

Prepared Notes for Senate Finance Subcommittee

June 10, 2015

Marc A. Schare

614 791-0067

marc9@aol.com

Chairman Oelslager, members of the Committee, good morning. My name is Marc Schare and I am the Vice President of the Worthington City Schools Board of Education now serving in my tenth year. Today, I'd like to pose a hypothetical for the panel to consider with regard to the proposed phase out of the tangible personal property tax reimbursements.

In 2006, around 25% of my district's property tax base was in Tangible Personal Property, a total of around 20 million dollars from a total budget of 110 million dollars using round numbers. This worked out to around 18% of our revenues for the year. The hypothetical I would like to pose is this. If President Obama decided to close the federal budget gap by replacing state sales taxes with a national sales tax and you were faced with the loss of, say, 18% of your budget, what would you do?

Sounds crazy, right? But that's exactly what the Ohio legislature did to Worthington and similarly situated districts back in 2006 when it converted a local tax revenue source into a state tax revenue source, essentially telling affected districts that it had 5 years to make the necessary adjustments.

18% of your proposed revenue for the biennium is around 13 billion dollars, far higher than the hole that Governor Kasich had to dig out of when he assumed office in 2011 and you all remember how painful that was, so I'll pose my hypothetical again and I really want you to think about this. What would you do?

Now, I know what you're thinking. Just cut the budget! Unfortunately, it is a truism in Ohio that local school boards have limited ability to manage their overall budgets. Most of the budget goes to employee compensation and most of that goes to teachers. In any strong collective bargaining state such as Ohio, teacher compensation is controlled by a salary schedule. The details of the salary schedule were in many cases set years or decades ago and cannot be changed without the consent of the teachers. This means that step increases and increases for educational attainment, in addition to increased health care costs are for the most part, on autopilot. These aren't my rules, they are rules in current state law and given this dynamic, when school funding fails to keep up with the rate of increase endemic in a salary schedule not completely under the district's control, the only variable that CAN be controlled is the number of FTE's, and therefore, services that can be provided. I'll ask my hypothetical again – what would you do?

I suspect Ohio would be lobbying Congress pretty hard if the Obama administration decided to confiscate state revenue for its own purposes which is essentially what happened to us in 2006. That's why many of us are here today. Before you pass a budget that continues the phase out of TPP reimbursements rather than including those payments in a permanent addition to the formula, I'd sure like an answer to the question: What would you do?

This concludes the oral part of my testimony, however, I did want to leave you with a few other thoughts as to how to address some items that no one ever wants to talk about – the expense component of K-12 education, the importance of consistency in the funding formula and what for me personally is the most important item in the entire proposal – education deregulation. Thank you for your time.

SUPPLEMENTAL THOUGHTS TO SHARE ON SCHOOL FUNDING MOVING FORWARD

1) Volumes have been written about school funding in Ohio but precious little has been discussed about school district expenses. So long as the discussion focuses on only one side of the revenue/expense equation, no funding formula will ever be sufficient. One example will serve to illustrate the point. During the Strickland era, the Governor's School Employee Health Care Task Force suggested either statewide or regional health care pools as a way to help manage what for many districts is their second biggest expense. At the time, a study indicated this could save the state over \$200 million dollars per year. Obviously, it didn't happen, but it gives an idea of some of the big ticket savings that are at least plausible if we are willing to bite the political bullet.¹

2) School Districts are required to produce 5 year projections. In many districts, the necessity for levies and the size of those levies are determined by the 5 year forecast. The state, on the other hand, budgets 2 years at a time. This means that school districts have to play a giant guessing game with regard to school funding every two years. Why? Because there is no stability built into the system. My district is heavily dependent on TPP reimbursements. Two years ago, it was equally possible that we would lose 10 million dollars in reimbursements, that we would keep it all or anywhere in between. When we ran our levy, we prudently budgeted for the worst case scenario and received the best case scenario. Thank you for that – except we overtaxed the citizens in our community because there was no way to know. Stability and predictability counts.

3) Speaking of stability, at some point, to get to a fair, enrollment based, stable funding formula, you are going to have to disregard the year over year percentage increase or decrease. You can't define an enrollment based formula that doesn't give Olentangy a huge increase because Olentangy had roughly 10 years of uncompensated enrollment growth. Similarly, there are many districts that have been on the guarantee for so long that any enrollment based formula is going to result in a cut. Your priority should be get the formula right, then deal with the anomalies.

4) Capacity to pay as a function of property wealth is illogical because you don't pay taxes out of property; you pay it out of income or out of liquid assets. The most logical approach would be to use a combination of commercial property and residential income when determining capacity. Along the same lines, it would be very helpful to offer districts an opportunity to pass a combination residential income tax/commercial property tax levy.

5) Let's talk about charter school funding. I believe in school choice because if you don't believe in school choice, you have to believe that the very best placement for every one of Ohio's 1.7 million school kids is, just by a happy coincidence, the school around the block. What I object to is the use of local taxpayer dollars for that purpose. Current state law says that for each student in my district attending a charter school, add one to my enrollment so I get the state funding for that student, then subtract the tuition from my foundation amount. The solution is clear. Leave the public school district

¹ <http://sehcb.ohio.gov/Portals/0/pdf/Third%20Party%20Documents/2011%20Mercer%20Report.pdf>

out of it. Don't add one to my enrollment, don't deduct the tuition from my foundation and then you can fund as many vouchers as you want without my district being impacted and without the use of local taxpayer dollars.

6) At some point during this legislative session, you will be asked to consider a Common Core Repeal Bill. The Worthington School District, including our administrators and teachers, believe it would be devastating to our district to repeal Common Core. The economic cost to develop yet another curriculum based on transient standards and then yet another curriculum based on new Ohio standards would be staggering and we'd probably wind up with a weaker, less well thought out product for our students, but if that's the direction you are heading in, an allocation in this budget for that purpose would be logical.

7) Finally, the single most important item in HB64 that I've not seen discussed by anyone is the concept of waivers for high performing school districts. While the language is imperfect, the concept of allowing school districts with a track record of success to chart their own course without state interference is very appealing. Republicans say that they believe in local control and they are opposed to one-size-fits-all models. What better way to exercise that belief than in expanding the waiver provision, essentially creating 600+ laboratories for what works best in Ohio. This could also, coincidentally, solve the statewide issues with PARCC by allowing, with ODE oversight, districts to pick from a list of state approved Common Core aligned assessments.