Funding

Dr. Howard Fleeter  
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June 5, 2020

Statement of Problem: A small subset of Ohio's 610 traditional K-12 districts and of Ohio's 49 JVSD districts have experienced significant decreases in their Public Utility Tangible Personal Property (PUTPP) valuation over the past several years. The underlying reason for the valuation decreases is changes in Ohio's energy market which have made it increasingly difficult for coal-fired and nuclear power plants to remain competitive with natural gas power plants. As a result, the taxable value of the coal and nuclear plants has been significantly lowered and in several instances the plants have closed entirely (which reduces the PUTPP value to zero). In either case, the result has been significant reductions in local property tax revenue for the school districts where the power plants are located.

SSI Recalculation in Response to PUTPP Valuation Reductions in Tax Year 2017: Foundation funding in FY18 and FY19 is based on the State Share Index (SSI). The SSI uses the 3-year average total property valuation in each district based on Tax Years 2014, 2015 and 2106. The SSI is the same in both FY18 and FY19. However, HB49 created an exception in FY19 whereby "Eligible Power Plant Districts" have an adjustment applied. To be eligible a district must satisfy 3 conditions

1. Public utility tangible property value in TY16 is at least equal to 10 percent of total valuation in TY16
2. Public utility tangible property value in TY17 is less than 90 percent of the public utility tangible property value in TY16
3. Total power plant value in TY17 is less than 90 percent of total power plant value in TY16

Districts that met these 3 criteria then had their SSI based on their Tax Year 2017 total valuation rather than on the TY14-16 3 year average valuation. This change increased their state aid in FY19.

Proposed SB 313 Adjustments for FY20 and FY21: Foundation funding in the current FY20-21 biennium is frozen based on FY19 funding. While this means that no district will lose state funding regardless of how its property valuation changes, ***it also means that districts that continue to experience decreases in PUTPP valuation do not receive additional state aid even though they now receive less local property tax revenue.*** In response SB 313 has proposed an adjustment which would work as follows:

1. If a district had a decrease of 10% or greater in its PUTPP valuation from TY17 to TY19 then foundation funding in FY20 would be adjusted based upon a recomputation of the district's FY19 SSI using the TY19 property valuation instead of the 3 year average TY14-16 valuation (or TY17 valuation if the district is a HB 49 Eligible Power plant district).

2. If a district had a decrease of 10% or greater in its PUTPP valuation from TY17 to TY20 then foundation funding in FY21 would be adjusted based upon a recomputation of the district's FY19 SSI using the TY20 property valuation instead of the 3 year average TY14-16 valuation (or TY17 valuation if the district is a HB 49 Eligible Power plant district).

A simulation of the SB 313 proposal shows that 8 districts would qualify for an adjustment on their FY20 funding based on the above proposal. However, only 3 districts (Manchester Local, Perry Local and New Richmond EV) would receive a noticeable amount of additional funding as a result of this proposal. Gallia Local would receive an increase of only \$4,000 (0.5% of its lost local property tax revenue) while Felicity Franklin, Copley-Fairlawn, Southern Local and Jefferson Township Local would receive no additional funding. Upon further inspection, Gallia, Felicity Franklin, Southern Local and Jefferson Township were all on the guarantee in FY19 which is why their recomputed funding increased only slightly (Gallia) or not at all (the other 3) while Copley-Fairlawn experienced a significant increase in non-PUTPP property in TY19, which meant they got no additional funding. And among the 3 districts that would have received a substantive increase in FY20 funding, New Richmond's increase was only sufficient to replace 38% of their lost local PUTPP tax revenue.

As result of these findings, several modifications are suggested:

- 1) Eligible districts receive the **greater of the recomputed state aid amount or a set minimum percentage (50%, 75%, 100%) of their Tax Year 2017-2019 PUTPP local revenue loss**. This change would increase the FY20 estimated cost of this proposal from \$2.7 million to \$3.2 million, \$3.7 million, or \$4.5 million respectively.
- 2) The eligibility rule be modified to include districts who have experienced a decrease in PUTPP value of greater than 10% **either from TY17 to TY18, TY18 to TY19 or TY17 to TY19**.
- 3) Eligibility modified to include the criteria that in addition to PUTPP value decreasing by 10% or greater, **the school district must have an electricity generation facility ("power plant") within its jurisdiction**.
- 4) In FY21, eligibility for additional state aid would be based on a decrease in PUTPP value **from either TY19 to TY20 or TY17 to TY20**. Again, a minimum recomputed aid amount of 50%, 75% or 100% of lost local PUTPP tax revenues would be in place.
- 5) **Apply the same formula to funding for Ohio's 49 JVSDs**. Based on preliminary TY19 PUTPP data, only 1 of the 49 JVSDs (US Grant JVSD) experienced a decrease in PUTPP value of greater than 10% from TY17 to TY19. It is expected that in TY20 Coshocton County JVSD will also reach this threshold due to the recent closing of the Conesville power plant. A similar adjustment to the state funding formula that would result in the replacement by the state of a minimum %05%, 75% or 100% of their PUTPP property tax loss would thus seem appropriate.

Felicity Franklin – The SB 313 proposal to recompute the state allocation for districts that have lost more than 10% of the public utility tax base also includes a second provision which would reinstate \$400,000 of state aid to the Felicity Franklin school district. Felicity Franklin experienced a sharp increase in PUTPP valuation from TY16 to TY17. As a result, the statutory "028" adjustment kicked in and recalculated their state aid downward in FY19 because their valuation increased. However, subsequently it was determined that much of this increased valuation was in fact in Kentucky rather than in Ohio so the state aid reduction was inappropriate. The proposed remedy would be to reinstate the state aid that was wrongly reduced by the state. In addition, The Tax Department should be instructed to correct Felicity Franklin's PUTPP property value figures for TY17 and TY18, the two years where the property

was wrongly sited in Ohio (the TY19 PUTPP value has already been corrected). This will avoid a potential reduction in state aid in FY22 when 3-year averaging would presumably include the TY18 property value for the district.

