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Joseph V. Regano
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Written Testimony - HB 64 Testimony

Before the

House Subcommittee on Primary and Secondary Education

Joseph Regano, Superintendent, Solon Schools

March 19, 2015

Thank you Mr. Chairman and members of the House Finance Primary and Secondary Education Sub-Committee, my name is Joe Regano, Superintendent of Solon Schools, and I am here to testify on behalf of Solon City School District, and as a member district of the Coalition for Fiscal Fairness in Ohio (CFFO).

Mr. Chairman and members of the committee thank you for the opportunity to submit written testimony today. I am here to express our opposition to the recommendation in the "As Introduced" version of the budget to end tangible personal property tax reimbursements to school districts. When in force, these local tax dollars were generated by levy in individual communities. Subsequently in 2005, these local revenues were usurped under the premise that Ohio needed to reform the state's tax structure to attract and retain business. We agreed with this concept in principle and have always worked with our Solon business community – including tax abatements that reduced our revenues – for the betterment of the overall business climate. During the HB 66 negotiations on eliminating the TPP, we were told repeatedly by legislators and representatives of Gov. Bob Taft that we would be held harmless and that as soon as the reliability

of the new Commercial Activities Tax was determined, that the mechanism for making this reimbursement permanent would be put in place.

During those deliberations not once was it expressed to any school district involved that the purpose of the 2005 tax reform was to remove these dollars from local districts and for the state to receive them as enhancements to the General Revenue Fund. In all of the conversations we had with key legislative personnel, representatives of the state Chamber of Commerce and the Governor's staff, never did anyone mention eradicating these local dollars from school districts completely. As a matter of fact Governor Taft issued a letter to the public, including the Columbus Dispatch, outlining the state's commitment to the reimbursement. His letter covered the time period of that biennium and also referenced the policy change needed to reimburse schools across Ohio impacted by the change. The intent was always clearly stated that we needed to enact this reform as a benefit to the business community, which in turn would improve the state economy as a whole. We agreed then and have continually expressed our willingness to anyone who would listen to help craft the permanent solution. And now as this budget stands in the bill before you today – we face a funding disaster for our district.

Unfortunately, for us in education, this is like the promise of the lottery all over again, and would appear it is once again breaking the trust with the public in the local communities who approved these taxes. Just as the promise of the lottery was once that education funding would be increased, the shell game quickly became clear. The lottery dollars supplant other GRF dollars tagged for education, lowering the state's overall fiscal responsibility and no actual increase has ever occurred. Now, with the proposal in HB 64 to accelerate and completely eradicate the TPP reimbursements, the state is grabbing at the low-hanging fruit and the easy solution in the name of "fairness." Unfortunately it breaks the trust and a promise with the constituents back home in our local communities.

School funding in Ohio is already over-reliant on property taxes as a funding base. The Ohio Supreme Court has reminded us of that fact no less than four times. And now with the Governor's proposal contained in HB 64, this message is being hammered home again to our local taxpayers already paying more than their fair share. In Solon, our community supported the most recent .80 mill levy we put on the ballot in November 2013 and now they will see the effect of that voted millage blunted by the dramatic cuts our district faces in this budget.

No longer can a community seek additional operating funds from a community and guarantee that those dollars will stay within the community to serve the students in their districts.

In Solon, the elimination of reimbursements for the TPP tax amount to \$8.3 million a year in operating revenues and an additional \$160,000 tied to our permanent improvement levy. The so-called "phase-out" schedule would start slashing these dollars from our district July 1, in just three months. Every year for the next 5-plus years, approximately \$1.4 million will be erased from our operating revenues alone. The total of \$8.3 million in total annual revenue we lose when the phase-out is complete represents nearly 12 percent of our operating revenues. This equates to more than seven mills of locally generated property tax revenue that is being taken away from our community by the state and redistributed to other communities.

Regardless of whatever actual funding model is ultimately put in place next year, it will undoubtedly rest upon the ideals expressed by the administration relative to a community's relative value per pupil. No formula will be able to restore a public trust that has been broken and will be permanently harmed by this budget decision.

Mr. Chairman and member of the committee, the Solon community values education and has historically supported its schools. The district's tradition of excellence and position as one of the very best districts in the state was built on this support, including funding from the tangible personal property tax. Please know that I, Solon City School District, stand ready to work with the Legislature and the Administration to find more equitable solutions.

