



**2006-2007
General
Operating
Budget**

Overview

Revenues

Under Ohio's current method of funding public schools, revenues do not automatically grow with inflation, yet state and federal mandates continue to escalate. Cincinnati Public Schools (CPS) is required to pay for increasing costs of state mandates and inflation with dollars that remain constant. In November 2000, District voters passed a new 6-mill operating levy targeting 2 mills (\$12 million) for K-3 class-size reduction, 1 mill (\$6 million) for neighborhood schools equity, 1 mill (\$6 million) for facilities maintenance and 2 mills (\$12 million) for budget restoration and inflation. This levy was projected to last four years through FY 2004. This budget extends that levy through FY 2007.

Negatively impacting Cincinnati Public Schools' revenues have been several provisions of the State of Ohio's last three biennium budget bills. As shown on the chart on page 22, State Foundation Revenues (both unrestricted and restricted aid) comprise 36% of the District's general operating budget. The State's 2002-03 biennium budget bill rolled back the "Cost-of-Doing-Business" (CODB) factor (an inflation adjustment to the school funding formula for high cost counties in the State) from the final phased-in amount of 18% beginning in FY 2004 to 7.5%, which was then capped. H.B. 66, the State's 2006-07 Biennium Budget Bill, reduced the CODB factor even further – to 5.0% in FY 2006 and then 2.5% in FY 2007. Since CPS was scheduled to be at the maximum 18% factor in FY 2004, these budget actions by the Legislature cost the District \$120 million over the past five fiscal years.

Legislative actions taken in the State's 2004-05 Budget further exacerbated the District's State foundation funding. The elimination of the practice of substituting a school district's 3-year average formula ADM in the base cost formula, in place of its current-year formula ADM, if the 3-year average is greater than the current year number; the phasing out of the State's reimbursement for the \$10,000 business property tax exemption; accelerating the phase out on the personal property tax on inventory; and expanding Parity Aid funding to Charter schools cost the District over \$15 million during that biennium period.

H.B. 66, the State's FY 2006-07 biennium budget, contains significant changes to both the school funding formula and local property tax collections. As mentioned above, the 7.5% CODB Factor will be further reduced over the biennium budget period with the funds redirected for school districts with high concentrations of poverty. The former Disadvantaged Pupil Impact Aid (DPIA) subsidy has been renamed "Poverty-



2006-2007 General Operating Budget

Overview (cont.)

Based Assistance” (PBA) and expanded to include additional funding for (1) services to limited-English proficient students, (2) teacher professional development, (3) dropout prevention in the Big Eight districts, and (4) community outreach programs in the Urban-21 districts. Other changes include a second ADM count added for FY07 to take place the third week of February. The final ADM for the year would be the average of the two counts. Special Education weights remain funded at 90%; transportation funding is increased 2% each year. Three guarantees now are included in law: The lower of the basic aid formula guarantee or the per pupil guarantee from the prior year, and a transitional aid guarantee, which basically assures that all districts received at least the amount of total state basic aid that they received the year before.

■ FY07 Revenue Projections

Poverty Based Assistance funding is included in District’s FY07 revenue projection on page 12 for State Foundation – Restricted Aid and shows an increase of \$6,297,044 from FY06. This increase will be more than offset by the projected decrease to State Foundation - Unrestricted Aid in the amount of \$6,635,849 for FY 2007. The decrease in Unrestricted Aid for FY07 is due to a \$2.4 million transitional aid guarantee reduction made by the Ohio Department of Education (ODE) for alleged Charter School ADM discrepancies in FY05, and a one-time valuation adjustment payment made in FY06 that will recur in FY07. The District has filed a lawsuit challenging the arbitrary and unreasonable reduction of the \$2.4 million and will be vigorously fighting to have it restored. If the District prevails, this will add an additional \$4.8 million in revenue to Unrestricted Grants-In-Aid for FY 2007 (\$2.4 million each year for both FY06 and FY07).

