

## GLOSSARY OF SCHOOL FINANCE TERMS

Any study of school finance can be confusing because of the enormous number of technical terms used in describing the process. The following is a glossary of the terms most often used. While the vast majority of them have been used in this book, it has not been necessary to use all of them because it is not a practitioner's book. Those that have not been discussed have been included because of their prevalence in the school finance discussion.

### **Assessed value**

The percentage of valuation that is subject to taxation. For example, Class I and Class II property are assessed at 35%, most business tangible property at 12.5% (but will be phased out by 2009), and public utility tangible property at either 25% or 88%, depending on the type of utility.

### **Average daily attendance (ADA)**

Student membership calculation based on a district's average attendance, as opposed to the number of students enrolled.

### **Average daily membership (ADM)**

Number of students enrolled in a school district who are either in attendance or have an excused absence as counted in the first full week of October and the first full week of February, as verified by the superintendent of public instruction. The "final ADM" for a fiscal year equals one-half of the verified October count plus one-half of the average of the verified October and February counts.

### **Base-formula amount**

Dollar figure calculated by using a "building blocks" approach to funding. The amount assigned by the General Assembly represents what the state believes is the cost to adequately educate one child with no special needs for one year (also known as the "per-pupil allotment," "base-cost amount" or "state aid figure"). The base-formula amount is \$5,565 in FY '08 and \$5,732 in FY '09.

### **Base-cost supplements**

Additional funding for school districts that includes academic intervention for students, professional development for teachers, data-based decision-making (technology) and professional development for data-based decision-making (also known as "building-block supplements" or "building-block amounts"). The total base-cost supplement amount is \$49.43 per pupil in FY '08 and \$50.90 per pupil in FY '09.

### **Biennium**

Any two-year period, used mostly in school funding to refer to the two fiscal years that make up each state budget.

### **Bond levy**

Property tax levies used to provide the local revenue for construction purposes. Proceeds from the levy are used to pay the principal and interest on construction bonds. Offered for a specified dollar amount and a specified period of time.

### **Building blocks**

Inputs-based approach to school funding that considers base costs (teachers, other personnel and non-personnel) and base-cost supplements (intervention, professional development, data-based decision-making and professional development for data-based decision-making).

### **Categorical expenditures**

Categorical expenditures refer to expenditures required by school districts beyond the base-formula amount. Examples of categorical expenditures include special education, vocational education, gifted education, PBA and transportation.

### **Chargeoff**

Millage rate established by the General Assembly that, when multiplied times a district's recognized valuation, provides the local contribution to the foundation formula. It is currently set at 23 mills. The term is sometimes used interchangeably to describe both the millage set by the legislature and the entire local contribution.

### **Chargeoff phantom revenue**

Term used to describe failure of the state foundation formula to recognize that some districts have effective millage rates below the 23-mill chargeoff, leading to less local funding than is assumed in the formula.

### **Chargeoff supplement**

A reimbursement formerly used to alleviate the chargeoff phantom revenue phenomenon that occurs when a district has

less effective millage than the state uses as its chargeoff millage. It applied to districts with less than 23 effective mills. The chargeoff supplement was replaced with a slightly expanded form of chargeoff assistance called gap aid.

**Commercial activity tax (CAT)**

An annual business privilege tax measured by the gross receipts of businesses. Most companies doing business in Ohio will be subject to CAT, a broad-based, low-rate tax measured by gross receipts. When fully phased in after five years, CAT will be levied at a rate of 0.26% on gross receipts in excess of \$1 million.

**Continuing levy**

Levy proposing a millage rate or school district income tax that is assessed indefinitely, unless voters revoke the tax or the school board instructs the county auditor not to assess it.

**Cost-of-doing-business factor (CDBF)**

Multiplier determined by the state that increases the formula for districts that are in an area with a high cost of living. The application of the cost of doing business factor to the formula amount was eliminated as part of the base-cost formula.

**County financing district levy**

Limited or continuing levy proposed by a county ESC for support of a specific program (such as special education) or purpose. If approved, the tax is levied on all participating districts in the county. May be packaged with a millage reduction for residents of the participating districts.

