



**House Finance Committee  
Substitute House Bill 49 Testimony  
Ohio School Boards Association  
Buckeye Association of School Administrators  
Ohio Association of School Business Officials  
April 27, 2017**

Good morning, Chairman Smith, Vice Chairman Ryan, Ranking Member Cera, and members of the House Finance Committee. Thank you for the opportunity to speak to you today regarding Substitute House Bill (Sub. HB) 49. My name is Barbara Shaner, Associate Executive Director for the Ohio Association of School Business Officials (OASBO). Joining me today for this testimony and in answering your questions are Jay Smith, Deputy Director of Legislative Services for the Ohio School Boards Association (OSBA) and Thomas Ash, Director of Governmental Relations for the Buckeye Association of School Administrators (BASA).

Our organizations represent public school district boards of education, superintendents, treasurers/CFOs, business managers, and other school business officials from around the state. Our members of course have a keen interest in the provisions proposed in HB 49. We are here today to offer our thoughts on the bill.

We appreciate the additional funding included in the House version of HB 49, particularly with the recent news about the state's revenue projections. We also want to acknowledge the work of the Ohio House of Representatives in the last biennial budget process (HB 64), particularly your work on the school funding formula. We recognize your attempts in that budget to make changes to the funding formula aimed at appropriately directing scarce state resources to meet the needs of all students in Ohio. We believe HB 64 took steps to move Ohio toward a more effective school funding formula as a result of your work.

However, there is more work to be done. Disparities in educational opportunities for students still exist across the state. While we understand that the current circumstances with the state's revenue projections are even more challenging, we urge you to continue efforts to eliminate those disparities.

**Provisions in Sub. HB 49**

It is our position that issues remain with the current calculation for determining the state and local shares of funding for schools, the State Share Index (SSI). HB 49's continuation of the use of the SSI in its current form serves to intensify subtle changes in property valuations which has the effect of causing significant shifts in district wealth. The SSI puts low density, large geographic districts at a disadvantage because it relies on "valuation per pupil" to determine wealth. Additionally, the flawed income adjustment within the SSI serves to exacerbate this problem.

We agree with Governor Kasich's stated premise that state aid should be directed based on the capacity of local districts and their communities' ability to provide local funding. The question is whether the formula works in the appropriate way and whether districts have enough resources to serve students. **We appreciate the House proposed increase in the Core Opportunity Aid from \$6000 to \$6020 and the increase in funding for Capacity Aid;** however, the increase is not sufficient to overcome the problems just cited with the SSI.

We believe the flawed SSI combined with a smaller than usual Core Opportunity Aid amount explains why so many more districts are on the Transitional Aid Guarantee than before.

Dr. Fleeter's analysis (attached to this testimony) demonstrates that increases in state funding for education since the Great Recession have not kept pace with inflation. Further, there is no method in place for determining the cost of educating students. This has been a concern of our members for many years, and it raises questions about the appropriateness of proposals in Sub. HB 49 to take funds away from school districts.

The bottom line is this — does a district have the necessary resources to serve its students? What programs and courses can be offered to students? Ohio's school funding formula should be calibrated in such a way that allows every district to prepare its students for college or a successful career. Again, we believe the current funding formula (adopted in HB 64) has made progress, but falls short of this objective.

### **Transitional Aid Guarantee**

Sub. HB 49 would reduce funding for school districts receiving transitional aid guarantee funds. The reductions would be based on districts' enrollment loss over a five-year period.

**We oppose this change.** If the legislature adopts the governor's ADM formula loss factor, we urge you not to do so for districts spending below the statewide average expenditures per pupil, an indication that they have not had enough resources for their students to begin with.

Further, we believe the rationale for reducing transitional aid funding is flawed. Ironically, an example which shows that the formula itself plays a role in districts receiving Transitional Aid can be found in the proposal in HB 49 itself. The number of districts on the transitional aid guarantee in Fiscal Year (FY) 2017 is 133, but that number would increase under proposed Sub. HB 49 to 315 in FY 2018 and 316 in FY 2019. No direct correlation can be found between districts' loss of enrollment and the fact they qualify for Transitional Aid funds. There is also no connection between the proposed reduction amounts and any reductions in cost that districts can experience.

