



Bill Analysis

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Legislative Service Commission

Sub. S.B. 273

127th General Assembly

(As Reported by S. Finance and Financial Institutions)

Sens. Niehaus, Mumper, Buehrer, Amstutz, Padgett, Faber

BILL SUMMARY

- Requires the calculation of an alternate ranking of school districts for FY 2008, based on open enrollment net gain for the previous year, for purposes of determining school districts' eligibility for assistance under the Classroom Facilities Assistance Program (CFAP) and their local shares in FY 2009.
- Requires the recalculation of the local share of a current project under CFAP for certain districts that had a net gain in open enrollment when they became eligible for assistance under the program.
- Requires the calculation of an alternative ranking, based on a one-year adjusted valuation per pupil, for FY 2009 funding under CFAP and the Exceptional Needs School Facilities Assistance Program for certain districts with large one-year reductions in tax valuation.
- Specifies the local share of new CFAP projects for school districts that previously received assistance under CFAP or the Exceptional Needs Program within the prior 20-year period.
- Increases from 2% to 3% the percentage of classroom facilities appropriations in FY 2008 that may be used for assistance to joint vocational school districts.

CONTENT AND OPERATION

Background: school facilities assistance programs

The Ohio School Facilities Commission administers several programs that provide state assistance to school districts and community schools in the

acquisition of classroom facilities. The main program, the Classroom Facilities Assistance Program (CFAP),¹ is designed to provide each city, exempted village, and local school district with partial funding to address all of the district's classroom facilities needs. It is a graduated, cost-sharing program where a district's portion of the total cost of the project (its "local share") and priority for funding are based on the district's relative wealth. The poorest districts are served first and receive a greater amount of state assistance than wealthier districts will receive when it is their turn to be served.

A school district's priority for state assistance under CFAP is based on the district's three-year average "adjusted valuation per pupil," as calculated by the Department of Education. Under that calculation, the district's taxable "valuation per pupil" is modified by a factor of the income of the district's taxpayers. All districts annually are ranked from lowest to highest average adjusted valuation per pupil and placed in percentiles. A district's percentile ranking determines when the district will be served by CFAP. Also, for most districts, the portion of the basic project cost paid by the district is equal to its percentile ranking. For example, a district ranked in the 20th percentile would pay 20% of the cost of the project and the state would pay the remaining 80%. For some districts, the district portion of the project cost is calculated under an alternative formula based on the district's existing permanent improvement debt where relative wealth is also a factor. (See "*Local share of new projects for districts that previously received assistance*" below.)²

Other programs have been established to address the particular needs of certain types of districts. One of those programs is the Exceptional Needs School Facilities Assistance Program, which provides low-wealth districts and large land area districts with funding in advance of their district-wide CFAP projects to construct single buildings in order to address acute health and safety issues.³

Another program is the Vocational Facilities Assistance Program, which is similar to CFAP but provides assistance specifically for joint vocational school districts. Again, priority for assistance and a district's local share are based on the

¹ R.C. 3318.01 to 3318.20.

² R.C. 3318.032. This alternative formula most likely would apply to a district with a small project cost and a relatively small amount of existing debt, other than debt from a prior state-assisted school facilities project. No district must pay more than 95% of the cost of its state-assisted project.

³ R.C. 3318.37, not in the bill.

district's relative wealth. But unlike CFAP, a joint vocational district's valuation per pupil is not adjusted for the income of taxpayers in the district.⁴

Alternative ranking for FY 2009 funding based on open enrollment net gain

(Section 3)

Background: open enrollment net gain

Prior to Am. Sub. H.B. 119 of the 127th General Assembly, effective September 29, 2007, "valuation per pupil" for purposes of calculating a district's percentile rank was defined as the district's average taxable value divided by its formula ADM (average daily membership) for the previous fiscal year. H.B. 119 added students who are enrolled in a school district under an interdistrict open enrollment policy to the district's formula ADM for purposes of the calculating the district's "valuation per pupil," *if* the district's net gain in open enrollment students is at least 10% of its formula ADM. A district's net gain in open enrollment students is the difference between (1) the number of students who are enrolled in the district under the district's open enrollment policy but are entitled to attend school elsewhere and (2) the number of the district's native students who are enrolled in another district under that district's open enrollment policy.⁵ Therefore, a district that has a sizable proportion of students come from outside the district through open enrollment may count some of those students in its "valuation per pupil."

