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Senate Education Committee
House Bill 96
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Chair Brenner, Vice Chair Blessing, Ranking Member Ingram, and members of the Senate Education Committee, thank you for the opportunity to testify today on House Bill 96. My name is John Holtzapple, Superintendent of Fairlawn Local Schools in Shelby County. I wanted to share with you today regarding a few important items that have the potential to impact our school funding situation.

There are three specific items I wish to share with you today that are of great importance to Fairlawn and all school districts in Shelby County:

1) The continued implementation of the Fair School Funding Model
2) Reject Cash Balance Cap & Five-Year Forecast Elimination within House Bill 96
3) Reject Change in the 20 Mil Floor Calculation within Senate Bill 66

I appreciate the work of this committee and the General Assembly in supporting Ohio's public schools, and I respectfully offer the following comments on several provisions in House Bill 96 and Senate Bill 66.

Fair School Funding Plan: Preserve the Phase-In and Update Base Cost Inputs

Like many of my colleagues across the state, I remain strongly committed to the Fair School Funding Plan (FSFP). It is a student-centered, transparent, and predictable model that reflects the actual cost of educating students in our communities.

Replacing the FSFP phase-in with temporary "bridge funding" moves away from this progress and reintroduces uncertainty into a system we've worked hard to stabilize.

We urge the Senate to:

- Remove temporary "bridge funding" and maintain the phase-in as proposed by Governor DeWine;
- Update the base cost inputs to reflect current costs, such as staffing, class sizes, and services; and
- Maintain guarantees until full implementation of the FSFP is complete, including updated categorical funding.

Without updated base costs, districts like mine risk being penalized even as other formula inputs—such as property valuations or income data—are refreshed. This creates structural imbalance and shifts more of the funding burden onto local taxpayers.

We are asking and encouraging the Ohio Legislature to work to continue the implementation of years five and six of the Fair School Funding Model and to use the FY24 inputs for years five and six. A few reasons why continued implementation will be of a benefit to Fairlawn Local Schools:

- Our % of Economically Disadvantaged Students is at 30.39%
- Our % of Students with Disabilities is at 14.84%

*****We have many supports in place for all of our students but especially for these two groups of students in particular. Continuing the implementation of the FSFM with updated inputs would allow us to continue to address the needs of the students of Fairlawn Local Schools.***

Other Revenue and Tax factors that stress our reliance on state funding and the continued implementation of the FSFM include:

- 89.65% of Fairlawn's valuation is from Residential and Ag
- 10.35% of Fairlawn's valuation is from Public Utilities
- We have nearly zero industrial base in our district and with the high level of farmland, there is little opportunity for residential growth.
- The per pupil raised by one mil is $185.85 which is far below both similar districts and the state average.
- Our total operating expenditure of $15,719 per student is below both similar districts and the state average.
- 59.67% of our revenue comes from the State and is 13-15% higher when compared to similar districts and the state average
- The Fairlawn residents, similar to other Shelby County residents, have seen a sharp increase in property taxes over the past couple of years. However, we feel this is an anomaly and will not continue.
- As you probably know, when local property taxes increase, our state revenue decreases.

*****We rely heavily on State funding to operate and provide our students with the services and supports they need. That is why the continued implementation of the FSFM with updated inputs is so important to the Fairlawn Local Schools.***

Important Expenditure factors for the Fairlawn Local Schools include:

- Our 75.70% of salaries and benefits is 3% below the amount for similar districts and the state average
- Our 19.29% of purchased services shows our reliance on the Midwest Regional Educational Service Center to provide services that we as a small, rural district are not able to provide to address all of our students' needs. This partnership is critical to the success of our students.
- We are working with a local vendor and our energy company to lower our energy costs with the installation of a power factor capacitor bank. This will be a cost up front but will pay for itself within four years.
- Our PK-12 building is fifteen years old and we find ourselves needing to update many items (both small and large). As there are updates and fixes that need to be made, we are sure to compare multiple quotes while also looking for options that are more energy efficient.

