

OEPI Research Update:

**GRF Tax Revenues and FY18-19 Funding
Formula Overview, FY17 Report Card
Analysis, & 2017 School Levy Analysis**

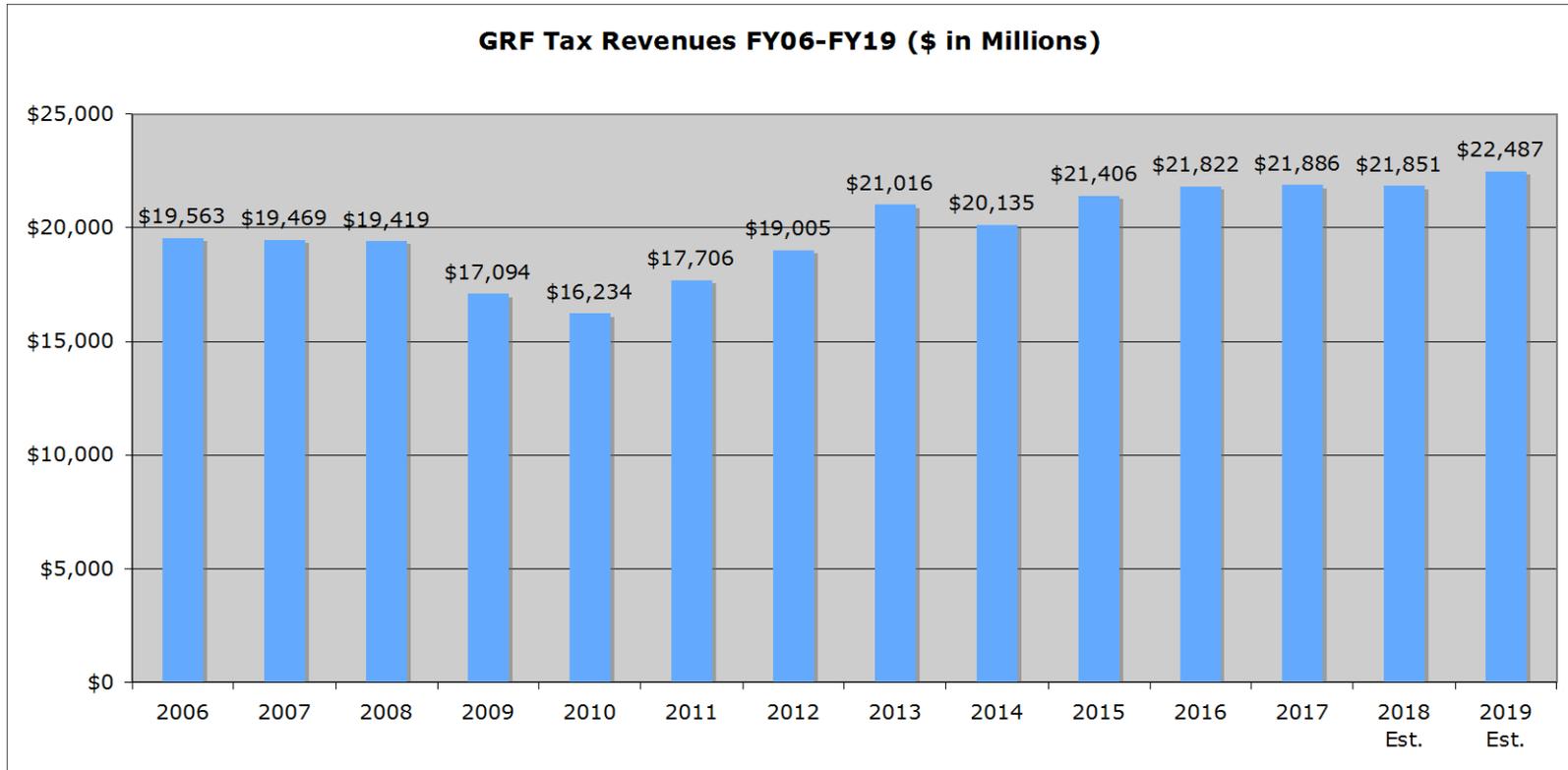
Dr. Howard Fleeter

Ohio Education Policy Institute

OSBA Capital Conference

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GRF Tax Revenues FY06-FY19

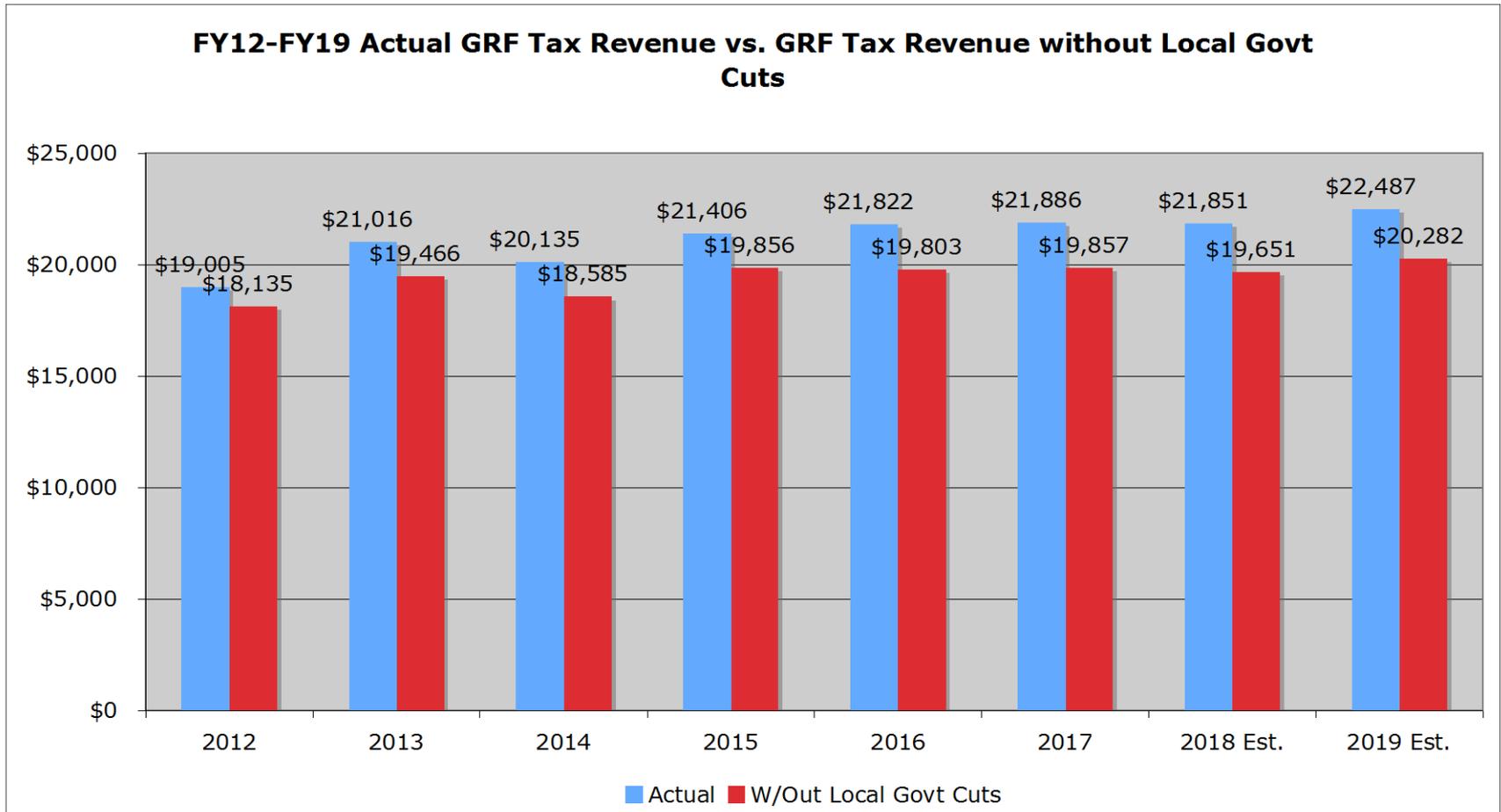


FY18 and FY19 GRF tax revenue estimates from Tim Keen testimony to Conference Committee