This change has the effect of lowering the district's "valuation per pupil" and potentially placing it in a lower percentile in the eligibility rankings. As a result, the district could qualify for CFAP assistance earlier than under the law as it existed prior to H.B. 119, *and* it could pay a smaller local share of the basic project cost. This policy change, however, was not effective in time to affect the percentile ranking certified on September 5, 2007 (FY 2008), which is used to determine facilities funding in FY 2009. Under current law, that change will not affect funding determinations until FY 2010.

⁴ R.C. 3318.40 to 3318.45, none in the bill. An income factor is not applied to joint vocational school districts mainly because they have significantly larger property valuations and more varied demographics than city, exempted village, or local school districts.

⁵ R.C. 3318.011, as amended by Am. Sub. H.B. 119 of the 127th General Assembly. Each school district must have a policy on interdistrict open enrollment under which it either (1) permits enrollment of students from adjacent districts only, (2) permits enrollment of students from all other districts, or (3) prohibits interdistrict open enrollment altogether (R.C. 3313.98, not in the bill).

The bill

The bill effectively accelerates by one year the policy of including open enrollment net gain in calculating a district's percentile ranking. Under the bill, the Department of Education must calculate and certify to the School Facilities Commission an alternative ranking to be used to determine school facilities funding for only FY 2009. The bill specifies that, when recalculating the alternative percentile rankings, the Department must use the same values for the other variables in the formula that it used in calculating the original ranking for FY 2008. (That is, updated values *cannot* be used for "average taxable value," "formula ADM," and "income factor.")

The School Facilities Commission is required by the bill to use the alternate ranking to determine the priority for CFAP assistance in FY 2009 for each school district that had not previously been offered funding under CFAP. The alternate ranking cannot affect any school district's eligibility for the Exceptional Needs Program, which continues to be based on actual need for a facility for health and safety reasons, compared with that of other districts.

For each school district that receives conditional approval of the district's project under CFAP or the Exceptional Needs Program in FY 2009, the district's portion of the basic project cost is to be the *lesser* of the following:

(1) The amount required if the formula is calculated using the percentile in which the district ranks on the alternate ranking; or

(2) The amount required if the formula is calculated using the percentile in which the district ranks on the original ranking for FY 2008.

Revised "look back" ranking based on open enrollment net gain for districts already receiving state assistance

(R.C. 3318.033)

In addition to accelerating the effect of H.B. 119's change for districts awaiting state assistance, the bill permits certain districts that already are receiving state funding under CFAP to have the state and district shares of their projects recalculated to reflect their open enrollment net gain. This "look back" provision applies only if all of the following conditions are met:

(1) The School Facilities Commission approved the district's project after July 1, 2006, and prior to September 29, 2007;

(2) The project was not complete by September 29, 2007;

(3) The district's voters approved financing for the district share of the project cost; and

(4) In the fiscal year prior to the fiscal year in which the district's project was approved, the district had an open enrollment net gain of at least 10% of its formula ADM.

Under the bill, the Department of Education must recalculate the percentile ranking of every school district for the affected fiscal years by including the open enrollment net gain in the "valuation per pupil," and report that new ranking to the Commission. In turn, the Commission must use the recalculated percentile of any district that meets all of the prescribed conditions to recalculate the district's share of its project cost and, accordingly, must revise the Commission's agreement with the district to reflect the recalculated state and district shares.

