

## MANCHESTER LOCAL SCHOOL DISTRICT

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### **Senate Finance Primary and Secondary Education Subcommittee Substitute House Bill 49 Testimony May 24, 2017**

Good afternoon, Chairman Hite, Vice Chair Sykes, and members of the Senate Finance Primary and Secondary Education Subcommittee. Thank you for the opportunity to speak to you today regarding House Bill 49 and the school foundation funding formula adjustments needed for Manchester Local School District located in Adams County. My name is Karen Ballengee, Treasurer of Manchester Local. In attendance with me is Manchester Local's Superintendent, Dr. Charles Shreve.

#### **Manchester Local Schools Geographics**

The Manchester Local School District is composed of 115 rural square miles in southern Adams County following the east and west county boundaries along the Ohio River valley. The School District is located in an Appalachian Regional Commission designated economically distressed county. The School District has approximately 5,175 residents with approximately 38% of the residents living in poverty. There are two electric generation stations located on the east and west ends of the School District. The one unit electric generation Killen Station is located on the east side and the four units electric generation Stuart Station is located on the west side of the School District. These stations are owned by Dayton Power and Light, American Electric Power and Dynegy (previously Duke Energy).

#### **Manchester Local Schools Demographics**

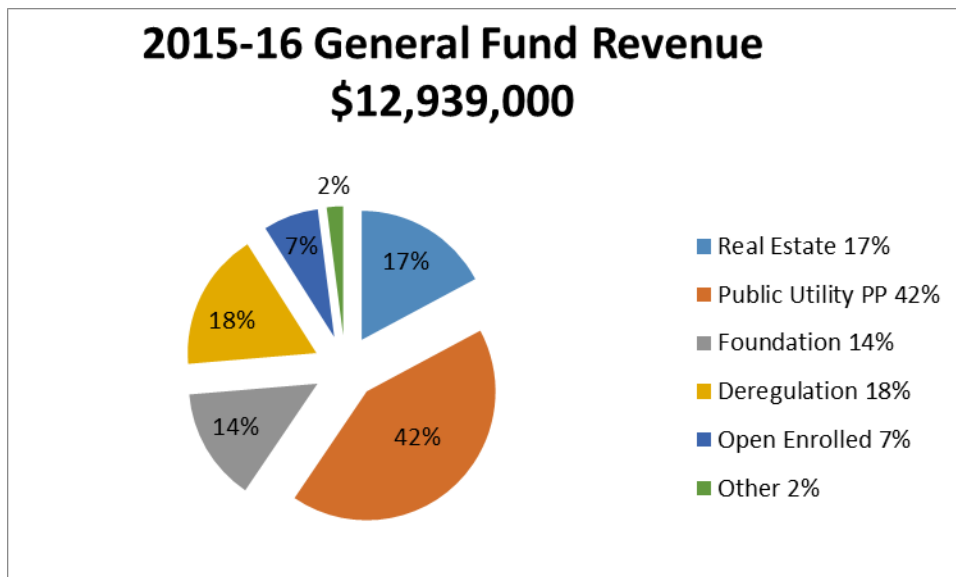
The School District has two school buildings that house around 950 predominantly white Appalachian students, preschool through twelfth grades. The Elementary was built in 2006 and the High School was built in 1996 through one hundred percent (100%) locally funded construction projects. Sixty percent (60%) of the students qualify for the National School Lunchroom Program Free and Reduced Meals. Twenty-one percent (21%) of the students have special education needs. The household median income in the School District is \$25,791. Twenty-eight percent (28%) of the Elementary students participate nightly in the 21<sup>st</sup> Century After School program and the After School Dinner Program.

#### **Manchester Local's Past Financial Condition**

The School District has been financially stable for the past thirteen years since its creation in 2004. The School District's general fund revenues last year were \$12,939,000 and this school year's revenue is estimated to be \$12,323,000. The School District will see a \$750,000 revenue reduction its public utility personal property revenues in the present 2016-17 school year which represents a thirteen point seven percent (13.7%) decrease of the School District's biggest source of revenue.

