



**Senate Finance Primary and Secondary Education Subcommittee  
Substitute House Bill 49 Testimony  
Ohio School Boards Association  
Buckeye Association of School Administrators  
Ohio Association of School Business Officials  
May 4, 2017**

Good morning, Chairman Hite, Vice Chair Sykes, and members of the Senate Finance Primary and Secondary Education Subcommittee. Thank you for the opportunity to speak to you today regarding House Bill (HB) 49. My name is Barbara Shaner and I am the Advocacy Specialist for the Ohio Association of School Business Officials (OASBO). Joining me today for this testimony and in answering your questions are Damon Asbury, Director of Legislative Services from the Ohio School Boards Association (OSBA) and Thomas Ash, Director of Government Relations from 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 Substitute HB 49 (Sub. HB 49). We are here today to offer our thoughts on both the executive proposal and the House version of the bill.

Before we begin, we want to acknowledge improvements in the school funding formula and the increased investment in primary and secondary education from the last General Assembly. We appreciate the time and effort as well as the support for public education exhibited by this subcommittee in the last budget bill (HB 64).

However, we believe there is more work to be done. Disparities in educational opportunities for students still exist across the state. We urge you to continue efforts to eliminate those disparities to the extent possible. Our testimony will discuss areas of concern from a public policy perspective. Dr. Howard Fleeter, consultant for the Ohio Education Policy Institute (OEPI) will follow our testimony with more detailed explanations of issues with the current school funding formula and the proposed changes in Sub. HB 49.

**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 have 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. Dr. Fleeter will explain these factors in more detail.

We agree with the administration'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, these increases are still not sufficient to overcome the problems just cited with the SSI.

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 now 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.

The following list represents the fundamental concerns we have with the funding related changes found in Sub. HB 49.

### **Transitional Aid Guarantee**

House Bill 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.**

It is our understanding that proponents of these funding cuts assert that changes in the districts' circumstance (such as the loss of students) are the causes for a district receiving transitional aid funds. Yet no direct correlation can be found between these changes in districts and the fact that they qualify for Transitional Aid funds.

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 Sub. HB 49 itself. The number of districts on the transitional aid guarantee in Fiscal Year (FY) 17 is 133 but, based on the OEPI preliminary review of the House version of the bill, that number would increase to more than 270 in FY 18 and 280 in FY 19. Dr. Fleeter will discuss this in more detail, but we believe the limited increases in the Core Opportunity Aid and Capacity Aid proposed by the House and the flat funding of the other components of the formula are driving this phenomenon.

If the legislature chooses to adopt the governor's ADM formula loss methodology, it should not do so for those districts spending below the statewide average expenditures per pupil, an indication that they still do not have enough resources to adequately serve their students. Actions the legislature takes should not further penalize these districts.

### **Pupil Transportation**

Pupil transportation has been an underfunded line item for several biennia. The administration's proposal retained by the House 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. And rural districts often encompass a large geographic area but have low-density populations. Sub. 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 districts 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.**

The funding formula for transportation services should incentivize efficiencies and account for specific circumstances among districts. Pete Japikse, Senior Transportation Consultant for the Ohio School Boards Association, will provide more information about our recommendations for transportation funding in separate testimony at a later date. He will also discuss the Transportation Supplement for low density districts.

**We urge this committee to recommend that school bus purchase funds be reinstated for districts that need it most.** Data would 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, 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 safety concerns. 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.

Many of 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.

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 intention.

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 legislature added in the last biennial budget bill to hold districts harmless at FY 15 levels was not continued under the executive version of HB 49. Therefore, the lack of growth in state aid coupled with the elimination of the TPP Supplement would mean a number of districts would see a net reduction in funding (state aid plus TPP payments).

We believe the House took a step in the right direction by including an offset payment to districts that are both losing TPP/PUTPP replacement payments and restricted to the 5.5% increase in state aid. This offset will equal the lesser of the district's total formula amount or the net decrease in funding from foundation aid and TPP replacement reimbursement in FY 17 and FY 18. The concept for the offset payment is that the state is removing one source of revenue (TPP), meanwhile not allowing the district to receive all the funds produced by the school funding formula. The House also included a provision meant to extend the phase-out of the TPP/PUTPP replacement payments over a longer period. For those districts that are still receiving these payments in FY 20, the reductions would equal what 1/4 mill produces (down from 5/8 mill under current law).

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

### **ESC funding**

We keep hearing that the administration and the legislature support shared services and the efficiencies that can be gained by pooling resources. Educational Service Centers (ESCs) are the epitome of shared services, providing resources for districts that can't afford them individually. Yet HB 49 as introduced, proposed a reduction of approximately 25% in the operating subsidy for ESCs for FY 18. The line item 200-550 earmark is cut from the current appropriation of \$41.6 million to \$31 million, thereby reducing the per pupil allocation from \$27 per pupil to \$20 per student in each year.

The House version of the bill partially restored the earmark to \$39 million with the per pupil amounts ranging from \$25 for high performing ESCs to \$23 for others.

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 subsidy for ESCs has been reduced by more than 33%.

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; and services that school districts are required to provide. 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 "as-introduced" version of the bill would have required the State Superintendent of Public Instruction to establish criteria and guidelines on how the ESC operating funds could be used. We are pleased that the House removed this requirement. 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.

**We are advocating that 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).**

### **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.

These new requirements emphasize the work experience of the aspiring career-technical educator and an industry credential (where applicable). In addition, the licensure would still require the following for renewal: classroom support provided by an institution of higher education; college coursework in the teaching of reading in the subject area; alignment with the career-technical and workforce development competencies developed by the Department of Education; and a summative performance-based assessment evaluating that career-tech teacher's knowledge and skills.

Ohio needs to attract the best possible individuals to teach the next generation of Ohio's workers. Creating a pathway for the most talented individuals to train our young people in possibly lifelong careers should be our goal.

*Damon Asbury will continue the testimony.*

### **Board Members & Externships**

The administration'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 three 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 under the House version of Sub. HB 49.

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) 16. **We urge you to continue to make adjustments to this provision to address similar losses that are very likely to occur in TYs 17 and 18.**

#### **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 Valuation (CAUV) 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; however, the effects of this change 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.**

### **Miscellaneous Issues**

#### **Earned Income Tax Issue**

When Ohio adopted a change for small businesses exempting them from paying the state income tax a few years ago, the exemption did not apply to the traditional school district income tax or the municipal income tax. However, we believe the exemption was inadvertently applied to the school district earned

income tax. Now, school districts that have an earned income tax in place are experiencing reductions in revenue as a result of the exemption for small business. The House had originally included a “fix” for this problem in the substitute bill but then removed the provision. This tax option was established to avoid taxing citizens on their “unearned” income such as interest or retirement income (often senior citizens on a fixed income). We are concerned that districts will avoid using the earned income tax in the future. **We ask that you include the amendment to “fix” this issue in the Senate version of the bill.**

### **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.

### **Other**

Finally, “Attachment A” included with this testimony describes miscellaneous items that we requested of the House Finance Primary and Secondary Subcommittee in our original testimony that were addressed in the substitute bill. We hope you will support these changes to the executive proposal.

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

“Attachment A”

**The following are miscellaneous issues that were included in the organizations’ original testimony in the House Finance Primary and Secondary Subcommittee that were 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.

### **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.