Finally, the district-by-district simulations released by the House that are meant to show a comparison between the governor's budget proposal and the House substitute version are not a true apples to apples comparison. Different data are used for two assumptions within the simulations that cause the appearance of differences between the two proposals. **We urge you to release corrected versions of these simulations.**

### **Pupil Transportation**

Pupil transportation has been an underfunded line item for several biennia. Sub. HB 49 cuts funding for transportation even further to below current levels. **We urge you to restore funding for transportation to at least FY 2017 levels.**

This funding is essential for districts not only for their district students, but more importantly for students who are transported to nonpublic, community, and STEM schools. This transportation is even more costly than district school transportation because of the wide dispersion of these students and lack of influence that the public schools have over these calendars and bell times.

Pupil transportation presents a significant challenge for many school districts. In many areas of the state, students would face great challenges in getting to school were it not for the option to ride a school bus. Moreover, rural districts often encompass a large geographic area but have low-density populations. HB 49 significantly reduces state funding for pupil transportation. While the administration's stated intent for the transportation formula changes is to target higher wealth districts, over 373 would lose transportation money in year one, and 164 of those would lose additional funding in year two. **We believe funding for transportation should be increased, not decreased.**

**We also urge the House to reinstate bus purchasing for districts that need it most in this budget.** School district buses drive 158 million miles each year transporting students to traditional public school districts, charter schools, and private schools. Data show that the safest way for students to get to school is on a yellow school bus. Yet the average age of Ohio's school bus fleet is 10 years old, with many buses being kept until they are 15 years old. Because of the recent economic stress experienced by districts, bus purchases have been postponed. This leads to higher maintenance and repair costs, more pollution emissions, and concerns for safety. These additional operating costs also place more burden upon the state budget for operational funding.

*I will now turn the testimony over to Tom Ash.*

### **Tangible Personal Property Tax Reimbursements & TPP Supplement**

Separate from the funding formula changes found in proposed Sub. HB 49 is a provision in current law which phases out of the Tangible Personal Property (TPP) and Public Utility Tangible Personal Property Tax (PUTPP) replacement payments to school districts.

After years of phasing down these payments, the districts still receiving these replacement funds rely on them heavily and will have extreme difficulty in raising the lost revenue locally. TPP and PUTPP replacement funds were originally intended to phase out over time as the state school funding formula accounted for the loss (increased formula aid to replace the TPP loss). Because of many changes in the school funding formula over the years, and because the loss is so significant for some districts, replacement through the formula has not happened.

Further, as mentioned earlier, the proposed school funding formula in Sub. HB 49 allows for very little growth in state aid to overcome the continuation of TPP and PUTPP payment losses. The TPP Supplement the House added in the last biennial budget bill to hold districts harmless at FY 2015 levels is not continued under the current version of Sub. HB 49. Therefore, the lack of growth in state aid coupled with the elimination of the TPP Supplement, will mean a number of districts would see a net reduction in funding (state aid plus TPP payments).

Additionally, our understanding of the original intent of the Commercial Activity Tax (CAT), the state tax enacted for purposes of replacing local TPP tax losses, was that the majority of the revenue would go to schools in some form. We believe current law does not honor that commitment.

**We request that if there are to be continued reductions in TPP and PUTPP replacement payments as planned, these reductions be offset by increases in state aid through an improved school funding formula, or through a hold harmless provision.**

### **ESC funding**

The line item 200-550 earmark is cut from the current appropriation of \$41.6 million to approximately \$39 million.

Those who have been familiar with ESCs over the years could surmise that educational service centers may be the victims of term limits. In 1995, the Ohio General Assembly passed legislation that created the ESCs. Funding was set at \$37 per pupil for what had been 88 separate county boards of education. However, for those county boards that merged to form multi-county ESCs, the appropriation was set at \$40.52 per student as an incentive to combine to increase efficiencies and to improve services. That \$40.52 was 1% of the then basic subsidy of \$4,052 per pupil for school districts, and the discussion at that time was that the ESC subsidy would remain 1% of future per pupil basic state aid.

Now, 22 years later, the per pupil basic aid has risen over 48% while the per pupil subsidy for ESCs has been reduced by 38.3%.

Any reductions in the per pupil funding for ESCs will create additional costs for school districts relying on services from the ESCs, which will have no choice but to pass along the excess costs for such services. These are services often targeted for students with special needs; preschool classes for students with disabilities, services that school districts are required to provide those services. Related service providers, such as school psychologists, speech and language therapists, occupational therapists, and physical therapists are often provided through ESC arrangements. As we start a new school year with a renewed emphasis on reducing the rates of student absence and truancy, attendance officers are essential and these services are often obtained through ESCs.