The Preceding Graph Looks Great! However State Policy Changes are a Big Part of the Reason for Increased GRF Tax Revenues

- Beginning in FY12 and FY13 state reductions in payments to local governments for the Local Government Fund and for TPP replacement to schools and local governments have increased GRF tax revenues.
- This effect occurred because tax revenues that fund these payments to local governments are diverted from the state GRF for these purposes.
- As a result, reductions in local government payments increased GRF tax revenues by \$870 million in FY12 and \$1,550 million in FY13, FY14 and FY15.
- Further reductions in TPP replacement payments to schools and local governments occurred in FY16 and FY17.
- The school TPP cuts alone are \$149 million in FY16 and another \$113 million in FY17. This means that GRF baseline tax revenues are at least \$149 million less than forecast levels in FY16 and at least \$262 million lower in FY17. Thus the cumulative effect of the reduction in state payments to local governments on GRF tax revenues is now approaching \$2 billion annually.
- With additional cuts to TPP payments in FY18 and FY19, the reduction in state payments to local governments (and corresponding increase in state GRF tax revenues) will be roughly \$2.2 billion.

FY12-FY19 GRF Tax Revenues vs. Baseline Tax Revenues



FY14-17 Tax Policy Changes Have Also Impacted State GRF Tax Revenues

- Tax policy changes enacted in the FY14-15 and FY16-17 state budgets (primarily continued reductions in state personal income tax rates) have also impacted GRF tax revenues.
- These tax policy changes included an 8.5% income tax rate reduction in 2014, which increased to 10% in 2015. There was also an exemption of 50% of small business income in 2014 which was increased to 75% in 2015. The impact of these changes was a \$1.6 billion reduction in income tax revenue. To partially offset these tax decreases, the state sales tax rate was increased from 5.5% to 5.75%.
- The FY16-17 budget continued the steady decrease in state personal income tax rates, this time by 6.3% from 2015 to 2016. The impact of this change is a \$900 million reduction in tax revenue. State income tax rates have now been cut by more than 1/3rd since the HB 66 tax reforms of 2005.
- In addition, the small business income tax exemption was increased from 75% to 100% in 2016 and the cigarette tax was increased from \$1.25 to \$1.60 per package.

What were the GRF Tax Revenue Challenges in the FY18-19 Budget?

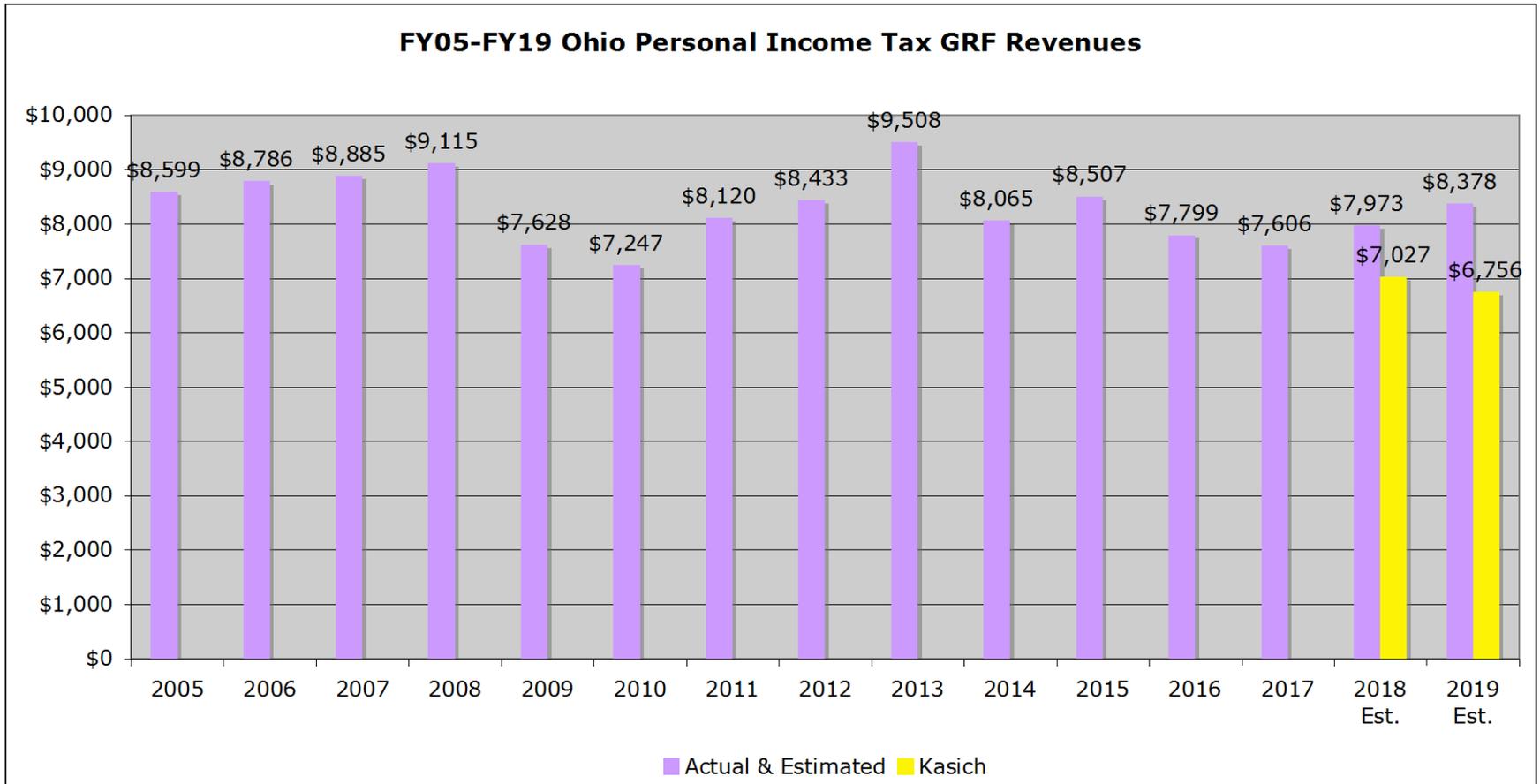
- 1) FY16 GRF tax revenues were \$283 million below estimate, necessitating a **\$283 million downward revision** in FY17 GRF tax revenues in July 2016.
- 2) With virtually every major state tax source below the July 2016 estimate in the first half of the fiscal year, FY17 GRF tax revenues were **re-revised downward** by nearly **\$600 million** in January 2017.
- 3) As FY17 GRF tax revenues continued to lag, the Governor, Senate President and Speaker of the House announced **\$800 million in reductions** in the FY18-19 budget. The Senate later increased the **reductions to over \$1 billion**.
- 4) Actual FY17 GRF Tax revenues finished more than **\$250 million below** the re-revised January 2017 estimate and **\$849 million below** the July 2016 revised estimate. **-\$654 million** (77%) of the FY17 revenue shortfall was due to the personal income tax.
- 5) Finally, the state also had to replace roughly **\$900 million** in annual revenues that had been previously derived from the sales tax on Medicaid managed care companies. This was done by imposing a fee on health insuring corporations beginning in FY18, however this fee is not included in GRF tax revenues.