*****We are consistently looking for ways to be fiscally responsible and good stewards of the district residents tax money.***

Cash Balance Cap & Five-Year Forecast Elimination

Under the House-passed version of HB 96, districts with a carryover balance above 30% of the prior year's expenditures could face property tax reductions. For districts like mine, this would create serious planning challenges.

Ohio collects property taxes in arrears, which means that any reduction triggered by a June 30 balance wouldn't affect collections until 18 months later—long after the budget for the affected year has been adopted.

I am disappointed to learn that the House has passed their version of the budget bill using district general fund money to assist with property tax relief throughout the state. Although I believe something can and needs to be done, it is tough to know that being conservative, and diligent with taxpayer money and building general fund reserves, that our districts will end up penalized. Each of our districts have needs such as roof replacements, HVAC upgrades, facility upgrades, and construction/addition projects that these funds can be used for, instead of going to voters for additional millage to complete these projects.

If a district has been conservative and a good steward of the taxpayers' money, there may be a healthy carry-over balance currently. In addition to conservative principles, the current carry-over balances may also be impacted by a reflection of how districts chose to use their ESSER money over the past few years. This was of course one-time money that eventually will erode away as we operate our districts.

I believe it is also important to not only look at year one of any district's five year forecast. A true measure of the future fiscal health of a district is to look at year three of their five year forecast.

Another important point is that the 30% expenditure standard for carry over balances is not fiscally responsible for districts to adhere to. In our world, if property tax collections were reduced to mandate a district to adhere to the 30% standard, it would be unreasonable to expect districts to be able to run levies and ultimately collect on those levies due to the amount of time required for this process to take place. In my opinion, I believe that a much more accurate number would be for a district to not have more than 100% of their expenditures in their carry over balance. **I believe limiting this amount to 100% of the expenditures would allow districts the necessary time to compensate for lost revenue**.

Through discussions with superintendents and treasurers, when districts experienced financial struggles in 2008-2010 due to the recession and asked the legislators to factor in these struggles when considering those state budgets, their pleas were met with the statement of 'maybe it would be a good idea to plan for these future financial issues that may occur around our state and country. Now, since we have been planning for potential financial issues, like a recession, we could be punished for maintaining our conservative approaches.

In addition, replacing the five-year forecast with a three-year projection would weaken our ability to plan ahead, monitor for emerging deficits, and communicate with our communities. Years four and five are often when deficits appear—particularly in districts dependent on levy renewals.

I urge the Senate to:

- Remove the 30% cash balance provision from HB 96; and
- Reinstate the five-year forecast requirement to ensure long-term financial transparency.

Change in the 20 mil floor calculation

We respectfully ask this committee to carefully consider the proposed changes in SB 66 and their impact on property taxpayers, our school districts, and the students we serve.

We recognize these are unusual times, and many property owners are facing challenges due to recent reappraisals. We support targeted, means-tested property tax relief that helps those who need it most while preserving the integrity of school funding.

Ohio's constitutional framework for K-12 education funding establishes a shared responsibility between the state and local school districts. The state has a responsibility to "provide for a thorough and efficient system of common schools throughout the state"1, while local districts must contribute their fair share.

To fulfill their constitutional obligation to raise their local share, school districts primarily rely on property taxes:

> - School districts generate revenue through both "inside millage" (the constitutionally-authorized 10 mills allocated among local government entities and "outside millage" (additional voter-approved levies that exceed the 10-mill limitation).
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> - Voter-approved levies fall into two categories: "fixed sum" levies (bond, emergency, and substitute levies approved for specific dollar amounts) and "fixed rate" levies (approved for specific millage rates).
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> - Tax reduction factors under HB 920 prevent automatic tax increases or decreases as aggregate property values fluctuate over time. These reduction factors apply to fixed-rate voted levies, but only to a point – they cannot reduce effective millage below the 20-mill floor for school districts. This "20-mill floor" ensures schools maintain at least 20 mills of property tax for current operating expenses.
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> - This carefully balanced system allows communities to make local decisions about educational funding while providing some stability for both taxpayers and school districts. The 20-mill floor has been a foundational element of school funding for over 45 years, enabling districts to sustain essential operations while honoring the interests of taxpayers.