In addition, temporary law proposed in the bill would have the State Superintendent of Public Instruction establish "criteria and guidelines" on how the ESC operating funds could be used. These criteria would specify that the funds would be used to reduce client school district expenditures and support improvement of student achievement at schools and districts identified by the department of education. Earmarking these funds could make current services no longer permitted to be subsidized by the ESC per pupil amount. Continuing such services would then fall to the client districts, thereby increasing school district costs.

Moreover, this temporary law appears to be in conflict with permanent law in ORC section 3313.843, which provides in division (G):

*(1) For purposes of calculating any state operating subsidy to be paid to an educational service center for the operation of that service center and any services required under Title XXXIII of the Revised Code to be provided by the service center to a school district, the service center's student count shall be the sum of the total student counts of all the school districts with which the educational service center has entered into an agreement under this section.*

The law refers to any operating subsidy "for the operation of that service center and any services required under Title XXXIII of the Revised Code to be provided by the service center to a school district." Permitting the State Superintendent to establish any criteria and guidelines on the expenditure of these funds would appear to us to be in conflict with current law.

**For these reasons, we are advocating that (1) the ESC operating subsidy remain at least at the current level of \$41.6 million (if not increased to begin to approach the goal from 1995) and (2) that the temporary language potentially earmarking these funds be removed.**

### **Career Technical Education**

**We support the exemption of the career-technical weighted funding and the associated services funding from any capped amounts.** This change put in place in the last biennial budget bill (HB 64) was supported by the career-technical education stakeholders. The concept is that when capped, new programming designed to meet the needs of the work force not only in regions of this state but throughout Ohio is discouraged. In other words, it is difficult for districts to add new programs when they cannot receive funding for the new students served.

Emerging technologies and the need to replace a skilled work force approaching retirement create a very real challenge for the training needs for Ohio's young people. Our career-tech members understand this challenge but should not be discouraged from expanding current programs for additional students by imposing artificial caps on funding. After all, enrollment in career-technical programs is voluntary on the part of students and their families.

Likewise, the associated services funding supports career counseling not only for those currently enrolled in such programs but also for those younger students who are not aware of the job opportunities available in their futures.

**We also support the new career-technical educator licenses (Ohio Revised Code section 3319.229 repealed and reenacted in the bill).** The current provisions create significant roadblocks

for experienced individuals to teach the next generation of Ohio's skilled work force. While the General Assembly has enacted measures to reduce the burden of the educator residency requirements, the current requirements have created disincentives in attracting qualified individuals to train the next generation of Ohio's workers.

*Damon Asbury will continue the testimony.*

### **Board Members & Externships**

The Governor's budget proposal in HB 49, included some of the recommendations included in a report issued by the Governor's Office of Workforce Transformation. The report, entitled "Building Ohio's Future Workforce," includes ideas on how to better prepare Ohio's students for in-demand jobs today and in the future.

We appreciate the removal by the House of two recommendations in the "as-introduced" version of the bill: the educator externships and the addition of 3 ex-officio members to every board of education. As we fully support the need for schools and business to establish improved cooperation and communication about the needs of students, schools, and the workforce, we agree that many of the recommendations merit study and even implementation. We also support the House proposed accountability provisions for the current local Business Advisory Councils. We believe this will increase the effectiveness of a requirement already in law.

### **College Credit Plus (CCP) Issues**

HB 49 contains proposals to change the current CCP program. Our organizations have been pursuing changes since the program's inception. Some of the changes in HB 49 represent a step in the right direction; however, we urge you to consider additional changes.

The following are the CCP provisions in Sub. HB 49 in its current form:

- Student Eligibility: CCP participation would be limited to students who demonstrate college preparedness, such as scoring remediation-free on a college entrance exam.
- Course Eligibility: There will be some restrictions, established by rule, on the courses eligible for CCP funding.
- Continuing Student Participation: Students who underperform in CCP will need to meet certain requirements in order to continue participation.
- Textbooks: The cost to high schools for textbooks would be limited to 50% of the cost for each student.

The student, course eligibility, and continuing student participation provisions are very much needed. School districts have reported that some college courses students are taking under CCP do not match the rigor of some high school level courses that do not qualify for CCP. Districts have also expressed concerns that students that are not truly "college ready" are being accepted into institutions of higher education. These changes could help to alleviate those concerns.

We supported the executive proposal that limited the cost of textbooks for school districts to \$10 per credit hour as a tremendous improvement over the current system. The House version represents an improvement over current law; however, we obviously would prefer the \$10 per credit hour in the executive proposal.

**We were pleased to see that Sub. HB 49 removes the provision that would have eliminated the waiver for districts and IHEs to negotiate a credit hour price below the established floor.** We favor a more market driven approach to local agreements. Currently, school districts have little power to negotiate under CCP.