Ohio Income Tax Trends FY05-19*

- The following three graphs show Ohio income and sales tax revenues from FY05 through FY19.
- The 1st graph shows that with the exception of the economic recession in FY09 and FY10, state income tax revenues increased every year from 2005 through 2013. However, revenues fell from FY13 to FY14 as a result of the 8.5% rate reduction for 2014 and after rebounding in FY15, fell again in FY16 due to the 6.3% rate reduction.
- ***State income tax revenues have decreased by \$1.9 billion from FY13 to FY17***, however they are estimated to increase by \$367 million in FY18 and by another \$405 million in FY19 under the FY18-19 budget.
- The yellow bars in the graph on the next page show that FY19 income tax revenues under the Governor's proposed 17% income tax reduction would have been \$850 million below FY17 levels. This would have been the lowest level of income tax collections since 1999.

**** FY18 and FY19 income tax estimates are for both current law and at the reduced rates proposed under the Governor's budget***

FY05-FY19* Ohio Personal Income Tax GRF Revenues



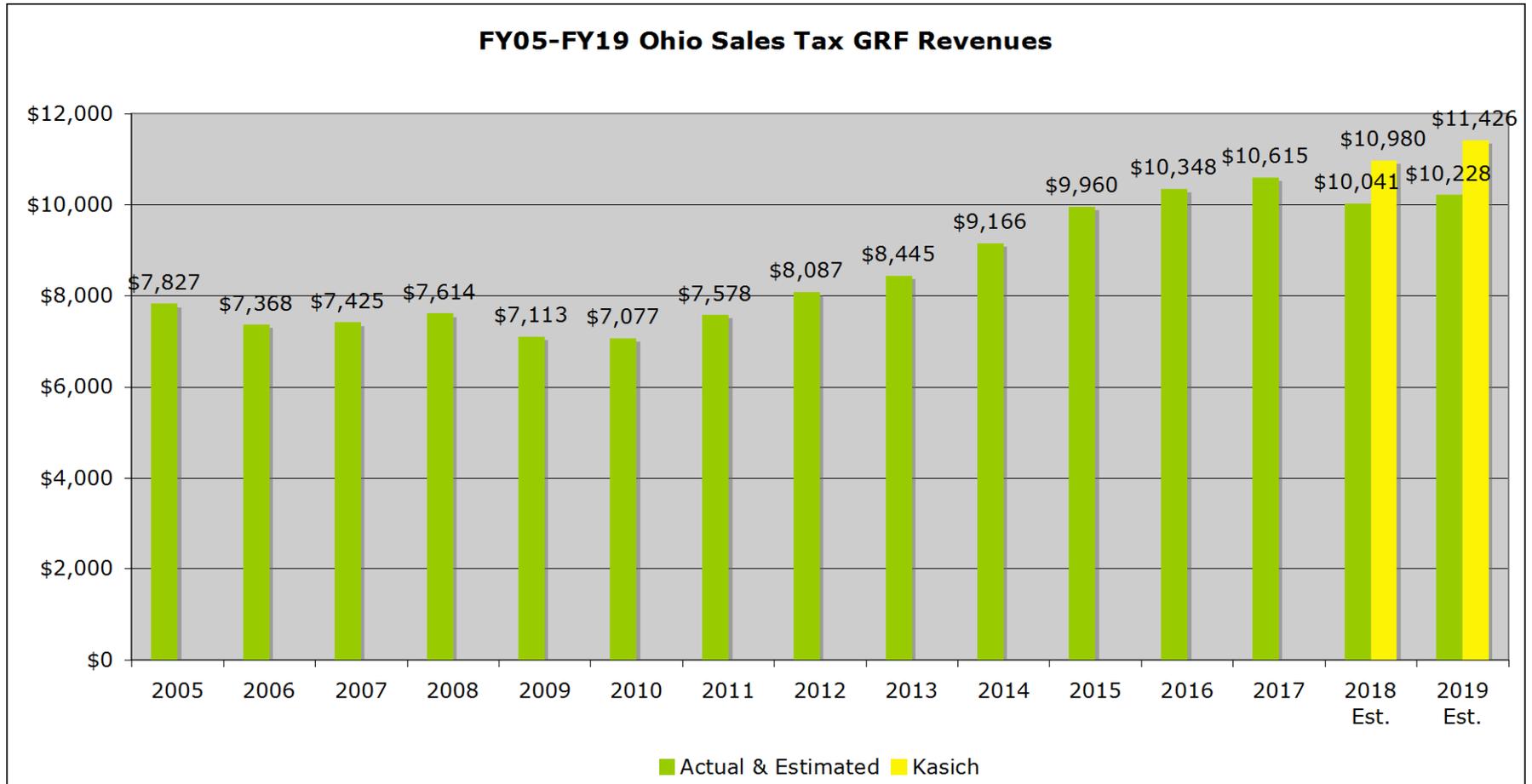
* FY18 & FY19 income tax estimates are for both current law and at the reduced rates proposed under the Governor's budget

Ohio Sales Tax Trends FY05-19*

- The next graph shows that in contrast to the fluctuating and ultimately declining pattern exhibited by the income tax, Ohio sales tax revenues have increased steadily ever since the recession ended in 2010.
- Sales tax revenues have been at record levels each year since 2012. However, ***OBM forecasts sales tax revenues to fall by \$575 million in FY18 before rebounding in FY19 to a level still below that of FY17.*** This decrease is due to the repeal of the Medicaid Managed care sales tax. Sales tax revenues would have continued to increase under the Governor's proposed rate increase from the current 5.75% rate to 6.25%.
- The final graph combines income and sales tax revenues and shows that ***in FY14 state GRF income tax revenues fell below sales tax revenues for the first time since 1988*** - a 26-year span.

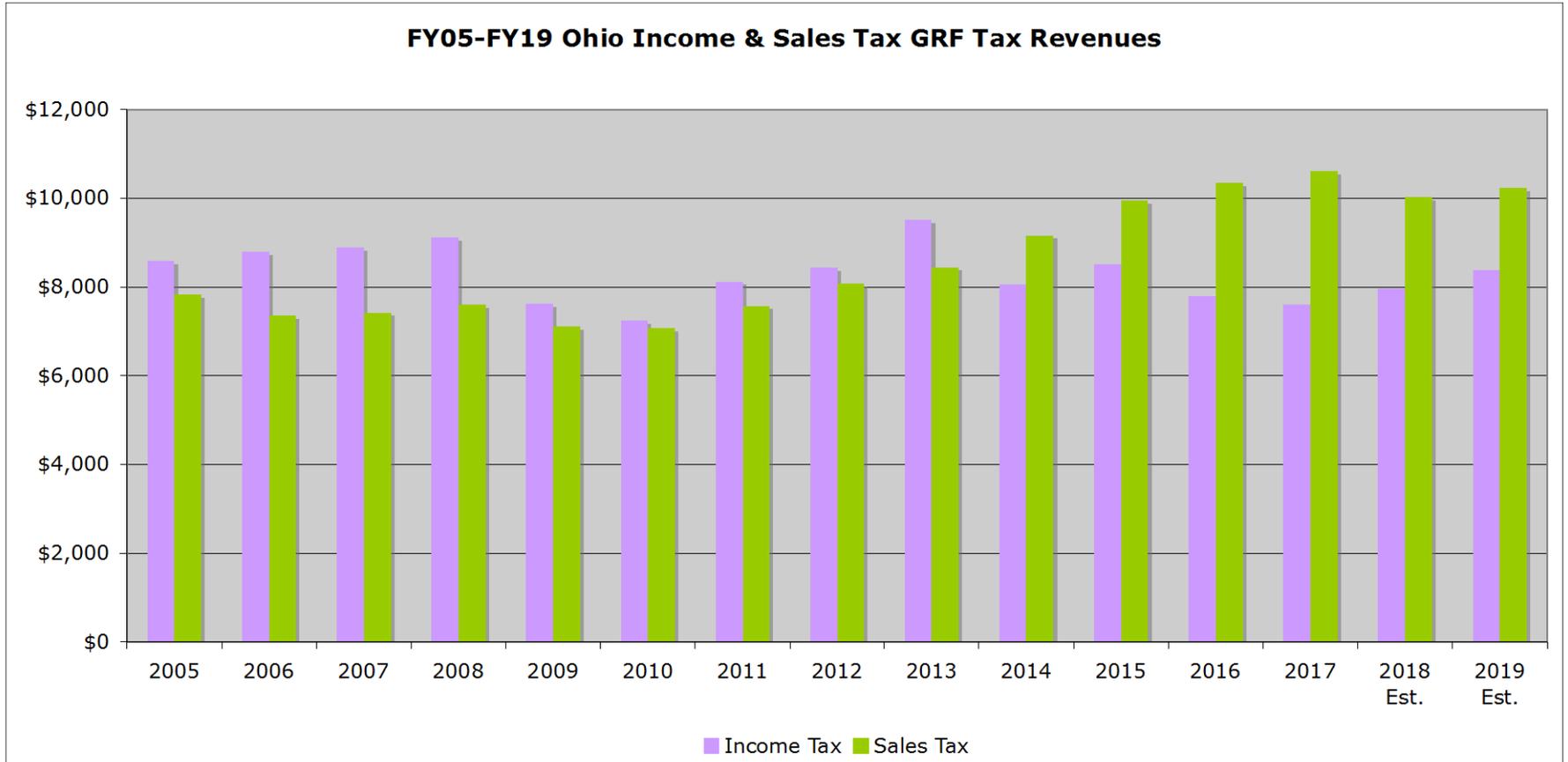
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FY05-FY19* Ohio Sales Tax GRF Revenues



