

Logan-Hocking Local School District

Treasurer's Update

September 26, 2012

Reallocation of .875 mills of Inside Tax Millage

The following has been compiled to provide additional information to our public and to clarify information that has been circulated by other unrelated parties regarding this issue.

Background / History

On June 18, 2012, the Logan-Hocking Local Board of Education (Board) unanimously approved a recommendation by the Treasurer to reallocate .875 of “unvoted” inside tax millage from General Fund purposes to Permanent Improvement purposes. The Board’s action followed several months of open discussion and a twice advertised public hearing. This is not something new for school districts in Ohio – over 80 have done similarly; however, certain individuals within the community feel that the change has been misrepresented to the public. This update is intended to provide additional information to local citizens.

Q1) What is meant by “unvoted” inside tax mills? Don’t local taxpayers approve all local tax levies?

A1) Local tax levies are divided into two types – “unvoted” inside mills and “voted” outside mills. All political subdivisions including school districts benefit from unvoted and voted tax millage.

The idea of **unvoted inside millage** dates back to State of Ohio legislation in 1910 which created the Tax Commission of Ohio to supervise local property tax administration. The current provisions of the law allow each county up to ten total “unvoted” inside mills to be allocated to taxing authorities. It is a result of a 1934 amendment to the Ohio Constitution, Article XII, Section 2. The allocation to local school districts varies from county to county, ranging from as high as 6.5 mills to a low of 2.9 mills. Logan-Hocking Local School District (the School District) is allocated 3.9 mills of Hocking County’s total of ten “unvoted” inside mills. This “unvoted” inside millage is not new. It has been and continues to be paid by every real property owner in the county. The total has not changed.

Voted “outside” millage is just that – millage that is voted on by the public. It changes over time based upon a vote of the taxpayers. Local examples of voted “outside” millage are:

- The *operating tax levy* of 7.00 mills approved by Logan-Hocking’s taxpayers in November 1981 (the last one approved!)
- The *operating tax levies* totaling 19.70 mills that were approved by voters in 1971 and 1975.
- The *bond issue* approved in 1989 for the new Logan Middle School and elementary school additions.

- The *bond issue* approved in May 2001 for the new Logan High School, new elementaries and Middle School addition/renovations.

Q2) What are “permanent improvements”?

- A2)** “Permanent improvements” are generally defined as assets with a useful life of five years or more. This would include buildings, major facilities renovations, buses, textbooks, equipment, lease-purchase payments regarding permanent improvements, etc. Expenditures out of the permanent improvement fund are restricted. For example, no such funds can be used for administrative or teacher salaries.

The newly allocated permanent improvement funds are needed and will be used to:

- protect the taxpayers’ recent major investments in new buildings.
- maintain the current bus fleet of forty-five 72-passenger buses and four 54-passenger handicap-equipped buses. The State of Ohio ceased funding buses in 2010. Today’s buses cost in excess of \$80,000 each. Generally a seven year replacement cycle is followed. The School District plans on replacing five buses in FY 2013 and FY 2014 (this equals \$400,000/year!).
- replace textbooks as needed. Currently a five year review/replacement cycle is in place.
- to fund currently scheduled lease-purchase payments of approximately \$300,000/year which provided for the last dollars needed in the recently completed construction projects
- possibly fund the payment of salaries and benefits of existing personnel that are *dedicated solely* to maintaining the School District’s buildings, buses, computers. Currently these expenses are paid by the General Fund. By reducing General Fund expenditures, operating deficits forecasted for future years could be reduced.

Q3) Will this result in a “tax rate jump”? Did the School Board vote to “increase” the School District property tax rate?

- A3)** No and no. The total number of unvoted, inside tax mills *does not change*. As stated earlier, the School District is allocated a total of 3.9 unvoted, inside tax mills of the ten collected in Hocking County. The Ohio Revised Code (5705.04 and 5705.06) authorizes the Board (the taxing authority) to allocate these mills between current expenses, permanent improvements, *or* debt charges based on its current and forecasted needs. School boards are elected to represent the interests of the public they serve. They review the needs, wants and desires of the community and attempt to make the best decisions they can. The Hocking County Budget Commission (County Auditor, Treasurer and Prosecuting Attorney) relies on the School Board to perform its elected duty and reviews statutory compliance.

Further note that since tax year 2002, the total direct Logan-Hocking Local School District tax rate has decreased five times and is anticipated to go down a sixth time for the 2013 collection year. Believe it or not, the School District portion of property taxes in Hocking County has been going down!