**DeRolph I**

March 24, 1997, Ohio Supreme Court decision in which the court ruled, by a 4-3 vote, that Ohio's school funding system was unconstitutional. The court allowed the state one-year to craft a new funding system.

**DeRolph II**

May 11, 2000, Ohio Supreme Court decision in which the court ruled, again by a 4-3 vote, that the new funding system created by the General Assembly in response to the DeRolph I ruling was still unconstitutional. The state was given until June 15, 2001, to overhaul the funding system.

**DeRolph III**

Sept. 6, 2001, Ohio Supreme Court decision in which the court ruled, again by a 4-3 margin, though with a different group of justices comprising the majority, that the funding system incorporated in HB 94 would be constitutional pending a series of changes specified by the court. The state requested reconsideration of the decision.

**DeRolph IV**

On Dec. 11, 2002, the Ohio Supreme Court, in a 4-3 ruling, found Ohio's school funding system once again unconstitutional and restated its decisions in DeRolph I and II, which required the state legislature to fix the school funding system. The court also relinquished jurisdiction over the case and essentially ended the suit.

**Dual-purpose levy**

Single ballot issue for both a permanent improvement levy or a bond issue combined with an operating levy. It may be continuing or limited. The ballot issue must state how much of the tax levy will be used for each purpose. A permanent improvement operating levy may be either a property tax or a school district income tax, but a bond/operating levy must be a property tax.

**Effective mills**

The actual rate of taxation realized when the tax reduction factor reduces the taxes charged by a voted levy. It equals the taxes charged divided by the taxable value of the class of property against which they apply.

**Emergency levy**

Limited levy proposed up to five years for a specific dollar amount. The millage rate required to produce the dollar amount changes on all types of property if property values change. Emergency levies may be renewed for the dollar amount originally requested.

**Equity funds**

Supplemental state payments to low-wealth districts that attempt to equalize disparities in per-pupil spending between districts. Equity funds were phased out in FY '05.

**Excess-cost aid**

Aid that school districts receive when the local share of the model formula of special education, vocational education and transportation exceeds the allowable total of 3.3 mills multiplied by the district's valuation. Qualified school districts receive excess cost aid regardless of the amount of local taxes levied by the district.

**Exempt property**

Real property not subject to taxation. Typically, exempt property is owned by federal, state or local branches of government, and religious or educational institutions.

**First half-mill equalization program**

The first half-mill loss on bond and emergency levies is not replaced by the state. Levy law states that when a drop in valuation occurs, this causes an increase in the tax rate for a fixed-sum levy. The half-mill threshold limits the increase in the total tax rate for the sum of all qualifying fixed-sum levies for a taxing authority to 0.5 mills.

**Fiscal year (FY)**

Annual period used for government accounting purposes. Begins July 1 and ends June 30 of the next year. Named for the calendar year in which it ends. For example, FY '08 begins July 1, 2007, and ends June 30, 2008.

**Floor**

Rate below which voted mills would not be reduced under the property tax reduction factor. Established by the General Assembly. Currently set at 20 mills.

**Formula ADM (average daily membership)**

Adjustment to ADM used in school foundation formula representing students in first through 12th grades (including special education students), one-half of the students in kindergarten and one-fifth of the students in the district attending a JVSD.

**Foundation formula**

Method of funding schools through a combination of state and local aid. Based on the ability of school districts to raise tax revenues as well as the state-determined minimum amount necessary per student to provide an adequate education.

**Gap aid**

A form of state aid in which the state pays a school district whose local tax revenues do not equal the district's share of formula costs. Gap aid pays: (A) for a portion of the local share of the basic foundation amount equal to the difference between 23 mills multiplied by the district's tax base minus the district's actual local tax revenues; (B) for a portion of the first 3.3 mills of the local share of special education, vocational education and transportation costs to the extent that the district does not raise local taxes to pay for those costs. Generally, school districts whose average effective tax rate equals at least 23 mills receive no aid under part A; school districts whose effective tax rate equals at least 26.3 mills receive no aid under parts A and B.

**Guarantee**

Alternative calculation of state funding that insulates school districts from the effects of dramatic changes in school funding factors, such as property valuation or ADM. Guarantees are also often politically necessary when changes in state policy have disproportionate effects on different types of school districts.