The School District is presently funded at a 5% state share index and is losing approximately \$200,000 yearly in public utility tangible personal property deregulation payments. The School District has had its deregulation revenue payments decreased over fifty-two percent

(52%) over the past thirteen years. In 2004 the School District received \$4.2 million in deregulation revenue, this year our deregulation payment is \$2 million.



### **Electric Generation Plants Devalued and Announced Closing**

Late in November 2016, the School District was notified by the County Auditor that Duke Energy had sold their share of the electric generation stations to Dynegy. The Ohio Department of Taxation had approved a reduction in the personal property public utility assessed valuation based upon the purchase price of the stations from Duke to Dynegy. This decrease of \$59,188,090 (27.9% decrease) in public utility tangible personal property assessed valuation was totally unexpected by us and the county.

In January 2017, Dayton Power and Light formally announced they will close the Killen and Stuart generation stations in June 2018. American Electric Power also quoted in this article that they have also suffered asset impairment and have filed an appeal with the Ohio Department of Taxation to have their assessed valuation decreased on the 2016 tax valuations at some of the plants they own. If AEP is successful in winning the appeal to reduce their 2016 assessed valuation school districts will have to pay tax revenues they received in February 2017 back to AEP creating an even greater revenue loss for this current 2016-17 school year.

We are estimating the values of the electric generation stations will be at zero in tax year 2018. The School District is estimating our public utility personal property tax will go to zero (100% loss) and the real estate commercial assessed valuation will decrease eighty-two percent (82%) due to the property becoming a brown field. The School District's assessed valuation is estimated to go from \$321,292,200 in 2015 to around \$55,467,000 in tax year 2018. The School District will go from an assessed property valuation per pupil of \$372,063 in tax year 2015 to a per pupil valuation of \$64,232, an estimated eighty percent (83%) drop in 2018.

In fiscal year 2016 the School District's total tax revenue was around \$7,703,000. By fiscal year 2020 we are estimating our tax revenue at \$1,305,000. The School District is estimated to take a tax revenue decrease of \$6,670,000 by tax year 2018 (school year 2019-20). **We will lose approximately 52% of our School District's total 2015-16 general fund revenue.**

Assessed Valuation					
	Actual	Actual	Estimate	Estimate	Estimate
Tax Years	2015	2016	2017	2018	2019
Agr/Residential	\$ 52,062,920	\$ 53,120,400	\$ 53,120,400	\$ 53,120,400	\$ 53,120,400
Commercial	\$ 57,381,510	\$ 57,854,760	\$ 57,854,760	\$ 2,346,820	\$ 2,346,820
PUPP	\$ 211,847,770	\$ 152,659,680	\$ 95,300,000	\$ -	\$ -
<b>Total Valuation</b>	<b>\$ 321,292,200</b>	<b>\$ 263,634,840</b>	<b>\$ 206,275,160</b>	<b>\$ 55,467,220</b>	<b>\$ 55,467,220</b>
Loss		\$ (57,657,360)	\$ (57,359,680)	\$ (150,807,940)	\$ -
	Normal	PUPP Devalued	PUPP Devalued	Plants Close	
				700 jobs lost	

FY Tax Collections		
FY 16 Collections	\$ 7,703,000.00	
FY 17 Collections	\$ 7,105,000.00	Appraisal Year but lost \$750,000 in PUPP
FY 18 Collections	\$ 3,540,000.00	
FY 19 Collections	\$ 1,720,000.00	
FY 20 Collections	\$ 1,035,000.00	

			Total Tax Rev Loss		Total General
Tax Revenue Losses			Each School Year	Tax Rev Loss	Fund Rev Loss
2016-17	\$ (750,000.00)		\$ (750,000.00)	-10%	-6%
2017-18	\$ (1,510,000.00)	additional	\$ (2,260,000.00)	-18%	-17%
2018-19	\$ (2,585,000.00)	additional	\$ (4,845,000.00)	-26%	-37%
2019-20	\$ (1,825,000.00)	additional	\$ (6,670,000.00)	-15%	-52%
Total Local Loss	\$ (6,670,000.00)				
per yr. FY 2020					