* FY18 & FY19 sales tax estimates are for both current law and at the increased rates proposed under the Governor's budget

FY05-FY19* Ohio Income Tax vs. Sales Tax GRF Revenues



* FY18 & FY19 income and sales tax estimates are based on current law, not at the rates proposed under the Governor's budget

FY18-19 School Funding Formula Overview

- State Share Index (SSI) updated
- Core Opportunity Aid Per pupil amount increased from \$6,000 in FY17 and to \$6,010 in FY18 and to \$6,020 in FY19
- All other per Pupil funding amounts in formula frozen at Fiscal Year (FY)17 levels
- Transportation minimum state share reduced from 50% to 37.5% in FY18 and 25% in FY19
- Capacity Aid base millage amount increased from 3.5 mills in FY17 to 4.0 mills in FY18 and FY19
- Guarantee is reduced for districts that have experienced more than 5% enrollment loss from FY14 to FY16
- Gain Cap set at 3% in both FY18 and FY19 unless district has more than 3% growth in Total ADM (then 5.5% in FY18 and 6% in FY19)
- Capacity Aid, Transportation Supplement, and Graduation Rate and 3rd Grade Reading Bonuses moved “inside” guarantee & gain cap
- Career Tech now has its own separate guarantee

FY18-19 TPP and CAUV Changes

- TPP Supplement eliminated beginning in FY18
- TPP “offset” added in FY18 to adjust state aid for districts impacted by gain cap who receive a reduction in state aid plus TPP from FY17 to FY18.
- Provision added that would provide additional state aid in FY18 and FY19 to “power plant” districts experiencing a very large decrease in PUTPP valuation in TY 2016 and TY2017. These districts are also exempted from the gain cap.
- ***The Governor vetoed*** a House-inserted provision that beginning in FY20 the TPP phase-down reduction amount would be based on 1/4th of a mill of property taxes instead of 5/8th of a mill.
- ***The Governor also vetoed*** a Senate-inserted provision that FY18 TPP reductions under SB 208 would be limited to the smaller of 5/8th of a mill or 3.5% of total resources for both K-12 districts and JVSDs.
- Inserted a provision that adjusts the capitalization rate component of the CAUV formula that is **estimated to reduce CAUV values by roughly 30%**. This provision will be phased in over six years.

Thumbnail Overview of FY18-19 School Funding Formula

1. Funding formula parameters largely maintained at FY17 amounts in FY18 and FY19. Exception is \$10 increase in base per pupil amount in both FY18 and FY19.
2. The # of districts on the guarantee increases dramatically from FY17 levels. ODE actual FY18 SFPR figures exceed LSC estimates. This is largely due to the freezing of the formula parameters combined with the recomputation of the SSI for FY18-19.
3. LSC estimated that 77 districts would see a reduction in formula funding from FY17 to FY18 and 75 districts would see a reduction from FY17 to FY19. Under the Governor's proposal 344 districts received funding decreases from FY17 to FY18.
4. The number of districts on the gain cap and the gain cap amount increase from FY17 to FY18 but then decrease in FY19 to levels below that of FY17.
5. Statewide formula funding increases by 2.0% from FY17 to FY18 and 1.5% from FY18 to FY19. However when TPP payment reductions are considered total state funding increases by 0.8% from FY17 to FY18 and by 1.1% from FY18 to FY19.

FY15-19 Guarantee & Gain Cap

- Transitional Aid Guarantee:
 - FY15: \$165.9 million (188 districts)
 - FY16: \$123.6 million (173 districts)
 - FY17: \$104.1 million (131 districts)
 - FY18: \$237 million (341 districts) - ODE Nov #1 SFPR
 - *FY18: \$205.0 million (317 districts) - LSC estimate*
 - *FY19: \$216.8 million (320 districts) - LSC estimate*
- Gain Cap (7.5% in FY16 & FY17, 3%-5.5% in FY18* & 3%-6% in FY19*):
 - FY15: \$669.2 million (237 districts)
 - FY16: \$603.9 million (188 districts)
 - FY17: \$492.9 million (151 districts)
 - FY18: \$510 million (182 districts) - ODE Nov #1 SFPR
 - *FY18: \$522.3 million (173 districts) - LSC estimate*
 - *FY19: \$428.1 million (131 districts) - LSC estimate*

FY17 figures are based on ODE Final # 2 SFPR

* **FY18 & FY19 estimates are from LSC**

So Why Such a Large Increase in Districts on Guarantee?

- When FY14-15 SSI and FY16-17 SSI are compared, 389 districts had their SSI go down.
- When FY16-17 SSI and FY18-19 SSI are compared, 373 districts had their SSI go down.
- Yet the number of districts on the guarantee declined in both FY16 and FY17 and the number of districts on the guarantee increased in both FY18 and FY19.
- The major difference is that in the FY18-19 biennium the per pupil amounts in the formula are largely frozen, and in the FY16-17 biennium most per pupil amounts were increased and additional components (Capacity Aid, Transportation Supplement) were added.

4 Reasons a District Would End up on the Guarantee in FY18/19

1. The district was on the guarantee in FY17 and remains on the guarantee in FY18
2. The district's SSI decreased from FY16-17 to FY18-19
3. The district's transportation funding decreased because of the reduction of the minimum transportation state share from 50% in FY17 to 37.5% in FY18 and 25% in FY19.
4. The district's Targeted Assistance or Capacity Aid decreased from FY17 to FY18. (These two components are recomputed every year.)

As mentioned earlier, normally annual increases in the per pupil amounts in the formula would provide a "hedge" against any of these circumstances.