Q4) Was this recommendation / concept discussed publicly prior to the School Board's action on June 18, 2012? Did the taxpayers have any input in the process?

A4) Yes. The District went above and beyond the requirements of the law to discuss this item and provide for public input. Related discussions occurred at the following public meetings:

- School District Tax Budget Hearing for Fiscal Year 2013 was held on **January 9, 2012** with the time and date of the hearing advertised in the Logan Daily News (LDN)
- Hocking County Budget Commission hearing was held at the Hocking County Courthouse on **February 27, 2012** regarding the School District Tax Budget.
- Special Meeting/Work Session of the School Board held on **April 23, 2012**. The publicized Special Meeting notice included this topic as a purpose of the Special Meeting. On **April 25, 2012** the LDN reported highlights of the meeting in the headlines and on the front page of the newspaper.
- Discussed again at **May 21, 2012** Regular School Board meeting.
- On **May 24, 2012** and **May 31, 2012** the required Legal Notices were published in the LDN. The county auditors of Hocking, Perry and Vinton were sent copies of the legal notice.
- A required public hearing to solely address the proposal was held by the School Board on **June 18, 2012** from 6:00 to 7:00 PM.

Q5) Was there very much discussion at the public hearing held on June 18, 2012?

A5) A very lengthy and detailed discussion took place amongst those in attendance. The permanent improvement needs of the School District were discussed. The School District's current five-year financial forecast was reviewed and considered. Highlights included past and continuous efforts of the Board and administration to control costs, including recently negotiated contracts with employee unions and the successful energy conservation program. The lack of forecasted revenue growth was also noted with major operating deficits forecasted for Fiscal Years 2013 through 2016.

Like its taxpayers, the School Board and administration aim to operate financially on at least a break-even basis each year. Expenditures should not exceed revenues. For seventeen consecutive years, and eighteen out of the last twenty years, the School District has done so. However, the forecasted years ahead reflect large operating deficits. The School Board does not desire to begin "dismantling" the School District's successful educational program. Various options to address the operating deficits have been researched.

The options of a new operating tax levy or income tax levy were discussed. It was agreed that given the current economic conditions, such levies should be avoided at this time.

It was generally agreed that the reallocation of unvoted inside millage to Permanent Improvement funds in the short term would provide a limited amount of relief to the General Fund. The School District currently has 2.40 unvoted, inside mills that are designated for General Fund purposes. Pros and cons of moving more or less of this millage to Permanent Improvements were discussed. Based upon the needs and facts presented, the Board decided on reallocating .875 mills and reserving the remaining balance for future consideration, if needed.

Q6) Could the School Board act again to reallocate unvoted, inside millage?

A6) Yes it could. It would be required again to follow the law – i.e. public notices, public hearing, public vote by members of the School Board, etc. Such action is not anticipated in the foreseeable future.

Q7) Could the reallocation of unvoted inside millage result in a tax increase?

A7) Yes! Absent any other changes, taxes would go up. The reallocation of inside millage involves converting General Fund millage to Permanent Improvement millage. In other words, the General Fund millage of the School District is reduced and millage to support permanent improvements is created. Since Logan-Hocking’s operating millage is currently assessed near the lowest possible rate allowed by current state law (20 mills even though 26.70 has been approved and authorized by School District voters over the course of history – for discussion another time), no real reduction in General Fund millage would occur. Therefore, since Permanent Improvement millage has been created and General Fund effective millage would stay at the 20 mill floor, there would be an increase in the millage assessed *absent any other changes*. Taxes would go up. However, if there are “other changes” taxes may not go up. In fact, taxes could go down.

Q8) Bottom Line - Will Logan-Hocking Local School District taxpayers see an increase in taxes they pay in calendar year 2013 for school purposes?

A8) NO! School property taxes paid in 2013 will be less than paid in 2012 (assuming no change in taxable values from year to year). “Absent any other changes” was the key phrase in Answer 7. There are two other important changes that will be taking place in 2013 that will result in taxes going down.

The debt service (“mortgage”) related to the 1989 voter approved bond issue for the new Middle School, etc. will be paid off in December 2012. As a result, **the millage of 1.10 mills collected in 2012 will no longer be required in 2013!** This millage will go away forever. (Note that in 1989 taxpayers originally approved paying 5.70 mills relating to this bond issue (around \$175/year on a \$100,000 piece of property). With the debt going away soon, in 2012 local taxpayers were assessed 1.10 mills relating to this debt (around \$34/year on a \$100,000 piece of property). Clearly and for a fact, related taxes will be going down.)