H.B. 66 eliminated all Tangible Personal Property (TPP) Taxes on business equipment, machinery, inventory and fixtures over the next 4 years beginning with tax year 2006. Replacement payments will be made to school districts for 5 years, some through the foundation formula and some by direct payments from the state. After that, the direct payments from the state will phase down to zero over the next 8 years. School districts will receive no state reimbursement for the elimination of inventory taxes as this provision was in effect prior to this bill. Tangible personal property owned or used by public utilities is not affected by the phase-out and eventual tax exemption. The burden for making up these lost local business tax revenues will be shifted to the residential tax payer.

Since these tax reform measures are effective for the tax year beginning 2006, except for new machinery and equipment installed in 2005, the District will begin to see the fiscal impact from these changes during FY07 as tangible personal property taxes generated during the next fiscal year



**2006-2007
General
Operating
Budget**

• **Overview (cont.)**
•
•
•
•
•
•
•
•
•

• will be based on tax year 2006. Inventory tax revenues will continue to decrease from their already established phase-out timetable (23% in 2006, 21% in 2007, 19% in 2008 and 17% in 2009 (pre H.B. 66 assessment percentages). For FY 2007, the \$42,955,430 in projected tangible personal property tax revenues represents a 25% reduction in the 2006 tangible personal property tax duplicate. Tangible personal property taxes from business machinery, equipment, fixtures and inventory constitute \$35 million of the \$52 million the District received in tax revenues from these sources in FY 2006, the balance generated from public utility personal property.

• Calendar (Tax) Year 2005 was the Six-Year Property Reappraisal Year that saw a growth in Real Estate Tax Revenues from the District's 4.19 inside millage at \$1.9 million for FY06 due to a 15% increase in real estate valuation overall (20% residential and 5% commercial). An additional \$1.6 million from the reappraisal (inside millage) is projected for FY07. The \$3.8 million additional increase in Real Estate Taxes for FY07 is due to the elimination of the 10% rollback for commercial property taxpayers (as a result of H.B. 66). In past years, these monies were reimbursed by the State to the District and recorded as Property Tax Allocations; thus, these are not new net revenues but are a reclassification of where the funds are recorded.

• Property Tax Allocations include reimbursements from the State for the 10% rollback (now only for residential taxpayers), 2.5% homestead exemption, electric/natural gas deregulation reductions, the \$10,000 personal property tax exemption and the tangible personal property tax reimbursements made as a result of the elimination of the tangible personal property tax, which are projected at \$2,453,209 for FY06, \$12,343,453 for FY07, \$14,697,072 for FY08, \$17,577,675 for FY09 and \$21,237,608 for FY10. These reimbursements will not fully replace the lost tangible personal property tax revenues because the State will not reimburse the District for the already partially reduced inventory tax.

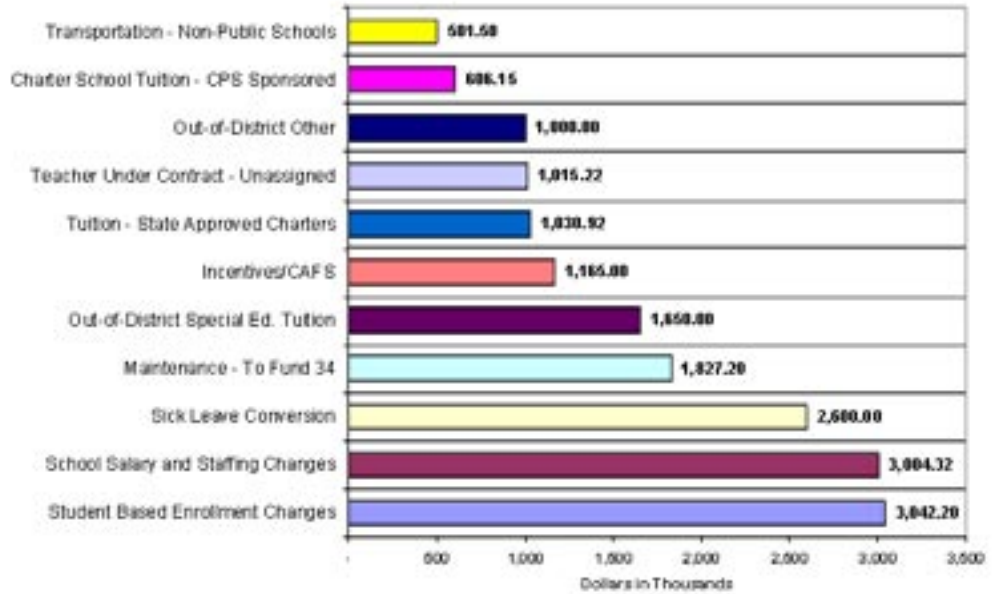
• These revenue amounts will increase proportionately with projected General Property Tax (Real Estate) tax increases. The \$10,000 personal property tax exemption is being phased out over 10 years, with a loss of \$230,000 each year for both FY06 and FY07. The \$2,450,000 direct payments for the electric/natural gas deregulation ends in FY07, with just one half of the subsidy being received. As noted above, H.B. 66 eliminated the State reimbursement for the 10% rollback for commercial property owners with payment made directly by the taxpayers. For FY 07 this amounts to a shifting of \$3.8 million in tax revenues from Property Tax Allocations to General Real Estate Taxes.

