

Facts & Figures

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Fiscal Year 2008 Final Budget Performance Review

On July 15, the Ohio Office of Budget and Management (OBM) issued its monthly financial report for June. This report completes the presentation of data for the state's fiscal year (FY) 2008.

To start with the good news, the State tax system showed a positive return in June relative to official tax revenue projections.

However, for the entire FY08, State tax revenues fell \$238 million (1.2%) short of the official estimates prepared by OBM and the Department of Taxation.

The table on page 2 shows the actual receipts and the official estimate for each tax type. Official estimates here reflect the numbers used when the budget was enacted in June 2007. They do not include an adjustment for the

revised projections issued by OBM in January 2008. The final column computes the difference between the actual results and the projected performance. For example, state officials estimated that the income tax would raise \$9,147 million, but actual receipts equaled \$9,115 million. The difference of \$32 million is computed in the last column. (All amounts are

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Budget Corrections Bill Adds 'True-up' Calculation to TPP Tax Replacement;

Districts Must Exercise Caution in Future Years

House Bill (HB) 562 contained two provisions related to the calculation of the hold-harmless reimbursement payments for the tangible personal property (TPP) tax. One provision affected just a few districts, but clarifies the interaction of the loss of TPP tax with the public utility reimbursements

that were being made pursuant to the original electric deregulation bill in the late 1990s.

The second – and more confusing – provision requires the recalculation after the end of each fiscal year of the TPP tax reimbursements (offset and direct payments) through

fiscal year (FY) 2017, when those payments to school districts are set to expire. This recalculation process became necessary after it was discovered that the law, as originally written, did not allow for fluctuations throughout the fiscal year in factors that determine

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rounded to the nearest million, and small discrepancies in totals can result.)

As noted in previous ETPI newsletters, the corporate franchise tax currently is in the middle of phasing out pursuant to business tax restructuring legislation. No future growth will occur there. A final 4.2% reduction in income tax rates will prevent much growth from occurring in that tax in FY09. However, some encouraging news results from the fact that income tax receipts came within

0.35% of estimates. The \$41 million shortfall in the auto sales tax is not surprising as higher gasoline costs have affected sales

While the new Commercial Activity Tax (CAT) does not appear on the table because it is not a GRF tax, its performance holds great interest for schools.

of larger and higher price vehicles.

While the new Commercial Activity Tax (CAT) does not appear on the table because it is not a GRF tax, its performance holds great interest for schools.

The CAT registered about \$31 million less than projected in FY08, a 3.1% shortfall.

Overall, Table 1 appears to reflect Ohio's current economic struggles. Only the Kilowatt Hour Tax, Foreign Insurance Company Tax, and some miscellaneous minor business taxes made the targets estimated for them. Not only did the final results for FY08 fail to reach the original targets shown on the table, but they also failed on a cumulative basis to meet the estimates designated by OBM as a "low growth scenario."

Table 2 summarizes where the actual performance of the State tax system fits within the different economic scenarios presented either when the State budget was enacted or in subsequent revisions by OBM.

Actual performance was closer to the zero growth scenario than it was to the low growth scenario. As used here, "growth" refers to growth in the State's economy rather than to changes in revenue amounts. Comparable perform-

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Table 1: GRF Tax Receipts in Millions of Dollars By Tax Type – FY 2008

Receipts	Actual	Estimate	Difference
Non-Auto Sales Tax	\$6,671	\$6,696	(\$26)
Auto Sales Tax	\$943	\$984	(\$41)
Income Tax	\$9,115	\$9,147	(\$32)
Corporate Franchise	\$753	\$833	(\$79)
Cigarette Tax	\$951	\$970	(\$19)
PU	\$158	\$178	(\$20)
KWH	\$231	\$223	\$9
Foreign Insurance	\$267	\$263	\$4
Domestic Insurance	\$155	\$171	(\$16)
Other Business & property taxes	\$22	\$20	\$2
Alcoholic Bev	\$57	\$58	(\$1)
Liquor Gallonage	\$35	\$36	(\$1)
Estate	\$61	\$80	(\$19)
Total Taxes	\$19,419	\$19,658	(\$238)