Also, the debt service (“mortgage payments”) relating to the 2001 voter approved bond issue will be going down in 2013. This is due to a refinancing of the debt that the School Board performed in recent years along with changes in tax valuations. **I estimate this millage reduction to be .60 mills in calendar 2013.** The Hocking County Budget Commission will review information relating to this in December 2012 and make the final determination regarding the millage to be assessed in 2013. (Note that in 2002 taxpayers paid 4.60 mills relating to this bond issue (around \$141/year on a \$100,000 piece of property). In 2012, 3.90 mills were assessed and collected regarding this debt. In 2013, I estimate that local taxpayers will be assessed 3.30 mills relating to this debt service (around \$102/year on a \$100,000 piece of property)). Related taxes will be going down, with the actual amount to be determined later this year.

Q9) If a taxpayer has a home (residential property) that has a \$100,000 value for local tax purposes, how much should I expect all of this to impact my tax bill in 2013?

A9) I would expect the School District related property taxes to go **DOWN** around \$25 for the year (a \$52 dollar **decrease**, offset by a \$27 **increase**, as follows).

- Bond issue related millage will go down a total of 1.70 mills (1.10 from the expiring 1989 bond plus .60 from refinancing 2001 debt). The impact of this is a **decrease** of \$52.
- The worst case impact of the .875 mill reallocation of inside millage from General Fund to Permanent Improvement funds would be an **increase** of around \$27. (Because the School District is not quite at the “20 mill floor”, the actual increase will probably be less.)

Q10) Who ultimately computes the School District tax rates that taxpayers will be assessed for calendar 2013? Is it a “...faceless, unknown person at the Ohio Department of Education...” who “...subjectively...” determines the tax rates?

A10) The Hocking County Auditor will submit information regarding all local taxing authorities to the Ohio Department of Taxation (ODOT). ODOT’s Tax Equalization Division will compute the effective rates mathematically based on the inputs provided. They will then communicate the rates to the Hocking County Auditor / Hocking County Budget Commission. Tax rates are not “subjectively” determined.

Q11) Is it true that “taxes always go up” as stated in the Logan Daily News recently by a contributor who is upset with the School Board’s action?

A11) This is not true. In fact, an examination of that contributor’s recent real estate tax bills indicate that she has seen decreases in real estate taxes the past two years. Bills prior to that were not readily available for review. Note that while total taxes may go up, the School District’s portion (or any other taxing authorities share) may go down at the same time. Taxpayers are encouraged to review the history of School District taxes paid by them individually. As School District Treasurer, I am very interested, willing and able to review tax bills with interested parties.

Every property owner has access to the breakdown of property taxes they pay to each of the political subdivisions within their area of the county. Visit the Hocking County Auditor’s website at www.realestate.co.hocking.oh.us for further information.

Conclusion

The Logan-Hocking Local Board of Education and administration have consistently offered outstanding representation in managing the finances of our School District. We respect our taxpayers and work to use their resources entrusted to us in their best interest. In fact, there are many, many examples of ways this School District has recently worked to minimize the taxes it assesses residents. They are examples of integrity, doing what is right when no one is watching. A few examples:

- Pursued Ohio School Facilities Commission funding for the construction of the School District’s new schools. This minimized the contribution from local taxpayers to just 29% (\$18.7 million) out of an overall \$63.6 million facility project which brought in \$44.9 million from the State.
- Refinancing outstanding bond issues in 2005 and 2006, saving local taxpayers nearly \$1.2 million dollars over the life of the related debt service.
- Obtained an upgraded credit rating in 2005 which resulted in reduced interest expense on School District bonds – only three other School Districts in the Ohio Appalachian and Fairfield County have such a high rating – saving taxpayers’ dollars.
- Facing shared difficult economic times together, working cooperatively with our teachers’ union to negotiate a new contract where no pay raises will be given for the next two school years – no step increases, no base pay increases.
- Similarly, administration and central office staff will receive no pay increases for two years.
- The School District’s reliance on local property taxes has decreased from 39% (FY 1993) of operations to 32% (FY 2012).

For more information or if you have additional questions, please contact Logan-Hocking Local School District Treasurer Paul F. Shaw at pshaw@lhsd.k12.oh.us or (740) 385-8510 extension 2725.