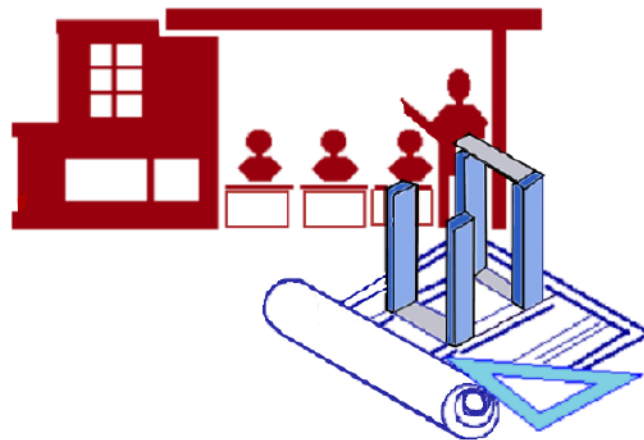


Report Of The Summit County Special Study Panel On Alternatives To Funding School Construction

**Presented To
Akron Mayor Don Plusquellic
And
County Of Summit Executive James McCarthy
And
For Consideration By
Summit County Council**



June 2002

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Introduction:

On April 17, 2002, City of Akron Mayor Don Plusquellic and County of Summit Executive Jim McCarthy appointed a Special Study Panel to research and consider alternative funding sources to support public school facility needs in Akron and Summit County.

Those named to the panel were **Richard Fedorovich**, CPA, managing partner of the accounting firm of Bober, Markey & Fedorovich, and former Board Chair of the Greater Akron Chamber; **Patrick Corbett**, Superintendent of the Summit County Educational Service Center, a former school district superintendent at Revere and Cuyahoga Falls; **Val Sawhill**, Chairman of the Board of Trustees of Coventry Township, and a retired teacher/counselor from Springfield Schools; **Diane Miller-Dawson**, Deputy Director of Finance of the City of Akron and a member of the Fiscal Accountability Committee for the Akron Public Schools; and **Joseph Migliorini**, Director of Community and Economic Development for Summit County, and former Mayor of the City of Macedonia.

Background of the Problem:

Panel members are keenly aware of the difficulties of financing public education in Ohio. The state's highest court has insisted on a complete overhaul of the present system of financing education, particularly with regard to the over-reliance on the property tax as the primary vehicle for funding schools and school construction.

The election on May 7, 2002 adds to the evidence that some communities in Summit County are unwilling to increase property taxes to support their schools. Every one of Summit County's 17 public school districts has urgent capital needs - - school construction, renovation, and repair - - which require each district to continually seek voter approval for money from property taxes.

For the Akron Public School District, the problem is particularly acute because of its present need to raise local monies that will trigger State funding to pay for 60% of the cost of new school buildings.

However, the urgency of Akron's need to fund the local match for the Ohio School Facilities Commission program was not the sole focus of the Panel's work.

The Work of the Panel:

Between April 24 and June 7, the Panel met four times to consider:

- The need for school facility improvements in Summit County school districts
- Alternatives available for school funding
- The economic and community impact of various taxing mechanisms
- The legal requirements of proposing any new alternative funding method
- The governance structure for enacting, collecting, and distributing tax dollars on an equitable basis among ALL 17 Public School Districts in Summit County
- A draft recommendation to be circulated among public and private leaders in the County prior to submission to any governmental entity for consideration
- The comments and questions received following the circulation of the draft recommendation.

The Need for School Facility Improvements:

The capital needs for school construction, renovation, and repair are quite different for each of Summit County's 17 public school districts. Akron has studied and documented its needs to replace and/or renovate almost every building in its district. Green Schools have a different problem - - its high school, while relatively new, already requires an addition of classroom space to meet growing population demands. Cuyahoga Falls does not require new classroom space, but, with its newest structures over 30 years old, has a need to renovate mechanical systems and to upgrade facilities to meet new curriculum needs and changing health and safety codes. It is also likely that most of Summit County's 150+ school buildings have ongoing needs to maintain and upgrade plumbing, electrical, and HVAC systems.

Many of these needs may be met by individual districts applying for and receiving financial assistance from the Ohio School Facilities Commission. But the availability of these State funds is limited; and some districts may not qualify for funding until well into the future. Even so, the State program requires raising local monies in every case, thus adding to the property tax burden of the residents and businesses in each community.