Very truly yours,

A handwritten signature in black ink, appearing to read "Joseph V. Regano". The signature is fluid and cursive, with a long horizontal stroke at the end.

Joseph V. Regano
Solon City Schools
Superintendent

Solon City SD



Direct Reimbursement = Fixed Rate + Fixed Sum Operating Reimbursements

1. Tangible Personal Local Revenue Vs. State Replacement

(Direct Reimbursement)

Calendar year 2004 calculated local tangible personal property (TPP) taxes amounted to \$10,660,257. After Ohio eliminated the local tax, the replacement reimbursement revenue totaled \$10,699,697 at its highest point. By 2014 the direct reimbursement replacing the tax had been reduced to \$8,276,754.

This change in state-wide tax policy caused both a combination of loss of revenue, and a shift in tax burden with respect to local taxpayers.

Note: Direct reimbursement includes telephone property phase-out which is not part of the 2004 TPP calculation.

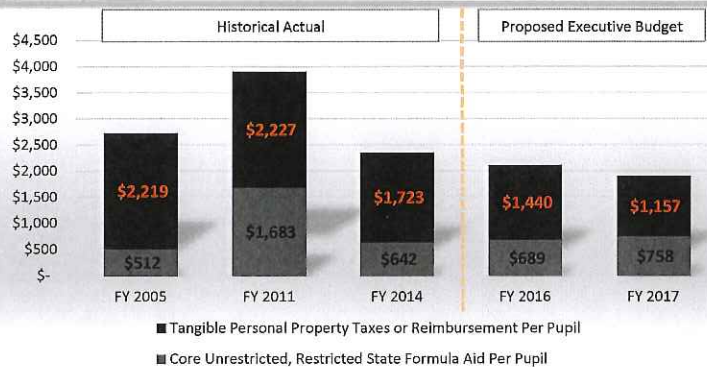
Source: Ohio Dept of Taxation, Ohio Department of Education 2015 ADM

2. TPP Revenue and Direct Reimbursement Per Pupil

Since fiscal year 2005 (includes CY 2004 taxes), the state has continued to reduce the reimbursement to Solon City SD for the local loss of tangible personal property revenue while providing only minimal, if any, increases in state per pupil foundation funding.

In fiscal year 2005, the district's tangible personal property tax revenue generated nearly \$2,219 per pupil, and the state foundation provided \$512 per pupil. By 2014 Ohio's reimbursement for local tangible personal property taxes was only \$1,723 per pupil, a reduction of \$496 per pupil; while the state foundation revenue for the district changed by \$130 per pupil. The Executive Budget proposes to reduce the district's TPP reimbursement to \$1,157 per pupil by fiscal year 2017.

Source: ODE 2015 ADM, ODT TPP Reimbursement, ODE Foundation Funding Reports (Annual)



3. Change in Local Property Valuation Capacity

In calendar year 2004, 23% of the district's local property tax valuation was comprised of locally placed tangible personal property. By 2013 this valuation was eliminated, and residential valuation now makes up 63% of the district's local property tax revenue capacity.

The district's general local property tax revenue capacity is forever diminished by this change in Ohio tax policy. All levies passed since TPP tax reform will be 23% higher than if the 2004 level of tangible personal property tax valuation still existed.

Source: ODT Valuation Data



4. Shift to Residential Taxpayers

Home Market Value of: \$250,000

If TPP taxes had been shifted to the remaining taxpayers, then the residential taxpayer's current taxes would have increased by \$817 on a \$250,000 home. Agricultural and other tax payers would be similarly affected.

If the 2014 level of state replacement/reimbursement for local tangible personal property tax revenue was eliminated, and this revenue need was fully shifted to the remaining taxpayers, then residents would have expected to pay \$183 in additional taxes. This would occur only if the local taxpayers approved the necessary local tax levies.

Lost revenue resulting from the loss of tangible personal property tax revenue often is reflected in reduced services, or other cost savings measures at the district level.

Based on the October, 2014 forecast Solon City SD is expected to experience a revenue shortfall of -\$2,938,790 in fiscal year 2018.

Source: Ohio Department of Education filed Five Year Forecast Data, Ohio Dept. of Taxation, ODE 2014 ADM



Source: ODE Five Year Forecast and ODT Valuations and Tax Rates