SB 66 fundamentally alters the 20-mill floor calculation by including income taxes, emergency levies, substitute levies, and all inside millage—revenue sources historically excluded from this calculation for sound constitutional and practical reasons.

Article XII, Section 2a of the Ohio Constitution explicitly states that the 20-mill floor applies only to "taxes charged for current expenses against the land and improvements." This clear language has been consistently interpreted by both the Ohio Department of Taxation and courts to create specific constitutional boundaries:

- School district income taxes are not levied against land and improvements but rather against income, making their inclusion in a property tax calculation constitutionally suspect.

- Inside millage designated for permanent improvements or debt service does not qualify as "current expenses" under law.

- Emergency and substitute levies were intentionally designed by the General Assembly (R.C. §5705.194 and R.C. §5705.199) to operate outside this framework.

SB 66 specifically proposes to amend R.C. §319.301 to expand the definition of what constitutes "current expense" millage for purposes of the 20-mill floor calculation. However, this expansion appears to directly conflict with the constitutional boundary established in Article XII, Section 2a, which limits the application to "taxes charged for current expenses against the land and improvements."

By applying new property tax calculations retroactively to previously approved levies, SB 66 raises significant legal concerns. When communities vote for school levies, they do so with specific expectations about how those funds will be used and how tax calculations will work. SB 66 retroactively changes these calculations, effectively:

- Reducing the benefit of voter approved levies;

- Limiting revenue growth that voters explicitly authorized; and

- Forcing districts to return to voters sooner and more frequently for additional funds.

This retroactive change breaks the covenant between school districts and their communities. Voters approved these levies with clear understanding of how they would operate - SB 66 changes the rules after the fact. Such retrospective application raises concerns about whether it violates Article II, Section 28 of the Ohio Constitution, which prohibits the General Assembly from passing retroactive laws.

School district five-year forecasts, required under R.C. §5705.391, must include projections of both revenues and expenditures. These forecasts specifically rely on current property tax law to project future revenues.

School district forecasts are not merely planning tools; they serve a critical legal function in certifying the district's ability to sustain financial commitments. Under R.C. §5705.412, school district contracts must be certified using the five-year forecast to ensure adequate funds are available. SB 66 would immediately render current forecasts inaccurate, potentially placing districts in violation of these requirements, exposing districts to legal liability through no fault of their own.

We are experiencing an unprecedented period with property values increasing at historic levels due to Ohio's strong economy, the lack of housing, and population growth, among other factors. We understand the burden this places on property owners, particularly senior citizens living on fixed incomes and others living paycheck to paycheck. Instead of the broad structural changes proposed in SB 66, we encourage the legislature to consider relief options that provide assistance to low and fixed-income homeowners through targeted means tested relief.

Ohio's property tax and school funding systems, embedded in our Constitution, necessitate careful evaluation of proposals to maintain equity and predictability.

We respectfully urge the committee to reject SB 66 and instead engage school finance stakeholders in developing balanced approaches that respect constitutional limitations, honor voter intent, maintain district stability, and protect educational quality through targeted assistance programs that help those who truly need relief.

To reiterate, we are asking the committee to:

> ***1) Continue the implementation of the Fair School Funding Model with updated inputs for FY26 and FY 27***
>
> ***2) Reject Cash Balance Cap & Five-Year Forecast Elimination within House Bill 96***
>
> ***3) Reject Change in the 20 Mil Floor Calculation within Senate Bill 66***

Thank you for your consideration of these crucial next steps in supporting Ohio's educational excellence.

Chair Brenner and members of the committee, thank you for your time and attention and for your service to the residents in the Ohio Senate.