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**Table 2:
Comparison of Actual GRF
Tax Receipts to Estimates
Based on Alternative
Economic Scenarios – FY08**

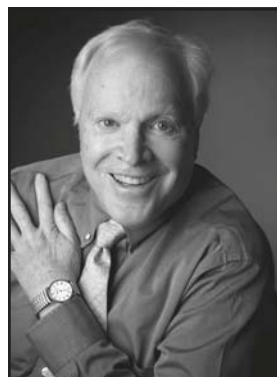
Scenario	Total GRF Taxes in Millions of Dollars
Original Estimated GRF Tax Total	\$19,658
Low Growth Estimate GRF Tax Total	\$19,527
Actual GRF Tax Total	\$19,419
No Growth GRF Tax Total	\$19,391
Recession GRF Tax Total	\$19,346

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ance in FY09 would yield about \$18.9 billion in total GRF tax revenue according to official OBM projections for FY09. Consequently, the State appears on track to raise about \$500 million less in the current fiscal year than it raised in FY08. ■

Update on ETPI Project School Funding with National Expert

In our last issue, we told you about an exciting new school funding project – James W. Guthrie, chair of the Department of Leadership at Vanderbilt University, principal investigator for the National Center on Performance Incentives and national expert on school finance is on



board and working hard for ETPI. He's made several trips to Columbus to talk with state leaders, education representatives and other in-state experts about Ohio's education funding system and ideas for change.

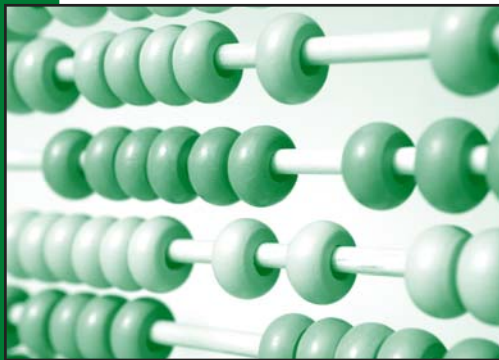
In late July, Guthrie convened a meeting of state leaders and experts to discuss the context of the state's economy and the current funding system. They discussed the future landscape for challenges the education system will face and touched on how a new funding system would need to be formulated to meet those challenges.

The conversation with this group will continue in September. Meanwhile, Guthrie will work with consultants Driscoll & Fleeter to explore and simulate

various funding options and priorities for consideration. The goal will be to have meaningful input for the governor and

others working at the state level on a school funding proposal for next year. With the participation in this project by some key leaders from the state, we hope our work can be valuable to them throughout their process to determine a plan. ■

Budget Corrections Bill Adds ‘True-up’ Calculation to TPP Tax Replacement; Districts Must Exercise Caution in Future Years



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whether a school district receives transitional aid or receives state funds through the formulaic calculation.

Because the original calculation called for the use of projected data, such as a district’s projected average daily membership (ADM) count for the year, the results, in some cases, did not accurately represent a district’s TPP tax 2004 hold-harmless amount. In other words, if a district’s projected ADM count was artificially high when the calculation was made, it caused it to appear to be funded through the formula, and therefore it would look as if its state aid had increased because of the loss of TPP tax and lower values.

In fact, if the district’s actual ADM was lower, it received transitional aid (the SF-3 guarantee) and did not receive any increases in SF-3 state aid. In

this case, the district should have received all its state TPP tax reimbursement by direct payment. Since the original calculation for the replacement amount was based on projected data, the district’s direct payment was lower than it should have been.

The reverse of this scenario was true for a number of districts. Assumed to be a “guarantee district” (receiving transitional aid) because of the original calculation based on projected data, these districts received all their TPP tax replacement by direct payment. When their SF-3 state aid was finalized for the year, they did not receive transitional aid, but saw an increase in state aid. This meant that the increase in state aid attributed to the loss of TPP tax and lower values, combined with the full direct payment amount they received throughout the year, gave them more than their TPP tax 2004 hold-harmless amount.