Alternatives Available For School Funding:

Funding for schools in Ohio has historically been supported by taxes on the owners of business and residential property. Presently, Ohio law limits alternatives to the property tax:

1. Income Tax:

- a) Municipal Income Tax: No longer legally permissible for school purposes.
- b) School District Income Tax: Must be approved by voters in the district.

2. Personal Property Tax:

Available only as a part of a general property tax issue; soon to be phased out in collection schedules.

3. Sales Tax:

Cannot be imposed by any one school district for its own needs. Can only be enacted by county government placing issue before voters, and receiving voter approval.

The Economic And Community Impact Of Various Taxing Mechanisms:

The **School District Income Tax** is levied only on personal income (not corporate income) of all residents of the district and taxes all earned income, including pensions as well as dividends and interest income (including children and senior citizens). The **Personal Property Tax** is levied only on businesses with inventory or manufactured goods; and discourages economic development incentives for new business (jobs) to move to a community. It can only be enacted when it applies to all properties, real, tangible, and other, in a taxing district.

The Sales Tax:

- Is paid by everyone in the county - - individuals and businesses - - and by every visitor to the county who makes a purchase of a taxable item.
- It is controllable - - that is, to pay the tax, one must make a decision to purchase a taxable item. Those who spend more on non-food items, pay more tax.
- It grows on its own - - that is, in good economic times, more tax is collected as more expenditures are made.

The Sales Tax is the fair and sensible alternative to the property tax, and for the following reasons:

- *Only six of Ohio's 88 counties have a lower sales tax rate than Summit County (5.75%).*
- *A modest increase (.5%) would provide sufficient revenue to meet reasonable school construction and capital improvement needs for Summit County's 17 public school districts.*
- *A modest increase in the tax permits Summit County to be competitive among other counties in Ohio. (At 6.25%, Summit would be significantly below Cuyahoga County's 7% rate.)*
- *Sales Tax revenues can be shared equitably among all 17 districts by tying distribution to the standard of school enrollment.*

The Legal Requirements Of Proposing Any New Alternative Funding Method:

The Panel relied on legal advice provided by Squires, Sanders and Dempsey and Buckingham, Doolittle, and Burroughs in determining the appropriateness of recommending a sales tax to fund school improvements.

The legal advice references Ohio laws that permit a county government to enact a sales tax, upon approval of the voters, for the purpose of providing revenue for "permanent improvements within the county to be distributed by the Community Improvements Board (CIB) ... and to pay principal, interest, and premium on bonds issued" for those purposes within the requirements established by the County CIB.

Under the statute, a sales tax for such purpose may not exceed one-half percent; and under the statute, a sales tax must be enacted "uniformly," that is, it can only be imposed county-wide. No single school district can enact a sales tax on its own.

The Panel considered both the amount of a sales tax increase and the term required for collection of such a tax, and concluded that any increase less than one-half percent would not be adequate to meet the school facility needs that districts have. Similarly, an adequate stream of revenue can only be generated by enacting a half-percent sales tax for a period of 30 years.

A schedule is attached to this draft, setting forth the amount that each of the 17 Summit County Public School Districts would be entitled to the funds listed under the following assumptions: (1) That a one-half percent (1/2%) sales tax would generate \$30 million/year, and (2) That the Average Daily Membership (ADM) from October, 2001 is employed as the formula for student enrollment.

The Governance Structure for Enacting, Collecting, And Distributing Tax Dollars On An Equitable Basis Among All Public School Districts:

The statute which permits voters to enact a sales tax also defines how the 9-member Community Improvements Board (CIB) that distributes sales tax dollars will be constituted. Three members are to be appointed by “the Mayor of the city with the largest population,” with approval of that city’s Council. Six members are to be appointed by the County, not more than three of whom may be members of the same political party. One such member must be the mayor of another city in the county; one such member must be a township trustee; and, one must be another Mayor or Trustee, or a representative of a business or union trade association. Three members serve at-large. Ohio law spells out the Board’s terms and officers.

- *The Panel proposes that the distribution of Sales Tax revenue be tied to the student enrollment of each public school district.*

Rather than create a new mechanism for determining the census of each school district’s enrollment, Ohio already provides the official October enrollment count known as *Average Daily Membership (ADM)* which is already calculated for other purposes by the Ohio Department of Education. This calculation is the higher of the actual student enrollment in the district during the first full week of October, or the three-year average of the district’s official ADM. **The Panel intends that the 17 public school districts in Summit Country would receive their "fair share" of the funds generated by the proposed sales tax.**

- *The Panel proposes that such Sales Tax revenues be distributed on a per-pupil basis, not less than annually, or more frequently if permitted by statute, to each of Summit County’s Seventeen (17) Public School Districts.*

The collection of any Sales Tax is governed by existing state law. It is collected by the State and paid when collected to the individual county. Upon receipt and certification by the County’s financial officer, it is expected that the Community Improvements Board will have in place its own requirements for school districts to apply for and receive payment of funds due to them under these formulas. Monies collected can earn interest for the public school districts, but will be held for distribution in an account by the County. Balances can carry over from one year to the next.