Power Plants Devaluation							
FY 2016-17		FY 2017-18		FY 2018-19		FY 2019-20	
TY 2015	TY 2016	TY2016	TY 2017	TY 2017	TY 2018	TY 2018	TY 2019
	\$ (750,000)	\$ (750,000)	\$ (750,000)	\$ (750,000)	\$ (750,000)	\$ (750,000)	\$ (750,000)
			\$ (760,000)	\$ (760,000)	\$ (760,000)	\$ (760,000)	\$ (760,000)
					\$ (1,825,000)	\$ (1,825,000)	\$ (1,825,000)
Total Loss	\$ 750,000		\$ (2,260,000)		\$ (4,845,000)		\$ (6,670,000)

### Manchester Local Needs the State's Help in this Budget Bill

The School District is estimating its general fund tax revenues will decrease a total of \$2,260,000 and possibly more in the 2017-18 school year. The total tax revenue decrease from 2016-17 to 2018-19 is estimated around \$4.8 million. This represents a 37% total general fund revenue loss over the next two years.

The School District is planning to make expenditure reductions, but even with the deep reductions of \$1.5 million, the School District will be insolvent by the end of the 2017-18 school year.

This situation cannot be corrected with tax levies. With a projected assessed valuation of \$55,467,000, it would take passing a tax levy of 86 mills to generate \$4.8 million to replace the revenue loss in the 2018-19 school year. And by the 2019-20 school year an additional 33 mills would need to be passed. We are talking about passing 119 mills within three years and we all know you can only tax a house trailer so much.

### **The Solution is in the State Foundation Formula**

Manchester Local would qualify for more state foundation funding based upon its projected decreased assessed valuations and poverty factors. But the problem is the assessed valuation three year averaging and growth caps the current formula has in place. To allow Manchester Local to fully participate in the state foundation program the following adjustments need to be made.

- The School District's February assessed valuation needs to take effect immediately. The present three year averaging of the assessed valuation will not allow the state share index to correct to the new drop in assessed valuation fast enough to cover the tax revenue loss. This change would allow the state share index to increase due to the shift of the School District's decrease in February's assessed valuation.
- The growth caps would have to be removed from all of the line items in the foundation formula and the maximum five percent (5%) cap would need to be removed.

We presently have a state share index of 5.1% and the estimated state share index is expected to increase to the maximum growth cap resulting in a state share index of 10.2% in the Governor's budget. We believe that we would become around eighty percent (80%) state funded School District upon losing the total valuation of the electric generation stations. Our district would become state funded in the same fashion as our neighbors, to the east is Washington-Nile Local which has a state share index of 83.7%, to the west Ripley-Lewis-Huntington Local which has a state share index of 65% and to the north Adams County/Ohio Valley which has a state share index of 70.25%.

### **House Language**

The House has added language to the budget bill to address the district's situation, but it is not completely effective in addressing the 2017-18 and 2018-19 school years tax revenue losses. The House language does address the caps and the three year averaging of the assessed valuation, but the state share index needs to be adjusted based upon the tax year 2017 assessed valuation for the 2017-18 school year and the state share index needs to be adjusted in the 2018-19 school year based upon the tax year 2018 assessed valuation.

### **Debt Problems**

The School District has debt payments on the High School through December, 2021. The debt millage will have to be increased to collect enough funds to pay the annual debt and semi-annual interest payments. The collection rate has been 3.75 mills. We anticipate the millage rate will raise to a maximum of 27.5 mills when the electric generation assessed valuation completely drops off. This will be a 620% tax increase on the community! This situation is really unfair to the community that has an assessed valuation of \$55.5 million without the power plants. We would propose raising the local millage to 7 mills (87% increase) with the state funding the remaining cost through a fixed rate system similar to the fixed sum tax loss reimbursement developed in 2000.

**Conclusion**

Manchester Local is an innovative school district that needs to continue the good educational programs and services it provides for its students. We have excellent programs we wish to maintain. Please help our Schools and the other school districts with coal and nuclear electric power stations that are losing assessed valuation through this difficult time of transition between local and state funding. Please adjust the state foundation formula to allow the needed state dollars to replace the lost local tax dollars.