State Share Index (SSI)

- FY16-17 SSI is based on the average of Tax Year (TY)12, TY13, and TY14 property values. FY18-19 SSI is based on the average of TY14, TY15, & TY16 property values.
- 373 districts have their state share go down when the FY18-19 SSI is compared to the FY16-17 SSI. These districts account for 36.1% of the students in the state.
- 213 districts have their state share increase. These districts account for 60.7% of the students in the state.
- 24 districts have the same state share in FY18-19 as in FY16-17.
- The overall state share decreases by 1.5% from 48.1% to 46.6%.
- The income factor remains flawed by primarily benefiting districts with median income above the statewide median.

Change in SSI by Typology

- 91% of Rural school districts had their SSI decrease from FY16-17 to FY18-19.
- 58.5% of Small Town school districts had their SSI decrease from FY16-17 to FY18-19
- 29% of Suburban school districts had their SSI decrease from FY16-17 to FY18-19
- 20% of Urban school districts had their SSI decrease from FY16-17 to FY18-19

The reason for the SSI changes summarized above is because rural and small town districts experienced the largest increase in property values over the past several years.

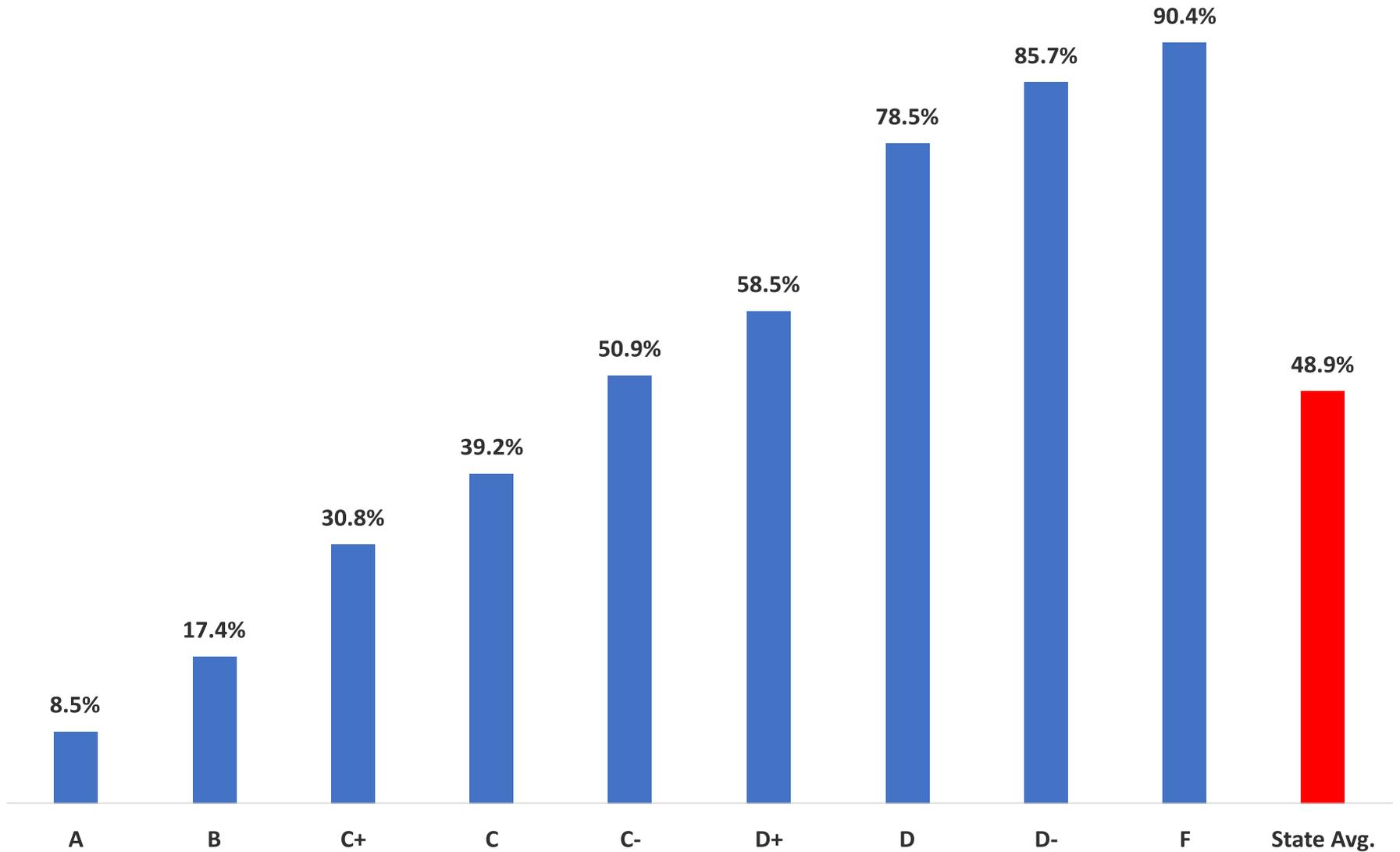
OEPI Analysis of School District Report Card Data

- For the past several years OEPI has analyzed report card data looking particularly at the relationship between educational outcomes and district socioeconomics.
- The results of this analysis have consistently shown that ***test performance is highly and negatively correlated with poverty.***
- The same pattern is true for graduation rate, and college enrollment, and other “prepared for success” measures.
- The analysis has also consistently shown ***a persistent achievement gap between economically-disadvantaged and non-disadvantaged students.***

FY17 Performance Index vs. % of Economically Disadvantaged Students

FY17 Performance Index Range	# of Districts	Total ADM	% Economically Disadvantaged Students
Performance Index between 50 and 70	27	309,168	87.4%
Performance Index between 70 and 80	60	188,764	73.1%
Performance Index between 80 and 85	86	203,215	57.9%
Performance Index between 85 and 90	152	293,636	43.8%
Performance Index between 90 and 95	137	301,286	35.0%
Performance Index between 95 and 100	80	234,358	23.1%
Performance Index greater than 100	65	179,024	12.6%
Statewide Total	607	1,709,452	

OEPI Grade - Performance Index - % Economically Disadvantaged Students In District