Note that the US Grant JVSD should also have its TY17 and TY18 valuation figures corrected for the same reason. It is currently not clear whether the FY19 state aid amount for US Grant JVSD was based on the wrongly inflated TY17 PUTPP valuation figure or not.

Projected Impact of the Modified Proposal:

The table below provides a comparison between the estimated additional FY20 state aid under SB 313 and the additional state aid under this proposal. Note that these figures are estimates.

Note that no districts are harmed by the proposal here and that New Richmond, Gallia County and River View are helped. The additional cost of this proposal compared to that of SB 313 is \$560,282 with a 50% local PUTPP tax loss replacement minimum, \$1,062,740 with a 75% replacement minimum, and \$1,864,831 with 100% replacement of the local PUTPP tax loss.

**Table 1: Estimated Impact of Proposed Additional FY20 State Funding: 50% Minimum**

District	County	Power Plant? Y/N	TY17-19 PUTPP % Decrease	PUTPP Taxes Lost	SB 313 Additional Aid	Proposed Additional Aid
Manchester	Adams	Yes	-73.0%	-\$1,337,022	\$1,337,022	\$1,337,022
Perry	Lake	Yes	-30.2%	-\$1,492,559	\$1,045,912	\$1,045,912
<b>New Richmond</b>	Clermont	Yes	-25.7%	-\$772,135	\$293,667	<b>\$386,068</b>
<b>Gallia County</b>	Gallia	Yes	-14.7%	-\$805,300	\$3,954	<b>\$402,650</b>
<b>River View</b>	Coshocton	Yes	-6.1%*	-\$138,370	\$0	<b>\$69,185</b>
<b>US Grant JVSD</b>	Clermont	Yes	-23.7%	-\$172,167	\$0	<b>\$86,084</b>
<b>Totals</b>					<b>\$2,680,555</b>	<b>\$3,326,920</b>

\* River View eligible based on PUTPP valuation decrease of -11.8% from TY17 to TY18

**Table 2: Estimated Impact of Proposed Additional FY20 State Funding: 75% Minimum**

District	County	Power Plant? Y/N	TY17-19 PUTPP % Decrease	PUTPP Taxes Lost	SB 313 Additional Aid	Proposed Additional Aid
Manchester	Adams	Yes	-73.0%	-\$1,337,022	\$1,337,022	\$1,337,022
<b>Perry</b>	Lake	Yes	-30.2%	-\$1,492,559	\$1,045,912	<b>\$1,119,419</b>
<b>New Richmond</b>	Clermont	Yes	-25.7%	-\$772,135	\$293,667	<b>\$579,101</b>
<b>Gallia County</b>	Gallia	Yes	-14.7%	-\$805,300	\$3,954	<b>\$603,975</b>
<b>River View</b>	Coshocton	Yes	-6.1%*	-\$138,370	\$0	<b>\$103,778</b>
<b>US Grant JVSD</b>	Clermont	Yes	-23.7%	-\$172,167	\$0	<b>\$129,125</b>
<b>Totals</b>					<b>\$2,680,555</b>	<b>\$3,872,420</b>

\* River View eligible based on PUTPP valuation decrease of -11.8% from TY17 to TY18

**Table 3: Estimated Impact of Proposed Additional FY20 State Funding: 100% Minimum**

District	County	Power Plant? Y/N	TY17-19 PUTPP % Decrease	PUTPP Taxes Lost	SB 313 Additional Aid	Proposed Additional Aid
Manchester	Adams	Yes	-73.0%	-\$1,337,022	\$1,337,022	\$1,337,022
<b>Perry</b>	Lake	Yes	-30.2%	-\$1,492,559	\$1,045,912	<b>\$1,492,559</b>
<b>New Richmond</b>	Clermont	Yes	-25.7%	-\$772,135	\$293,667	<b>\$772,135</b>
<b>Gallia County</b>	Gallia	Yes	-14.7%	-\$805,300	\$3,954	<b>\$805,300</b>
<b>River View</b>	Coshocton	Yes	-6.1%*	-\$138,370	\$0	<b>\$138,370</b>
<b>US Grant JVSD</b>	Clermont	Yes	-23.7%	-\$172,167	\$0	<b>\$172,167</b>
<b>Totals</b>					<b>\$2,680,555</b>	<b>\$4,717,553</b>

\* River View eligible based on PUTPP valuation decrease of -11.8% from TY17 to TY18

JVSD Estimated Fiscal Impact

US Grant JVSD's TY17-TY19 percentage of PUTPP value loss is 23.7%, and their TY17-TY19 PUTPP tax loss is estimated to be \$172,167 after this correction is made. 50% replacement of this lost local revenue is \$86,083 and 75% replacement is estimated to be \$129,125.

In FY21 Coshocton County JVSD is expected to qualify for reimbursement as proposed here based on an expected PUTPP valuation loss of \$34 million due to the recent closure of the Conesville generation plant. This decrease in value is roughly 35% compared to their TY17 PUTPP valuation and the TY17-TY20 local tax revenue loss is estimated to be roughly \$123,000. 50% replacement of this lost local revenue is estimated to be \$61,500 and 75% replacement is estimated to be \$92,250.