



School Finance

Bringing you the latest information on Ohio school finance issues

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This month's newsletter summarizes the effect of new housing construction on school funding. It should be useful in sharing with your local citizens.

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New Residential Construction and Effects on School Funding

A frequent issue that returns from time to time in every school district is: what is the result of the new residential construction being completed in our school district?

This column will attempt to briefly answer that question from both a revenue point of view and implications for expenditures.

Local Revenue

New homes will pay additional taxes to political subdivisions. Let's see how that affects school districts. Let's assume ten new homes with an average value of \$150,000 per home, for a total of \$1,500,000 total valuation. Real estate in Ohio is taxed at 35% of value. Thirty-five percent of value results in \$525,000 of taxable value.

To compute the taxes we need to know the operating millage for schools. Operating millage is that millage that is taxed just for operating the schools. It is not for other political subdivisions or for debt retirement.

Again, assume an operating millage of 32 mills in our sample school district. The average for operating in school districts is about that amount. Thirty-two mills (32 mills= \$.032) will be collected on \$525,000. That results in \$16,800 (\$.032 x \$525,000) in gross operating revenue for the school district.

The homeowner does receive a tax credit of 12 ½ %, but that tax credit is reimbursed to the school district by the State of Ohio. This \$16,800 is the amount of additional operating revenue from the ten homes we mentioned earlier.

An exception to this is when an emergency levy is used, which guarantees the school district the same amount each year. Any new homes where an emergency levy is used will pay additional taxes, but that reduces what other taxpayers pay as the school district will receive the same amount from an emergency levy.

State Revenue Effects

The current state funding formula computes state aid as a defined amount of revenue per child and also computes a local share of that amount for the school district to provide.

The local share is currently computed at 23 mills of taxes on the taxable value of property. Assuming the formula works, the following will result. The \$525,000 of taxable value on the ten new homes is multiplied times 23 mills (\$.023 x \$525,000). The \$12,075 is deducted from the school's state aid. The state formula assumes that, as a district become wealthier based on taxable value, it has less need for state revenue.

When the formula works, more students will produce additional state aid. The current amount is \$5403 per student. If we assume 1.2 students per new home as an average, twelve more students will result in additional state aid of \$64,836 (\$5403 x 12)

Recap of Revenue

The school district will receive an additional \$16,800 in local tax revenue on ten homes averaging \$150,000 value per home. The district will lose \$12,075 in state aid when the taxable value of those ten homes is computed in the state formula. The district will gain an additional state aid amount of \$64,836 for the twelve students from the ten homes.

Please note for this additional amount per student to be realized, the state funding formula must work. For over half of the school districts in Ohio, the formula does not work, and they would receive no additional state formula aid for these 12 students.

Expenditures

Obviously these 12 students will need new expenditures. The first year new students might be included in existing classes, but continuing enrollment growth means new teachers, new bus routes, new text books, etc. The average expenditures are about \$9,000 per student.

These students will increase the district's expenditures by \$108,000.

Recap of Revenue and Expenditures

+\$16,800	Additional local tax revenue
<u>-\$12,075</u>	Decreased state aid due to valuation increase
\$4,725	Sub total
<u>+64,836</u>	Additional state aid for 12 students
\$69,561	Sub-total of additional state and local revenue
<u>-108,000</u>	Additional school expenditures
-38,439	Overall loss due to ten new homes with 12 students

Summary

School districts have no choice but to reduce expenditures where they can and ask local citizens to approve additional local taxes. New homes will not solve the funding crisis.