

How Schools are Funded

The school district often receives inquiries concerning school levies and their effect on property tax bills. The following information is intended to help answer questions about the need for, and the timing of, school levies.

Introduction

The cost to educate young people across the state is significant and those costs continue to rise. More Ohio tax dollars are spent for primary and secondary education than for any other single governmental function. The complexities of school finance practically require that taxpayers have the equivalent of a finance degree in order to understand how the money is spent. While it is increasingly difficult to understand the complexities of how schools within the state of Ohio are funded, it is also increasingly critical that taxpayers understand these issues in order to be informed voters.

How are schools funded in Ohio?

Local Support

The property tax is the predominant method communities use to raise additional revenues in Ohio. The property tax comes in two forms:

- **Real property tax-** This is a tax levied on land and buildings located within the school district. Private individuals, businesses and public utilities that own land and buildings pay this tax.
- **Tangible personal property** - This is a tax levied on furniture, fixtures, machinery, equipment and inventory owned by business.

Key factors used in calculating property tax bills are the assessed valuation of property and the millage rate. The county auditor of each county in the state has the responsibility of appraising all taxable real property once every six years to determine the values. Every third year after each reappraisal another form of reappraisal, called an update, is conducted. Property tax bills are calculated on the assessed value of property, which equals 35 percent of the auditor's appraised value. ***EXAMPLE: A home with an appraised value of \$100,000 will be taxed on a value of \$35,000.***

Mills

Local Property tax rates are always computed in mills. One mill costs the property owner \$1.00 for every \$1,000 of assessed valuation each year. In our example, the \$100,000 home will produce \$35 in tax revenue for each mill.

In Ohio, millage is referred to as "inside" millage and "outside" millage. Inside millage is the millage provided by the Constitution of the State of Ohio and is levied without the vote of the people as established very early in the State's history. The inside millage rate is limited to ten mills in each political subdivision. Public schools, cities, counties and other local governments are allocated a portion of the ten inside mills. The Beavercreek City School District's portion is 4.6 mills. Outside millage is

the millage voted upon by the public.

There are two major forms of tax credits property owners receive on their tax bill.

- **Rollback** - The first is a 12.5 percent millage rollback. With this credit, a home-owner receives a credit of 12.5% on the total gross property tax amount due. In our example, the property owner would receive a credit of \$4.38 [$\$35 \times .125$].
- **Homestead** - The second is the homestead exemption. This credit is only available to qualified elderly and disabled homeowners meeting minimum income level requirements. These credits can range from \$70 to \$650 per year and require completion of an application process.

The annual net tax bill for 1 mill on a \$100,000 home would be \$29.45 [$\$35.00 - \$4.38 - \$1.17$] in our example. An additional amount could be deducted if the taxpayer qualified for the homestead exemption. The State of Ohio reimburses rollback and homestead credits so that all the taxing authority end up collecting the full amount of the levy.

HB-920 The controlling factor

Another key tax credit is the tax reduction factor. Also known as House Bill 920, this credit, which went into effect in 1976, effectively freezes all voted real property millage at the dollar amount collected the first year the millage went into effect. As property values rise through reappraisals, the outside millage rate is commonly referred to as "effective" millage. The inside mills are not affected by the House Bill 920 credit, so a small amount of additional revenue is gained as property values increase.

State Support

State Foundation - The State of Ohio provides funding to school districts by way of a foundation formula. The foundation formula method of funding Basic Aid takes into account the ability of school districts to raise taxes locally as well as a state determined minimum amount necessary per student to provide an adequate education. The formula is designed to provide a higher level of assistance to school districts with low property wealth relative to districts with higher property wealth.

Why do schools keep asking for more money?

The short answer to this question is that while most of the revenues available to schools are fixed and inflexible, the cost of education continually rises. Many of the rising costs are out of the control of local school boards.