It is the intention of the Panel that only capital school projects may be funded. Both State law and *Generally Accepted Accounting Principles (GAAP)* provide definitions of what will be included under “capital” projects, but certainly will include construction and repair of buildings. Sales Tax revenues may not be used to support school operations.

It is likely that some districts will use these new revenues to “match” distributions to be made by the Ohio School Facilities Commission. Other districts will use these new revenues to pay the costs of school facility improvements. **In every case, each of the 17 Public School District Boards will have individual authority over how their share of these monies are to be spent, within the requirements established by the County CIB and as set forth in Ohio law.**

As the County receives the sales tax revenue from the State, and prior to distribution to the school districts by the CIB, the County has the sole right to invest the sales tax revenue. The Panel believes the County is entitled to receive a fair administrative fee for its role in managing the new revenue. The Panel is recommending that the County receive the usual and customary fee that it receives for performing this function in other similar matters (i.e. Real Estate Collections).

Comments And Questions Requested And Received

On May 15, 2002, a Draft copy of the preliminary report prepared by the *Summit County Special Study Panel On Alternatives To Funding School Construction* was mailed to 134 school, community and business leaders request their comments and questions. They were requested to reply by May 31, 2002.

On May 16, Patrick Corbett, Superintendent of the Summit County Educational Service Center, and Don Plusquellic, Mayor, City of Akron, met with a number of area school superintendents to explain the concept and answer questions. In addition, responses, both oral and written, were received from the following:

Steve Albrecht, Vice-President, Greater Akron Chamber Of Commerce Committee
On Work Force And Education Development

Marco S. Burnette, Superintendent, Manchester Local School District

H. Peter Burg, CEO, First Energy Corp.

Daniel L. Croghan, Mayor, City Of Green

John R. Goldsberry, Superintendent, Green Local School District

Richard Kaderly, President, Manchester Board Of Education

Bruce Killian, Chairman, Springfield Township Board of Trustees

Mark Lukens, Superintendent, Portage Lakes Career Center

Carl Mickelson, President, Green City Council

Elmo Lewis Midgley, Councilman, Richfield, Ohio

Jerry Pecko, Superintendent, Barberton City Schools

Steve Shebeck, School Board Member, Twinsburg CSD

Joseph P. Siegerth, Superintendent, Hudson City School District

John L. Wheadon, Treasurer, Copley-Fairlawn City School District

Every response, request and question was discussed and considered. As a result, changes, deletions, and additions have been made to the Draft report. The Panel believes that most of the issues raised are addressed in this final report. However, it must be noted that many of the issues, including the “nuts and bolts” of actually implementing the process, will become the responsibility of the Community Improvements Board. We have attempted to provide “guidance” for the eventual members of that Board.

Our Vision, Our Hope...

The charge of the Study Panel was limited to determining if there was a legal, creative way to fund capital improvements for public schools other than further increasing property taxes. We have determined that a County Sales Tax is a viable option. This is only the first step in the process. Next, Summit County Council must vote to put the issue on the November ballot, a Community Improvements Board would have to be appointed, and voters must approve the plan.

Throughout the process, Panel members have attempted to take a common sense approach to finding a solution to a serious problem. We readily acknowledge that we are attempting to use the law as it is written even though it was not enacted to deal with school construction projects. We know that people do not like paying any tax, no matter how noble the cause. We understand that some are distrustful of governmental entities, and dislike bureaucracies. One need only look at how our State government has failed miserably to address the school funding crisis in Ohio to understand why people are skeptical.