The original intent of the replacement payments was to make sure school districts were held harmless at their 2004 tax year TPP tax levels. This would be done through a combination of offset payments (increases in state aid that result from the

lowering of tax values because of the reduction in TPP tax) and direct payments to the school district. Complicating matters further, for the first five years of the TPP tax elimination process, districts would still collect some local TPP taxes (phasing down over time).

It should be noted that the state’s responsibility for the hold-harmless replacement payments is governed very specifically by statute. The state must be sure that school districts receive the portion of the 2004 TPP tax levels that is no longer collected locally. This means that school districts should check each year to be sure they are receiving the correct hold-harmless amount.

The Ohio Department of Taxation has 2004 tax year levels for each school district, and based on the schedule of the phase down of the TPP tax, it is possible to learn how much the state is responsible for by way of replacement payments each year. So, districts can know how much their combination SF-3 offset payments and direct replacement payments should be.

To determine how much districts receive by way of direct

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Budget Corrections Bill Adds ‘True-up’ Calculation to TPP Tax Replacement; Districts Must Exercise Caution in Future Years

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payments, two calculations for each school district SF-3 are made every year. One uses the property values after the loss of TPP tax for that year, and one is made as if TPP tax values from 2004 were still in place. The difference represents the “offset,” or the amount of state aid that went up because of the phase out of TPP tax. The offset amount is then subtracted from the total state replacement responsibility for that year and the remainder is sent to the district by direct payment.

This addition of the “true-up” calculation has made it difficult for some districts to manage the repayments resulting from the calculation. That is why the new provision allowed for the repayment to be spread out over the next fiscal year. But while these districts were receiving more than the hold-harmless amount they were entitled to during the year, the original law had kept several districts from receiving back the total loss of their local TPP tax – their 2004 hold-harmless amount. The net amount of replacement payment dollars that should have gone to schools and didn’t under the original law was approximately \$9

million in FY08.

This true-up calculation will be the standard over the next few years, as long as the replacement payments keep coming. It will still be necessary for the original calculation that determines the replacement payments a district receives in a current fiscal year (offset and direct payments) to be based on projections. Hopefully, because of the implications of the situation in FY08 that caused this

the future to avoid an unexpected correction when the true-up calculation is made at the end of the fiscal year. If there seems to be a discrepancy during the year, it will be important to contact the Ohio Department of Education (ODE) to identify the problem. ODE will work with districts that see a potential problem based on the calculation.

So, districts that were not affected by this new true-up

The state must be sure that school districts receive the portion of the 2004 TPP tax levels that is no longer collected locally. This means that school districts should check each year to be sure they are receiving the correct hold-harmless amount.

correction in HB 562, state officials will very carefully make the replacement payment calculation at the beginning of the school year. But the true-up calculation could still reveal that under/over payments to schools have been made, especially if a district is hovering around the guarantee (transitional aid).

School district leaders are urged to follow this combination of revenue sources very closely (local TPP tax revenue + SF-3 increases + direct payments) in

calculation in FY08 could find themselves affected in the future. That is why we urge all districts to watch this revenue source very carefully.

For questions about the true-up calculation, contact one of your statewide education organizations. ■

Proposed Income Tax Repeal Legislation Introduced



Rep. John Adams and Rep.

Thom Collier have introduced legislation providing for the repeal of the Ohio personal income tax over a ten-year period from 2010 through 2019. The income tax repeal legislation has been designated House Bill (HB) 534. In addition to Adams and Collier, seventeen other House members have joined as co-sponsors.

The legislation is quite simple in concept, although its effects could devastate funding for schools and other public services in Ohio. The repeal would work as follows. Each year from 2010 through 2018, taxpayers would compute income tax liability as provided under current law, but the ultimate result would be multiplied by a factor starting with 90% in 2010, 80% in 2011, 70% in 2012, and so on until the

factor reaches 10% in 2018. Finally, in 2019, multiplication of income tax liability by a zero factor would eliminate the tax entirely.