As a consumer of goods, school districts encounter inflation in most goods and services purchased. In addition to inflation, legal requirements, unfounded mandates and expanded services expected by communities add to increased operating costs of school districts. There are numerous legislated enactments, which have had significant cost implications to public schools in Ohio. For example, Ohio law requires bus transportation for all students in grades K-8 who reside more than two miles from school and public schools must provide the same level of transportation service to nonpublic students as they provide to their own students. Special

education services must be provided for all children in the district who qualify under state and federal guidelines, regardless of cost. School districts must employ at least 1 classroom teacher for every 24 pupils grades K-4. As service organizations, most dollars in school district budgets are used for personnel, typically in excess of 80 %. Ohio collective bargaining laws require school boards to negotiate salary and benefit levels with employee groups. Balancing fairness to employees, keeping pace with the market in order to attract good people, and accomplishing this with limited resources is a challenge for all school boards.

How do schools raise additional funds?

The property tax is the main funding mechanism available to school districts to increase revenue. State law makes a distinction between operating funds and capital improvement funds. Proceeds from an operating levy can be used for any legal expenditure by a board of education. Most of the funds derived from an operating of running a school district, such as salaries and benefits for personnel, textbooks, classroom supplies, utilities and repairs. Following are the types of operating levies:

- **Regular operating levy for current expenses** - A millage rate is submitted to the voters for approval, not a dollar amount. The millage rate will be adjusted as property values change pursuant to HB 920. This levy can be voted in for one to five years or for a continuing period of time.
- **Emergency Levy** - This type of levy is submitted to the voters as a dollar amount. For example, "The emergency levy will raise \$1,000,000 per year." An emergency levy can only be voted in for a period of time from one to five years, and expires after the time has elapsed unless renewed by a vote of the public.
- **Incremental Levy** - This can be either in terms of millage incremental or dollar incremental. In these instances, millage rates or dollar levies are phased in over a numbers of years up to five. Millage incremental levies can be for a continuing period of time or one to ten years in duration. Dollar incremental levies can have a duration of one to ten years.
- **Replacement Levy** - A replacement levy can replace all or a portion of an expiring levy. It is used when the effective rate had been lowered and can restore the rate of the tax to its original rate, thus generating increased dollars. A replacement levy can raise more revenue than the levy it replaces because the original levy may have been through one or more reassessment. With each reassessment, if the value of real property in the school district had increased due to inflation, the H.B. 920 tax credit factor will have been applied to the voted levy, reducing the effective mills.

Capital involvements can be funded in two forms - permanents improvement levies and bond issues. All funds received by school districts from permanent improvement levies and bond issues must, by law, be used for the purposes intended and cannot be used for operating expenses of the districts.

- **Permanent Improvement Levy** - Permanent improvement levies for specific projects can last from one to five years. Permanent improvement levies for general on-going permanent improvements can be levied for a continuing period of time.
- **Bond Issue** - A bond issue is a tax, the proceeds of which can only be used to pay bonds and noted issued by school districts for the purposes of

permanent improvements. Bond issues are normally used for building new or additions to buildings. However, proceeds of a bond issue cannot be used for operational costs of the new facilities. This is often a source of misunderstanding. People remembering a bond issue was passed for a new building can't understand why "the district built a new building without having the money to operate it." Many times an operating levy must also be passed to help pay for the operational costs when the new building was necessitated by increased enrollment.

Ohio Lottery

Many people believe that proceeds from the Ohio Lottery provide schools in the state with substantial revenue each year. In fact, lottery proceeds **make up only a small portion** of the state's total education dollars. For a typical district in Ohio, the legislature asserts that the lottery pays between 6% and 8% of their expenses. However, the lottery had actually had a negative impact on school funding in the state. In 1975, Ohio put almost 44.5% of every state budget dollar into education. In 1995, that amount had fallen to less than 32%. While lottery dollars were intended to supplement educational funding, they actually supplanted state funds, which were then diverted to other uses. Although lottery proceeds are an additional source of revenue for public schools, they constitute, only a small portion of the local school budget and in no way replace the need to ongoing local support.

What does all this mean to taxpayers?

While state legislators continue to wrestle with issues of equity and fairness in funding public education in Ohio, public schools continue to depend on the support of local taxpayers. There is no quick fix or easy solution coming from the state or federal level. Despite this, children continue to come through doors of our schools each day asking and deserving to be educated. We must press our elected representatives to find a more efficient way to fund education. **Until the state creates a new system on funding schools,** local taxpayers in Ohio will continue to shoulder the responsibility of providing quality education for our children.