Alternative ranking for FY 2009 funding based on single-year adjusted valuation per pupil

(Section 4)

The bill requires the Department of Education to calculate and certify to the School Facilities Commission another alternative ranking to be used to determine project funding for FY 2009 based on a one-year adjusted valuation per pupil, instead of a three-year average. That alternative equity list is based on the district's taxable valuation in tax year 2006 (ended December 31, 2006), the district's formula ADM for FY 2007 (ended June 30, 2007), and the district's income factor for FY 2007. The Commission must compare the alternative ranking to the original ranking certified on September 5, 2007. For any district ranked at least 15 percentiles lower on the alternative list than its rank on the original list, the Commission must use the alternative ranking to determine the district's share and priority for funding under CFAP and the district's share under the Exceptional Needs Program. In other words, a district with a large reduction in tax valuation in tax year 2006 may have a reduction in facilities project cost under the bill.

As in the case of the alternative ranking for FY 2009 to reflect open enrollment (as described above), the one-year adjusted valuation per pupil ranking does not affect a district's *eligibility* under the Exceptional Needs Program, only its local share if it qualifies. The alternative list also does not affect any other district's priority for funding or share of its project cost.

Local share of new projects for districts that previously received assistance

(R.C. 3318.032)

Background

Current law specifies that a school district's share of a classroom facilities project is the *greater* of the following:

(1) The district's percentile ranking; or

(2) An amount that would raise the district's net bonded indebtedness to within \$5,000 of its "required level of indebtedness." The required level of indebtedness for districts in the first percentile is 5% of the district's valuation. For districts in subsequent percentiles, the required level of indebtedness is calculated under the following formula:

5% of the district's valuation + .0002 (the district's percentile ranking – 1).⁶

A district's net bonded indebtedness is the difference between the district's existing debt and the amount held in the sinking fund and other debt retirement funds of the district. The value of voter-approved bonds used to pay a portion of the district's share of a prior state-assisted facilities project is not included in calculating the district's existing debt.⁷

The bill

The bill specifies the district's share of a new CFAP project for districts that previously received assistance under CFAP or the Exceptional Needs Program within the 20-year period prior to the date on which the Controlling Board approves the new project. Under the bill, the district's share of a second project is the *lesser* of the following:

(1) The amount determined by the current formula described above; or

⁶ R.C. 3318.01(J), not in the bill. No district's share of a project, however, may exceed 95% of the basic project cost (R.C. 3318.032(C)). A district's valuation is the total value of all property in the district as assessed for tax purposes (R.C. 3318.01(P), not in the bill).

⁷ R.C. 3318.01(F), not in the bill. Notes issued for school buses, notes issued in anticipation of the collection of current revenues, bonds issued to pay final judgments, and debt arising from the acquisition of a site for a classroom facilities project also are not included in a district's net bonded indebtedness.

(2) The *greater* of (a) the district's percentile ranking at the time of the second project or (b) the district's percentage share of the first project.

As noted above, under current law, if a district participates in a second classroom facilities project, debt incurred from the first project will not count toward the district's existing debt. Consequently, it would take a larger amount of new debt to increase the district's net bonded indebtedness to within \$5,000 of its required level of indebtedness, which would increase the district's share of the second project under the net bonded indebtedness calculation, even though it has already incurred debt from its first project.

But the bill has the effect of lowering the district share of a second project for certain districts that would be subject to the net bonded indebtedness calculation under current law. It specifically benefits districts in which, under the existing formula, the district's share of the second project, as determined based on the district's net bonded indebtedness, is higher than both the district's percentile ranking at the time of the second project and the district's percentage share of its previous project. In that case, the bill removes net bonded indebtedness from the calculation and makes the district's share the higher of the district's percentile ranking or its previous share.

Temporary increase in set-aside for assistance to joint vocational school districts

(Section 5)

Under current law, the School Facilities Commission annually may set aside up to 2% of the aggregate amount appropriated for classroom facilities assistance projects to provide assistance to joint vocational school districts participating in the Vocational School Facilities Assistance Program. The bill permits the Commission to increase this set-aside to 3% of total appropriations in FY 2008 only.

HISTORY

ACTION	DATE
Introduced	01-15-08
Reported, S. Finance & Financial Institutions	03-06-08

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