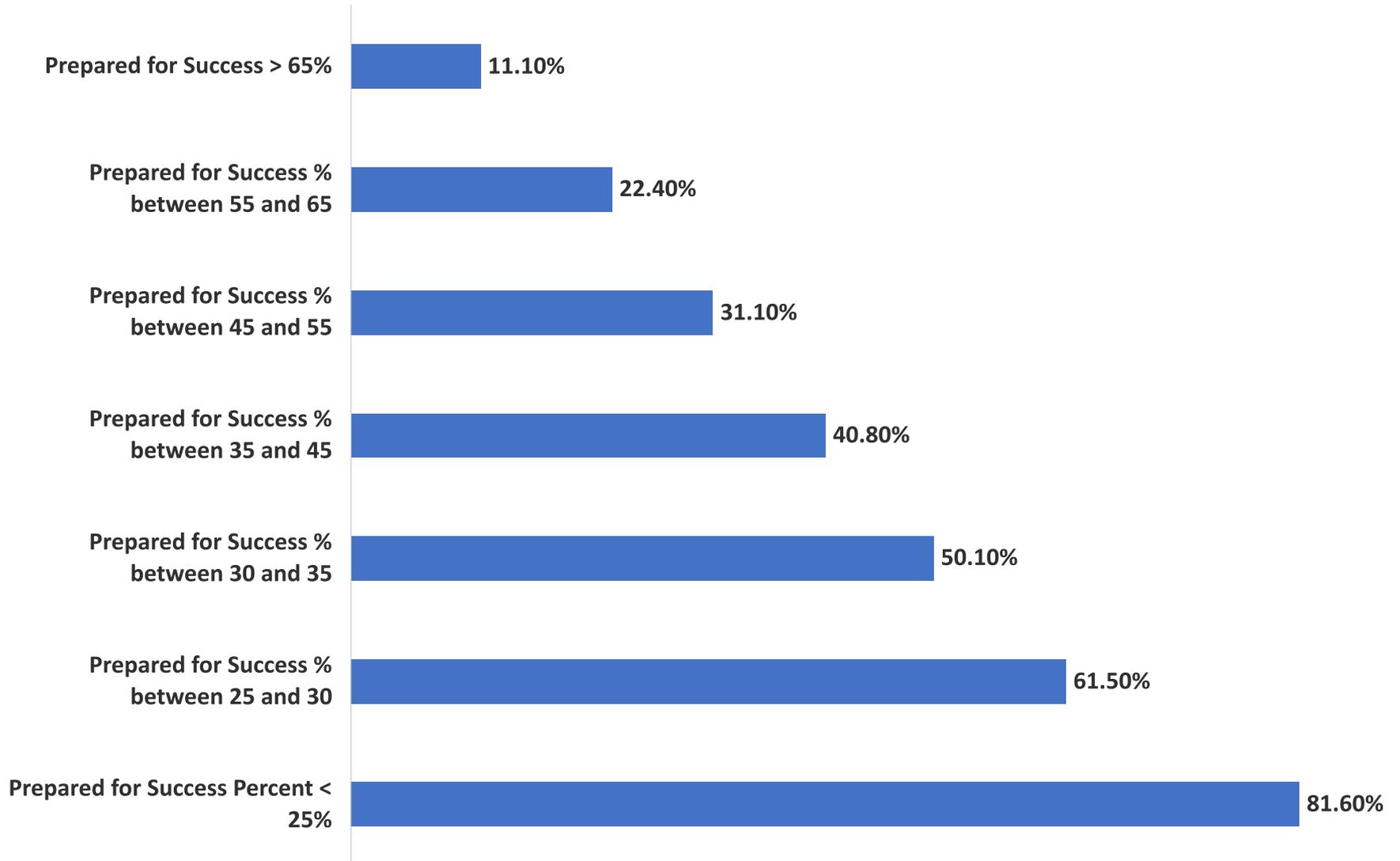
Main Findings: PI Scores vs. % of Economically Disadvantaged Students

1. Despite the fact that performance index scores increased in 572 of 607 school districts from FY16 to FY17, the achievement gap between high poverty and low poverty districts remains persistent and dramatic.
2. Of the lowest 100 performing districts on performance index score, **89 of them are above the statewide average** of economically disadvantaged students.
3. 55 of those districts have economically disadvantaged levels of 70% or higher.
4. Of the top 100 districts based on performance index score, **99 districts are below the 48.9% statewide average** of economically disadvantaged students.
5. 88 of those districts have economically disadvantaged levels of less than 30%.

Main Findings: PI Scores vs. % of Economically Disadvantaged Students

6. The lowest performing school districts in Ohio according to the Performance Index have nearly 7 times as many economically disadvantaged students on average than do the highest performing districts in the state (top and bottom 65 districts).
7. 124 districts received a grade of A or B on the Performance index in FY17. **Only 2** of these districts have more than the state average percentage of economically disadvantaged students (48.9%). Another 5 districts have between 40% and 50% econ. disadvantaged students.
8. Meanwhile, 77 of these 124 high performing districts (62%) have fewer than 20% economically disadvantaged students.
9. Districts receiving an F on the Performance index have more than 10 times the percentage of economically disadvantaged students than do the districts receiving an A on the Performance Index.

FY17 Prepared For Success Results vs. Economically Disadvantaged Percent



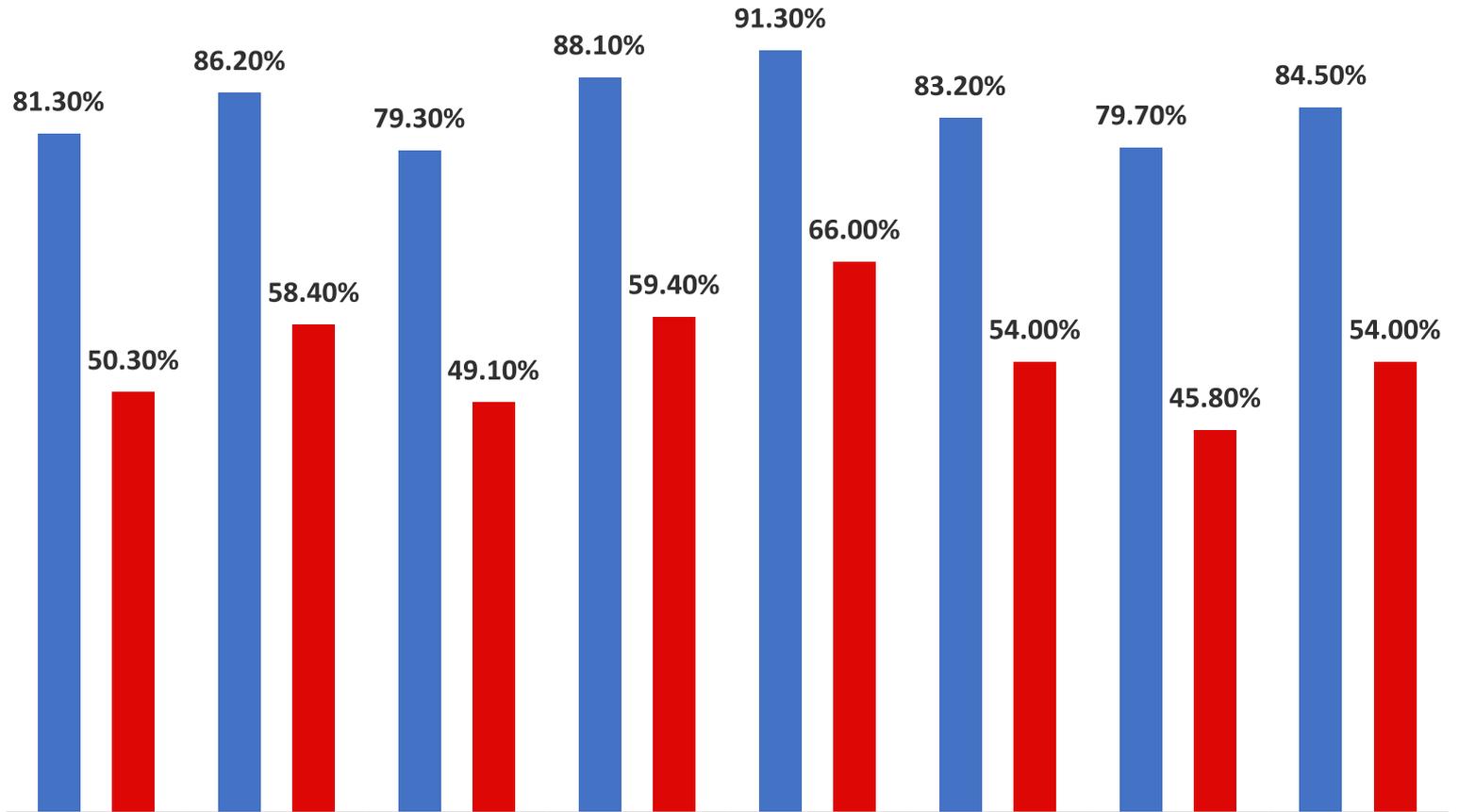
Findings Relating to Prepared for Success Measures

1. 119 fewer districts received a grade of C on Prepared for Success in FY17 than in FY16, while 123 more districts received Prepared for Success grades of D and F in FY17.
2. The lowest performing school districts in Ohio according to the Prepared for Success measures (districts less than 25% of students PFS) have nearly 8 times as many economically disadvantaged students on average than do the highest performing districts in the state (districts with more than 65% of students PFS).