In Fiscal Year (FY) 2008, the income tax produced about \$9.1 billion. Current law includes an additional 4.2% income tax cut scheduled for tax year 2009. This reduction provides the final step in a 21% income tax cut enacted in 2005 for implementation over the five years from 2005 through 2009. Even after this final tax cut in current law, the income tax will yield about \$9 billion in FY09 and FY10.

The enactment of HB 534 would mean annual reductions of about \$900 million per year (10% times \$9 billion equals \$900 million) in current dollars. Of course, the effect of these reductions would occur in a cumulative way. The revenue loss would equal \$900 million in the first year, \$1.8 billion in the second year, and so on.

To put such a reduction in state revenues into context, the General Revenue Fund (GRF) in FY08 received \$19.4 billion in tax revenue. Of that amount, the income tax accounted for \$9.1 billion or about 47%. If a 47% reduction in expenditures of tax revenue from the GRF were spread proportionately among

the different categories of expenditures, primary and secondary education would lose about \$3.2 billion in state revenue (47% times \$6.9 billion in GRF expenditures for education). Using the latest property valuation data available from the Ohio Department of Taxation, a property tax base of about \$240 billion in real and public utility property would require additional statewide property taxes of over 13 mills to make up a \$3.2 billion loss in State revenue.

Thus, the average cost of repealing the income tax would equal about 13 additional property tax mills in order for schools to maintain current funding levels. This estimate shows the ultimate impact of income tax repeal rather than its year to year effects.

HB 534 does not repeal existing school district income tax provisions. This means that school district income taxes rather than school district property taxes could replace some or all of the lost state income tax revenues. Such an outcome would shift funding responsibility from the state to school districts with predictable consequences for equity in the distribution of education funding. ■

New “Substitute Levy” Option Available

The State Capital Bill, Amended Substitute House Bill 562 (HB 562), signed by Governor Strickland on June 24, includes the following new tax levy options for school districts considering emergency levies or the renewal of emergency levies.

A long-time tool for school districts, one that gives districts options for raising local funds even when they have reached the “20 mill floor,” has become more flexible. With the passage of HB 562, emergency levies, new or renewal, are now permitted for a term of up to 10 years. These levies have previously been limited to only five years in length. The longer term for emergency levies applies prospectively to those new or renewal emergency levies submitted to voters after the new law takes effect. No existing levies are automatically extended as a result of the change in the law. The longer maximum term for emergency levies allows districts to reduce the number of times they have to go back to the ballot for emergency levy renewals.

An entirely new levy option was also included in HB 562. The new “substitute” levy can be used by a school district with an existing emergency levy. The district may submit to its voters the substitute levy option to replace an existing emergency levy. The substitute levy can be for a term up to 10 years or for a continuing period of time.

This new substitute levy must be proposed at an initial specified dollar amount for the first collection year equal to the amount of the proposing district’s existing emergency levy or levies. Thereafter, revenues from the substitute levy may experience limited annual growth based solely on new real property improvements made in the school district in each year. As with an emergency levy, the new substitute levy will apply at the same rate to both classes of real property. It also applies above the 20-mill floor, just like an emergency levy, and it may be substituted for more than one existing emergency levy. The new substitute levy will receive the same tangible personal property tax reimbursements as the emergency levy it replaced.

One aspect of the limited growth provision that school district officials should keep in mind is the fact that millage rates for all taxpayers will be affected. Previously, millage rates would have been adjusted down as a result of new improvements in the district to keep the levy from producing more than the original amount approved by the voters. This new provision allows the district to collect the increase that results from the new improvements, causing the rates to remain higher than they would have been under an emergency levy.

These new tax levy options may permit a school district to reduce the number of tax levy elections, and in turn reduce levy fatigue. However, districts should take care in understanding all the implications of these new tools before moving ahead. If you are uncertain how the new provisions will work in your district, be sure to contact one of the statewide organizations or the Ohio Department of Taxation. ■

ETPI Debunks Tax Foundation Special Report!
To view the report, go to www.etpi-ohio.org.

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