BUT, we are optimistic! If the Sales Tax is implemented, here is what the Panel expects:

- That each of the 17 Public School Districts in Summit County will receive its “fair share” of the funds generated by the tax.
- That the method by which the 17 Public School Districts request and receive their funds should be as SIMPLE as possible. The “bureaucracy” should be kept to a minimum. Administering the program should be cost-efficient.
- That the purpose of the Community Improvements Board will be to ensure that when the 17 Public School Districts submit projects for funding, that the Board’s role is to check for compliance with the law (Has the plan been approved by the local school board? Is the money available in the district’s account? Has the proper documentation been provided?), and not to “evaluate” the individual projects.
- That “politics” play no role in the process, and that common sense and fairness be the guiding principles. (Because the law was not specifically designed for school construction projects, the prescribed make-up of the Community Improvements Board does not include any school officials. The appointment of the Superintendent of the Summit County Educational Service Center or other county school superintendent would simply make sense.)
- That every public school district will carefully analyze their capital improvement needs, plan for the future, and keep any future requests for property tax increases to fund school construction to a minimum. **In fact, where possible, temporary reductions in property taxes should be considered.**

Summary:

In addressing its task, the Panel has attempted to be realistic in its assessment of the problem, and pragmatic in offering a solution. We have examined the evidence, explored possible alternatives, and solicited input. We have learned the following:

- All of the 17 Public School Districts in Summit County face the challenge of funding badly needed construction and capital improvement projects.
- Property owners feel overburdened and “tapped out” in terms of their ability to increase their property taxes to support our public schools. School levy failures have become commonplace. The Ohio Supreme Court, after years of litigation and consideration, determined that the State’s overreliance on real estate taxes to fund the public schools to be “unconstitutional.”
- In spite of the rhetoric, there is *nothing* to suggest that the State government will do *anything* to deal with the school funding crisis in the foreseeable future. As recently as May 29, 2002, the *Akron Beacon Journal* reported that “...money set aside for public school buildings has been diverted to help bail out the state’s general spending...”
- With no hope that the State government will offer and implement a viable solution for funding the necessary capital improvement projects for our public schools, we are left with only three alternatives: (a) ignore the need for the capital improvements; (b) ask property owners to pass new taxes whether they can afford them or not, or (c) be creative and courageous enough to provide a viable solution to the problem.
- Ohio law permits County Council to place before the voters an option to approve a one-half percent Sales Tax, and if approved, a structure to allocate the funds equitably to be used for public school improvements. Until the State stands up to its responsibility, this is deemed to be the best solution for the very serious problem.

Conclusion:

The need is now, and County Council should move deliberately and with vigilance to put this issue before voters in the November, 2002 election. The Panel recognizes that no other county in Ohio has enacted a sales tax to finance school improvements. Other states (e.g. Georgia and Florida) have enacted such sales taxes for school construction needs. The Panel views this moment in time as an opportunity for Summit County to once again exercise bold leadership, just as it did in enacting Ohio’s only charter government. By recognizing the need, and then finding a way to creatively address the problems facing all 17 Public School Districts in Summit County, it will once again demonstrate our determination, vision and courage.

Potential Funds Which Could Be Generated By The Proposed Sales Tax

If the proposed Sales Tax were to be approved by voters, the 17 Summit County Public School Districts would be entitled to the funds listed below under the following assumptions: (1) That a one-half percent (1/2%) sales tax would generate \$30 million/ year, and (2) That the ADM from October, 2001 is employed as the formula for student enrollment.

District	Fy 2002 ADM	% of Total	\$30,000,000 Revenue Distribution ¹
Akron	31,600	37.5%	\$11,240,120
Barberton	4,335	5.1%	\$ 1,541,960
Copley Fairlawn	3,140	3.7%	\$ 1,116,898
Coventry	1,800	2.1%	\$ 640,260
Cuy Falls	5,360	6.4%	\$ 1,906,552
Green	4,160	4.9%	\$ 1,479,712
Hudson	5,500	6.5%	\$ 1,956,350
Manchester	1,470	1.7%	\$ 522,879
Mogadore	750	0.9%	\$ 266,775
Nor. Hills	3,720	4.4%	\$ 1,323,204
Norton	2,400	2.8%	\$ 853,680
Revere	2,875	3.4%	\$ 1,022,638
Springfield	2,910	3.5%	\$ 1,035,087
Stow-Mon. Falls	5,970	7.1%	\$ 2,123,529
Tallmadge	2,785	3.3%	\$ 990,625
Twinsburg	3,770	4.5%	\$ 1,340,989
Woodridge	1,790	2.1%	\$ 636,703

¹ The \$30 million figure is based upon prior year collections, and rounded down as a conservative estimate. The actual figures for the last three years, and based upon data from the *Ohio Department of Taxation, Budget and Fiscal Division, February, 2002*, are as follows:

Year 1999:	\$30,544,906
Year 2000:	\$33,231,970
Year 2001:	\$32,216,548