Test Results by Demographic Group

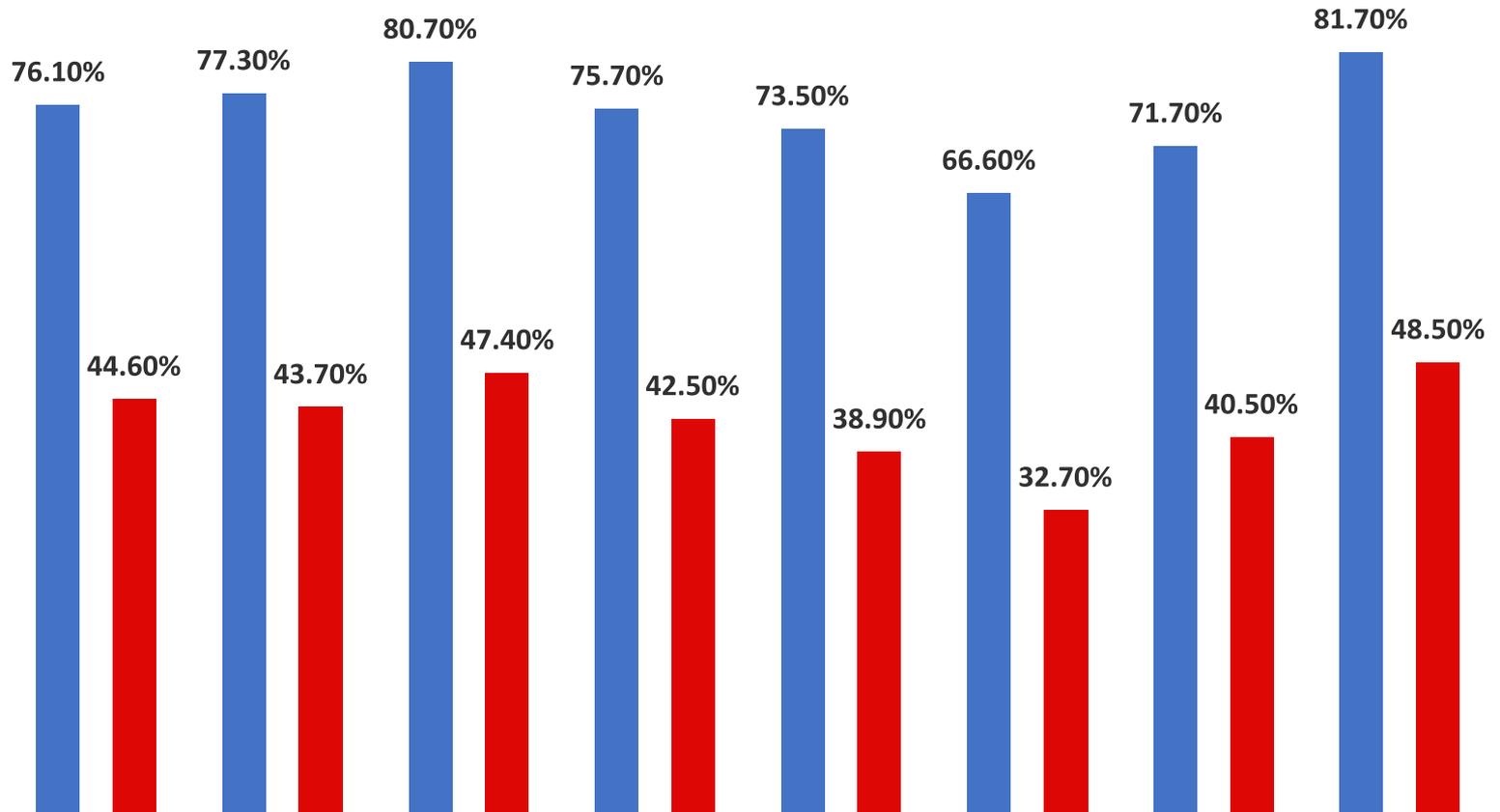
- OEPI has also analyzed the FY17 Report Card data by student demographic group instead of by district.
- The following slides provide a comparison of the performance of economically disadvantaged and non-disadvantaged students on Ohio's 3rd-8th grade through proficiency tests and on the high school end-of-course exams.
- The graphs compare the percentage of disadvantaged and non-disadvantaged students that achieve a level of proficiency or better on each test.
- The graphs show a pronounced achievement gap on every test in every grade. ***On 20 of the 26 tests the difference in proficiency rates between disadvantaged and non-disadvantaged students is 30 percentage points or more.***

Test Results Non Economically Disadvantaged & Disadvantaged Grades 3-5



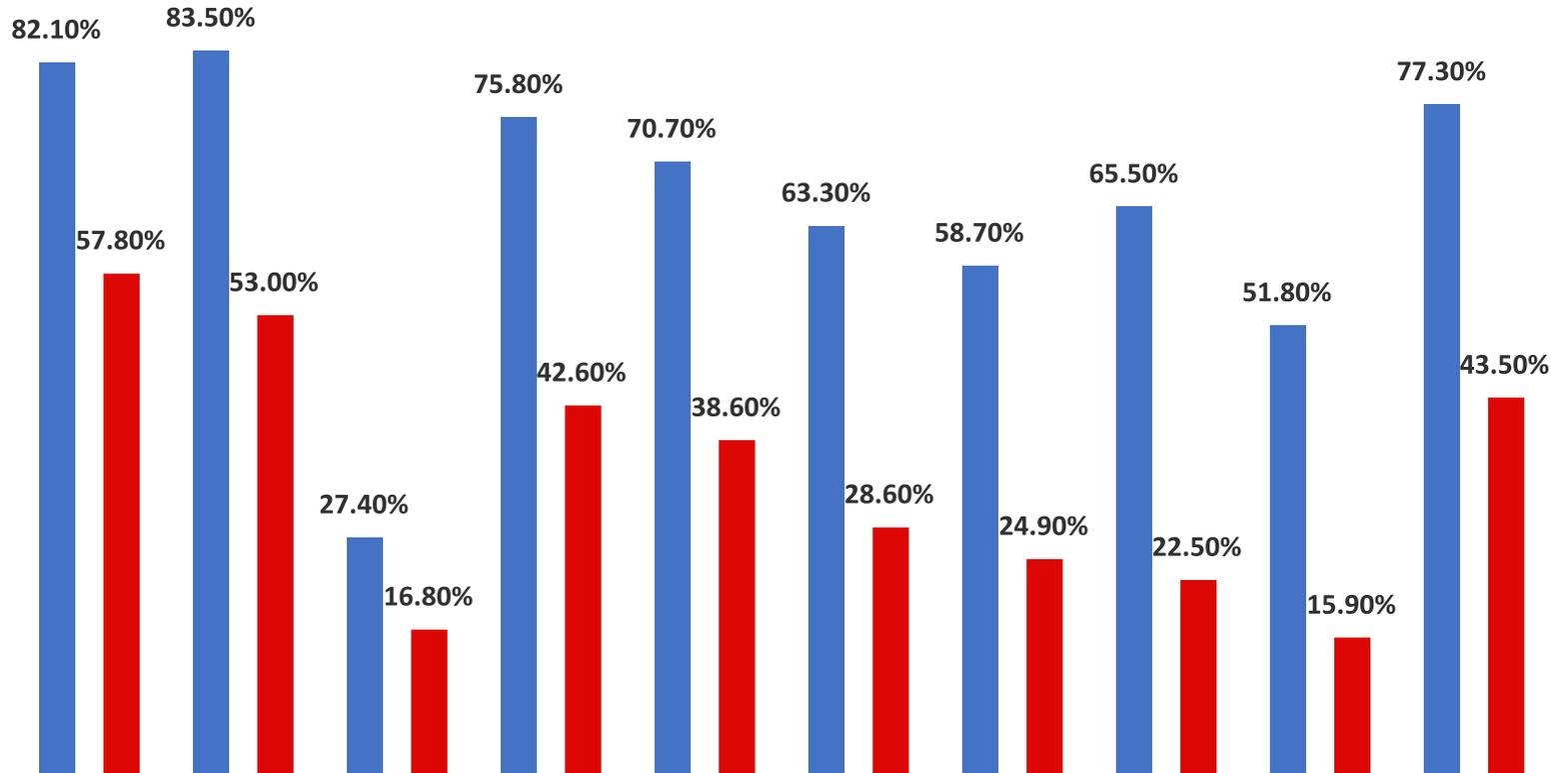
	Reading	Mathematics	Reading	Mathematics	Social Studies	Reading	Mathematics	Science
	3rd Grade	3rd Grade	4th Grade	4th Grade	4th Grade	5th Grade	5th Grade	5th Grade
■ Non Dis.	81.30%	86.20%	79.30%	88.10%	91.30%	83.20%	79.70%	84.50%
■ Disadvantaged	50.30%	58.40%	49.10%	59.40%	66.00%	54.00%	45.80%	54.00%