**Homestead property**

Property where the owner occupies the property as a residence. Such property qualifies for the additional 2.5% rollback. This term should not be confused with the homestead exemption that provides specific property tax relief for elderly (65 and older) or disabled homeowners.

**Incremental property tax levy**

Limited levy, with a maximum time of 10 years, that imposes additional millage, or a dollar amount or percentage increase, on a regular schedule throughout the life of the levy. Increments are imposed as the full voted millage, not as effective millage, giving a limited amount of growth in the levy. Up to five changes may be proposed during the life of the levy.

**Inputs approach to adequacy**

An approach to determining the base-formula amount based on a method which computes the base-cost of an adequate education by virtue of identifying and pricing the inputs necessary to deliver an adequate education.

**Inside mills**

Millage imposed by local governments without voter approval. Defined in the Ohio Constitution. Inside mills are not subject to the property tax reduction factor. Sometimes referred to as "unvoted mills."

**Limited levy**

Levy proposing a millage rate or school district income tax that is assessed for a specified period of time. A limited levy is eligible for renewal or replacement.

**Millage**

Factor applied to the assessed, aka, taxable, valuation of real and personal tangible property to produce tax revenue. A mill is defined as one-tenth of a percent or one-tenth of a cent (0.1¢) in cash terms.

**Municipal corporation and school district shared income tax**

A combined levy for municipal corporations to levy income taxes to be shared with an overlapping school district. Current law prohibits municipal corporations from levying the tax on the incomes of nonresident individuals.

**Operating levy**

Levy used primarily for district operating purposes. Can be either continuing or limited.

**Outcomes approach to adequacy**

An approach to determining the base-formula amount based on a method that first defines a group of "successful" school districts according to a series of outcome measures. The base-cost of an adequate education is then computed by averaging the base expenditures of the successful districts.

**Outside mills**

Millage approved by voters. Outside mills are subject to the property tax reduction factor. Sometimes referred to as "voted mills."

**Parity aid**

Districts qualify for parity aid if they fall below the 80th percentile benchmark of all districts according to wealth. The amount of parity aid paid per pupil depends on the difference between each district's per-pupil wealth and the per-pupil wealth of the benchmark district multiplied by 8 mills in FY '08 and 8.5 mills in FY '09. In FY '08 parity aid is calculated only for school districts below the 67th percentile and in FY '09 only districts below the 60th percentile. Unlike power equalization, parity aid does not require a matching contribution from the school district.

**Permanent improvement levy**

Limited or continuing levy used for maintenance and repair of school property, and, in some limited circumstances, for renovation and building projects. Can be a property tax or an income tax.

**Poverty-based assistance (PBA)**

(Formerly known as disadvantaged pupil impact aid) Calculation to provide additional funds for districts that have a high percentage of economically disadvantaged students. PBA funds are targeted for all-day kindergarten, increased learning opportunities, intervention, professional development, limited English proficient services, dropout prevention, community outreach and achievement gap supplement.

**Property tax reduction factor**

Sometimes referred to as the HB 920 effect. An adjustment by which the taxes charged by voted mills on Class I and Class II real property are reduced to yield the same amount as those same mills yielded in the preceding year, exclusive of new construction. The reduction factor does not apply to inside mills or to voted mills charged against general and public utility personal property.

**Property tax rollback**

A percentage reduction in the taxes charged against Class I (residential and agricultural) real property. The percentage equals 10% for such property and an additional 2.5% for owner-occupied residential property. The state reimburses schools and other local governments for the full amount of the rollback. The rollback applies after the reduction in taxes charged against real property as determined by the tax reduction factor. The 10% rollback for class II commercial and industrial real property has been eliminated.

**Public utility property**

Tangible personal property used in the operations of a public utility company.

**Qualifier**

Minimum amount of millage required by state law for participation in the state foundation program. Currently set at 20 mills.

**Real property**

Land and improvements to land such as structures or buildings. In Ohio, real property is divided into two classes: Class I (residential and agricultural property) and Class II (commercial, industrial and all other real property).

**Reappraisal**

Appraisal by the county auditor of the value of real property for tax purposes. It occurs every sixth year. Three years after

each reappraisal, the county auditor adjusts appraised values based on recent sales of property in that county. This adjustment is referred to as the triennial update.

