

Important Tax Information

Schools generate or receive revenue through several different methods. Schools can levy taxes to generate revenue. Schools receive funding from the Ohio Department of Education and the United States Department of Education. Schools are also eligible to receive funding through grants or donations. State and federal laws are very specific on how schools can spend the money it receives. Rules and regulations have been put into place which restrict how a school can use its revenue, based on the *source* of the revenue.

Federal funding and grant money come to the district with greater restrictions than most other forms of revenue. These dollars must be used for specific purposes and the school must show that they have used those dollars for their intended purpose. Federal funding and grant money make up a small portion of the revenue generated by Northwestern Local Schools.

State funding is the second largest source of revenue for our district. State funding comes to the district from the Ohio Department of Education which is funded by state tax dollars. The Ohio Lottery is also supposed to generate funding for Ohio schools. However, the lottery money merely supplants, or replaces, the tax dollars set aside to fund schools. This means that the legislators take the taxes which were set aside for school funding and they replace it with the revenue generated by the lottery. The total amount of funding for education does not increase or decrease based on the lottery revenue. School funding is set by the legislators in the state budget.

One part of state funding deals with how much money the state is willing give to a school—per student. Legislators break down the cost of education and determine how much money it would take to educate each child. The dollar amount that is set by the legislators is the amount of money a school would receive for each child in their school, if the student is a “fully funded” student. **Not all students are fully funded by the state.** The current dollar amount the state is using as fully funded equals \$6,020 per student. However, very few schools receive full funding for their students.

Another part of state funding deals with determining which students and which schools receive full funding by the state. A district with high poverty will receive a higher percentage of funding per child than a district with low poverty. Northwestern receives 48% of the dollars the state considers full funding for a student. So, if the state would fully fund a student in our district, we would receive \$6,020 from the state to educate that student. Since it has been determined that Northwestern’s state share is 48%, we only receive 48% of the \$6,020 for an average student. Some students with disabilities may be funded at a slightly higher rate. It is an expectation of the state that Northwestern pick up the remaining cost to educate students in our district. The state and local share percentages are different for each school district and are based on a formula designed by legislators.

****Interesting Note**** The method used to determine which schools receive specific levels of funding by the state is very complicated. The Ohio Supreme Court has ruled that the funding system for public schools in Ohio is unconstitutional. Legislators have tried for years to develop a funding system that is fair and meets the letter of the law.

Each attempt has failed and the state continues to use a funding system that the courts have ruled unconstitutional.

The largest source of revenue for Northwestern comes from local taxes. There are two types of taxes that a school can use to generate revenue—property tax and income tax. Both forms of taxation have advantages and disadvantages.

Income tax can be a good source of revenue for a school district. The revenue that is generated for the school is based on how much money each individual in the district earns. A portion of those earnings is collected as taxes and distributed to each taxing authority who can implement an income tax. As the economy grows and people make more money, so does the revenue the school can collect. Unfortunately, this is not a very stable source of revenue. If the economy experiences wild swings and earnings go up and down, so does the revenue a school can generate. Although income tax can grow with a good economy, it will also decline in a recession. Often times these changes in the economy happen too quickly for schools to effectively manage.

Property tax is a more stable form of revenue for a school district. Property tax is based on the value of real estate property. If a property has a high value, the property will have high taxes associated with it. An assessed value, used for taxation purposes, is assigned to each property by the County Auditor. The County Auditor also sets the total valuation for the school district. By combining all of the assessed values of the properties in a school district, the County Auditor determines what the total valuation of a school district is. This is important because the total valuation of the district is used to create a millage rate for the district. This millage rate determines the revenue that is generated for each “mill” that is placed on a levy. In our district, the total valuation is currently about \$233,449,210. That means a 1 mill levy would generate about \$233,449 annually.

During the 1970’s, legislators attempted to reform school funding and created House Bill 920. H.B. 920 is still in effect and greatly impacts school funding. H.B. 920 limits the amount of revenue a property tax levy can generate. This law uses the amount of revenue the property tax levy generated in its first year to set a cap for the levy. This means that if our school passed a 1 mill property tax issue, the school could never collect more than \$233,449, during the life of the tax. Even if property values increase, the school cannot collect more revenue than it did in the first year of the tax.

Your property values drive the taxes you pay. Property values throughout the district go up and down. One person could see an increase in the amount of taxes they pay while another could see a decrease. Some people may also see an increase in the taxes they pay to the school, while others may see a decrease. Because of House Bill 920, the school would receive the same revenue regardless of any tax increase or decrease a taxpayer might see.

****Important Note**** If the current property tax of a school district does not generate enough revenue to effectively operate the school, the only way for the school to increase the revenue is to pass a levy which collects more mills than their current levy. This is only true of property tax, income tax is not subject to H.B. 920 and is a percentage of the taxpayer’s income.

There are different names and types of levies that can be placed on the ballot for voters to approve. In our district, we have two levies that need to be approved by the voters. Both levies are property tax levies and the larger of the two is a “substitute” levy. Substitute levies do exactly what their names suggest, they substitute one levy for another. In our case, we took two emergency levies and substituted them with one substitute levy. The school set the millage rate so that the substitute levy collected the same amount of revenue as the two emergency levies. By law, you can not renew a substitute levy, you can only substitute it with another substitute levy. In March of 2016, the voters of Northwestern did just that when they voted yes on our substitute levy. We had to adjust the millage rate of that substitute levy so that it would not collect more revenue than what we collected when the levy was first created in 2010. By keeping the amount of levy revenue the same and adjusting the millage rate, we treat the levy as if it were a renewal and not a new tax.

Our substitute levy is an Operating Levy. Our substitute levy generates revenue in the amount of \$1.7M which is used to operate the school. The majority of this money goes toward salaries but can include supplies, utility costs, and anything needed to operate a school.

Northwestern also has a Permanent Improvement levy (PI Levy) in place. This levy is a 1 mill property tax which was originally approved in 1996. This levy generates about \$206,619. You might have noticed that this number is different than the numbers listed earlier in this article. The reason the numbers are different is that this levy is governed by H.B. 920 and cannot collect more revenue than it did in the first year it was collected. The total valuation of the district and the millage rate were different when this was first collected. So, 1 mill today generates more revenue than 1 mill a few years ago. The most important thing to know about a PI levy is that it can only be used for ongoing maintenance, capital projects, and equipment that will last longer than five years. PI levies cannot be used for salaries or operating expenses.

Currently, our Operating Levy is not keeping pace with the cost of doing business. We are projected to spend more on operating expenses next year than what we will generate in operating revenue. In an effort to not increase taxes, Northwestern Local Schools are looking for and are implementing measures to reduce our operating expenses. It may seem odd that we have the money to build an athletic complex and yet we are looking at cutting other expenses. It is not odd, it is just how Ohio law regulates school funding. Since the athletic complex is a capital project, we can use the Permanent Improvement levy to pay for it. We are not allowed to use the Permanent Improvement money to pay for operating expenses. So, even if we were not building the athletic complex, we would still need to look for measures to reduce our operating expenses. Because the money needed for the construction of the athletic complex and the money needed for the expenses associated with operating the schools come from different revenue streams with different regulations, these two expenses should not be combined when discussing the need for future levies or when discussing cost-saving measures implemented by the school.

Educating students is a challenging and rewarding endeavor. One of our greatest challenges is providing the students with the best possible education with the

resources that are available. Our community is very generous and has given a great deal to the school. We must be respectful of what the community has given us and make sure we are good stewards of the school district's money. We will continue to provide the highest possible educational opportunities for our students while we work within our means.

Go Warriors.