Test Results Non Economically Disadvantaged & Disadvantaged Grades 6-8



■ Non Dis.	76.10%	77.30%	80.70%	75.70%	73.50%	66.60%	71.70%	81.70%
■ Disadvantaged	44.60%	43.70%	47.40%	42.50%	38.90%	32.70%	40.50%	48.50%

Test Results Non Economically Disadvantaged & Disadvantaged High School



	Government High School	History High School	Physical Science High School	English I High School	English II High School	Algebra I High School	Geometry High School	Math I High School	Math II High School	Biology High School
■ Non Dis.	82.10%	83.50%	27.40%	75.80%	70.70%	63.30%	58.70%	65.50%	51.80%	77.30%
■ Disadvantaged	57.80%	53.00%	16.80%	42.60%	38.60%	28.60%	24.90%	22.50%	15.90%	43.50%

2015, 2016 & 2017 School Levies by Election

Election	Total # of Issues	# Passing	# Failing	2015 % Passing
February	3	3	0	100.0%
May	102	86	16	84.3%
August	3	2	1	66.7%
November	109	92	17	84.4%
2015 Totals	217	183	34	84.3%

Election	Total # of Issues	# Passing	# Failing	2016 % Passing
February	NA	NA	NA	NA
March Primary	68	48	20	70.6%
August	14	4	10	28.6%
November	150	115	35	76.7%
2016 Totals	232	167	65	72.0%

Election	Total # of Issues	# Passing	# Failing	2017 % Passing
May	97	71	26	73.2%
August	5	1	4	20.0%
November	121	87	34	71.9%
2017 Totals	223	159	64	71.3%

Note: The February election was eliminated in 2016

School Operating and Capital Levies from 2007-2017

Year	Total # of Issues	% Passing	# Operating Issues	% Passing	# Capital Issues	% Passing
2007	406	50.7%	247	51.4%	159	49.7%
2008	427	53.4%	255	52.2%	172	55.2%
2009	378	60.6%	251	63.3%	127	55.1%
2010	429	53.1%	317	52.7%	112	54.5%
2011	366	51.6%	275	50.9%	91	53.8%
2012	339	56.6%	245	56.1%	95	57.9%
2013	351	57.5%	236	58.9%	115	54.8%
2014	317	65.3%	207	69.1%	110	58.2%
2015	217	84.3%	149	88.6%	68	76.5%
2016	232	72.0%	136	77.9%	96	63.5%
2017	223	71.3%	135	77.0%	88	62.5%

New and Renewal School Operating Levies from 2007-2017

Year	Total # of Operating Levies	% Passing	# New Levies	% Passing	# Renew & Replacement Levies	% Passing
2007	247	51.4%	123	22.8%	124	79.8%
2008	255	52.2%	135	24.4%	120	83.3%
2009	251	63.3%	122	35.2%	129	89.9%
2010	317	52.7%	173	26.0%	144	84.7%
2011	275	50.9%	168	26.2%	107	89.7%
2012	245	56.1%	138	33.3%	106	85.8%
2013	236	58.9%	135	36.3%	101	89.1%
2014	207	69.1%	69	31.9%	138	87.7%
2015	149	88.6%	26	65.4%	123	93.5%
2016	136	77.9%	33	42.4%	103	89.3%
2017	135	77.0%	37	37.8%	98	91.8%

New & Replacement vs Renewal School Operating Levies from 1994-2017

Year	# of New Operating Levies	# of Replacement Oper. Levies	# of Renewal Operating Levies	Total # of Operating Levies	# of New + Replacement Oper. Levies	% New + Replacement Oper. Levies	
1994	281	1	54	336	282	83.9%	
1995	262	16	43	321	278	86.6%	
1996	205	14	60	279	219	78.5%	
1997	161	17	49	227	178	78.4%	1994-97 Avg
1998	92	10	72	174	102	58.6%	82.3%
1999	105	17	64	186	122	65.6%	
2000	96	12	106	214	108	50.5%	
2001	82	16	73	171	98	57.3%	
2002	107	15	79	201	122	60.7%	
2003	169	23	78	270	192	71.1%	
2004	313	25	97	435	338	77.7%	
2005	255	13	94	362	268	74.0%	1998-06 Avg
2006	184	13	85	282	197	69.9%	67.4%
2007	121	19	107	247	140	56.7%	
2008	131	11	113	255	142	55.7%	
2009	119	12	120	251	131	52.2%	
2010	173	13	131	317	186	58.7%	
2011	168	4	103	275	172	62.5%	
2012	138	3	103	244	141	57.8%	2007-13 Avg
2013	135	3	99	237	138	58.2%	57.5%
2014	67	3	137	207	70	33.8%	
2015	26	2	121	149	28	18.8%	
2016	33	1	102	136	34	25.0%	2014-17 Avg
2017	37	0	98	135	37	27.4%	27.0%
1994-2013 Average	165	13	87	264	178	67.3%	

2017 School Levy Summary

- The preceding slides show that there were only 223 school levies (135 operating levies and 88 capital levies) on the ballot in 2017.
- The 223 school levies on the ballot in 2017 is the second lowest since 1984 (the earliest year I have complete data), with only the 217 total levies in 2015 being lower (the 232 levies on the ballot in 2016 is the 3rd lowest amount).
- The 135 operating levies on the ballot in 2017 is the lowest since HB 920 was passed in 1976 (the 136 operating levies in 2016 is 2nd lowest).
- Even more significantly, there were only 37 new operating levies on the ballot in 2016. 2014, 2015, 2016 & 2017 are the 4 lowest totals of new operating levies ever.
- Finally, the unusually high passage rate of school levies in the past 3 years (88.6% in 2015, 77.9% in 2016, and 77.0% in 2017) is almost entirely due to the very high proportion of renewal levies on the ballot. Renewal levies typically pass at more than twice the rate of new levies.

Why the Decline in New Levies?

From 1994-2013 roughly 2/3 of school levies were new levies, however, from 2014-2017 only 1/4 of levies are new levies.

Possible reasons for this are:

- 1) Recent changes to STRS created incentives for older more experienced teachers to retire. These teachers are being replaced with less experienced (hence less expensive) teachers. The cost savings has reduced the need for districts to be on the ballot.
- 2) Rapid increases in CAUV values in many rural districts has made levy passage highly unlikely (because farmer's taxes have increased). As a result, many of these districts are not placing new levies on the ballot - whether they need them or not.
- 3) Increased competition from other local service providers (i.e. developmental disabilities, children's and elderly services, ADAMH boards, etc...) has "crowded out" school levies from the ballot.
- 4) Other???