#### **Reappraisal guarantee**

A guarantee that safeguards districts from decreases in total state aid due to an increase in local valuations that result from an update or reappraisal.

#### **Reappraisal phantom revenue**

Term used to describe the interaction between the state foundation formula and the tax reduction factor. The state formula works as though each increase in a school district's real property value results in more local revenue and reduces the district's state aid accordingly. The property tax reduction factor prevents most growth in valuation from yielding additional revenue. Thus, the "phantom" revenue refers to the money that the state formula credits as local revenue, but that the tax reduction factor ensures the district will never collect in taxes.

#### **Recognized valuation**

Computation used to alleviate the reappraisal phantom revenue effects in the state foundation formula of an increase in a district's valuation due to an update or reappraisal. The recognized valuation adjustment adds, for foundation formula purposes only, one-third of a reappraisal increase to the district's valuation in the first year, two-thirds in the second year and the full increase in the third year.

#### **Renewal levy**

Voter approval to extend the term of a limited levy when it expires. The renewal levy must state the same purpose as the original levy. The effective rate of the renewal begins from the point where the original levy ends. A renewal levy proposal can combine with a proposal to raise additional millage.

#### **Replacement levy**

Like a renewal levy in that it seeks voter approval to extend the term of a limited levy when it expires. Replacement levies differ from renewal levies because the replacement begins with an effective rate equal to the original effective rate of the levy, which it replaces. In this way, a replacement levy allows a district to obtain the benefit of growth in the real property tax since the approval of the replaced levy.

Replacement levies cannot be used for an emergency levy and cannot be combined with other changes in millage in a single proposed levy.

#### **Residual budgeting**

Term used to describe the practice implicitly used by the General Assembly in the determination of the per-pupil base-formula amount prior to the DeRolph I ruling. This method involved the legislature first choosing a total dollar amount that would be allocated toward foundation aid, and then working backward through the formula to arrive at the per-pupil formula amount. This approach is in contrast to other methods that base the formula amount on measures of the cost per pupil of an adequate education.

#### **School district income tax (SDIT)**

Limited or continuing levy proposed as a percentage rate on the income of district residents as reported for state income tax purposes. SDIT can be proposed in combination with a reduction in property tax. Because the SDIT taxes income, not property, there is no reduction factor involved, allowing unlimited growth in the proceeds. School district income taxes apply only to personal income and do not apply to the net profits of corporations. School districts also have the option to levy an income tax just on "earned income" which exempts certain incomes such as pensions and retirement benefits. Therefore, two different types of SDIT levies exist for school districts.

#### **School district purpose**

Legally defined reason for seeking a levy. Currently includes: operating expenses; specific permanent improvements and/or class of improvements; general, ongoing improvements; recreational purposes; community centers; support for public libraries or community centers; and the purchase of educational technology.

#### **Tangible personal property**

Machinery, equipment and inventory used by business in the manufacture and/or sale of their products that is subject to taxation under a property tax. This class of property is also referred to as business tangible property. This tax will completely be phased out by 2009.

#### **Transitional aid**

Funding that ensures school districts do not experience a dramatic loss in state aid from FY '07 to FY '08 and from FY '08 to FY '09. Guarantees that a school district will receive the previous year's SF-3 payment.

**Unit funding**

Method of funding programs for gifted and talented students, and preschool special education. Units must be in accordance with established guidelines and approved by the state. Funding is based on the state minimum salary schedule enacted by the legislature, a fringe benefit reimbursement of 1.15% times the state salary schedule and a supplemental unit allowance of a fixed amount per pupil.

**Valuation of a school district**

Taxable value of all Class I and Class II real property, general tangible personal property and public utility personal property in a district.

**Valuation per pupil**

Computation derived by dividing a district's ADM into the district's assessed valuation.

**Weighted funding**

Method of funding certain categorical programs. Under this approach, pupils with special needs count as some additional multiple of one in the computation of the cost of an adequate education. The weight assigned to each pupil with a special need corresponds to an estimate of the additional cost associated with providing pupils with that special need an adequate education. Starting in FY '99, Ohio eliminated unit funding in favor of weighted funding for special education and vocational students.

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