### **New Provisions in Sub. HB 49**

#### PUTPP – Power Plant Devaluations

School districts that have coal fired and nuclear fired electricity generation plants within their district borders are experiencing immediate losses in local property taxes as a result of the sale of the properties or the downgrading of the value of these facilities. **We support the adjustment for these districts** contained in Sub. HB 49 to help these districts. It is our understanding that the bill addresses funding losses for districts that experienced these changes in Tax Year (TY) 2016. **We urge you to continue to make adjustments to this provision to address similar losses that are very likely to occur in TYs 2017 and 2018.**

#### Boards of Education Pay Legal Fees

Sub. HB 49 would require that boards of education pay legal fees for property owners when a challenge to property values the board believes to be set too low is unsuccessful. **We oppose this provision.** The current system allows for a proper “checks and balances,” making sure the other taxpayers in the district are not paying more than their fair share. The provision in Sub. HB 49 may have a chilling effect on legitimate challenges to values that are clearly low, thereby causing the other taxpayers to pay more.

#### CAUV Changes

We have opposed changes to the Current Agricultural Use program that would reduce property values for agriculture property. Rather than making adjustments to the current formula proposed by the industry, we have advocated for an independent study that would serve to modernize the program. The House-proposed change to CAUV is a modified version that would be phased in over time. We are still evaluating this new version. The effects will be to lower property valuations, causing a tax shift to residential taxpayers, disrupting the school funding formula, and resulting in some losses in revenue for school districts. **We urge you to remove this proposal and replace it with an independent review of the CAUV program.**

#### Other

Finally, “Attachment A” included with this testimony describes miscellaneous items that we requested of the House Finance Primary and Secondary Subcommittee. We appreciate the changes in Sub. HB 49 that address these issues, and we are grateful for your consideration of our proposals.

This concludes our testimony. We will be happy to address your questions.

## **Miscellaneous Issues Addressed by the House in Sub. HB 49**

HB 49 proposes to eliminate the Ohio School Facilities Commission and instead roll that work under the Ohio Facilities Construction Commission (OFCC). While we agree that this will streamline the process, we have a very real concern that there will no longer be any legislative input on the commission responsible for school facilities projects. **We would like to see the bill amended to require the appointment of legislators to the OFCC so that districts will have a representative on the commission with whom they can share their input and concerns on decisions before the commission.**

The bill also removes the Superintendent of Public Instruction or his designee from the board of Bright New Leaders eliminating education representation on the board of directors. **We would like to see the bill amended to return the Superintendent to the board of directors. We further require that an amendment be added to have the Joint Education Oversight Committee conduct a cost benefit analysis of the Bright New Leaders Program.**

HB 49 requires each state university president to issue a remediation report outlining the number of students who required remediation courses at the university. **We would like to see this provision amended to include a definition of criteria for determining students in need of remediation.** This amendment should also require reports from both public and private institutions of higher education that are disaggregated by students coming from school districts, charter schools and chartered non-public schools.

**Finally, we request that language be reinstated to allow districts with remaining early learning slots to offer those slots to three year olds once all four year olds have been given the opportunity to accept the slot.** The previous biennial budget, HB 64, changed this provision so that only four year olds are currently eligible for participation. Many slots have gone unfilled because providers were unable to find additional four year olds wanting to enroll. Allowing these slots to be awarded to three year olds will increase the amount of service our youngest students receive ensuring that they enter kindergarten with an improved chance for success.

### **Balance Reserves**

It is our understanding based on testimony provided by the administration on HB 49, the level of school district carryover balances projected in five-year forecasts is sufficient to withstand reductions in Transitional Aid Guarantee funds, transportation funding and reductions in TPP and PUTPP replacement payments.

However, it is our position that there are valid reasons for districts' carryover balances, including cash flow protection for future expenditures, levy management, unexpected capital costs and concerns about future reductions in state and local revenues. Additionally, five-year forecasts are meant to be used as a planning tool for districts. Policies vary from district to district as to the assumptions made in developing the forecast. Therefore, painting districts' ability to withstand reductions with a broad brush because of perceived large carryover balances is ill-advised. Further, money in districts' local version of a rainy-day fund should be considered “one-time money” and not appropriate for use in funding ongoing operations.

### **Bus Bid Bonds**

Boards of education and educational governing boards should have the flexibility to determine if bid bonds are required for the purchase of school buses. The current requirement of the bond actually increases the cost of buses.