• The Other Revenues of the District for FY07 include interest income from investment earnings, federal Medicaid reimbursements, payments made in lieu of property taxes from the City of Cincinnati for TIF District payments

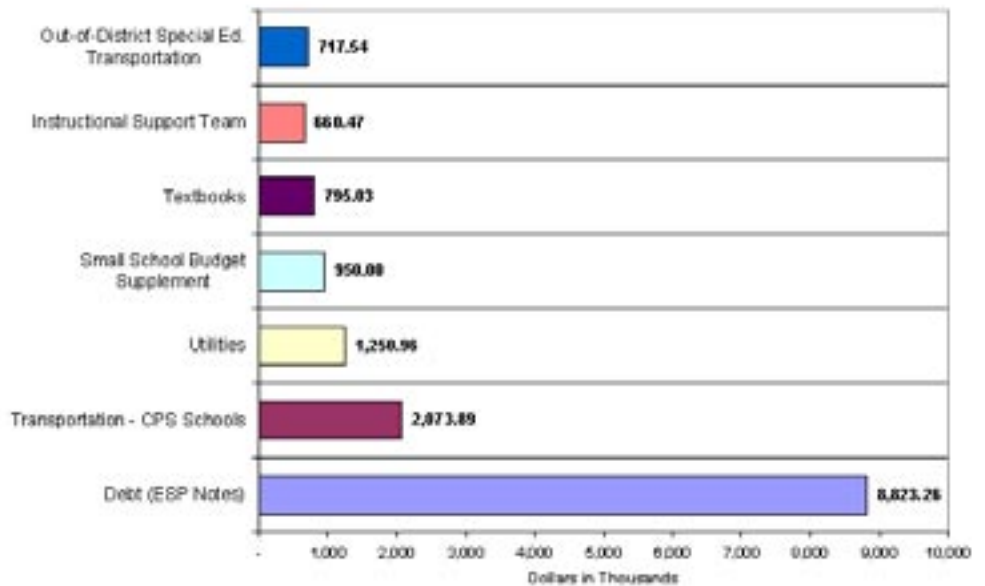


**2006-2007
General
Operating
Budget**

Budget Category Reductions



Budget Category Increases





**2006-2007
General
Operating
Budget**



Student-Based Budgeting

Each school submitted a local budget for the 2006-07 school year, developed and recommended by a school leadership team consisting of the principal, teachers, other staff members and parents. Each school's Local School Decision Making Committee (LSDMC) approved its school's budget.

Every student in a major funding category is supported at the same level regardless of the school the student chooses to attend, a design that supports funding equity among schools. Student-based budgeting allows for adjustments in overall expenditures as enrollment declines or increases due to a changing city population or competition from charter and non-public schools.

The central focus of Cincinnati Public Schools is concentrating organizational energies on significantly improving academic achievement by putting the majority of resources at the school level and strengthening support to schools for quality instruction and leadership. The FY07 budget expends 71.03% of general funds on schools and school support, 4.83% on central administration, and the remaining 24.14% on charter and out-of-district tuition, debt service, fixed costs and maintenance.