Solon City Schools

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House-Amended HB 64 Testimony

Before the

Senate Finance Committee

Joseph Regano, Superintendent, Solon Schools

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Mr. Chairman and members of the Senate Finance Committee, my name is Joe Regano, Superintendent of Solon Schools. I am here to testify on behalf of the Solon City School District and as a member district of the Coalition for Fiscal Fairness in Ohio (CFFO). Thank you for the opportunity to testify today and for all your efforts as you craft the biennium budget.

Let me begin my testimony with this statement: We agree with you that the TPP should be phased out for the betterment of the state and to finally obtain consistency in determining and accurately forecasting our school district's financial funding. Please know the Solon City School District appreciates the hold harmless provisions contained in the substitute version however, I am here to express our grave concerns with the retention of the language to the recommendation in the House-passed version of the budget to end tangible personal property tax reimbursements to school districts, without providing our district with a permanent solution.

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 Activity 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 over time, this was also evident by the statutory change that 70% of the CAT revenue was dedicated for the reimbursement of TPP until a solution could be crafted. 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 unfortunately yet again the language as written in the substitute version would create a funding disaster for our district. While we appreciate the effort in crafting the substitute measure we are asking you to craft a real hold harmless provision by either developing a permanent solution or at the very least remove the phase-out and elimination language so that collectively we can craft a more permanent solution over this General Assembly.

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 from that revenue stream. 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 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, and unfortunately the proposal provides no tools for us locally to replace these funds that were generated in the Solon City School District.

Although the House-amended version purports to "hold districts harmless" over the next biennium with a backfill of temporary dollars mostly from Medicaid funds, the plan is not a solution and places districts like ours at the edge of a fiscal cliff in just 24 months when this budget cycle ends. At that point we would be at year three of a complete TPP phase-out with our bottom line draining at a rate of $1.3 million a year and no solution moving forward. Losses of the magnitude are simply unsustainable. While we understand that the Senate is using components of the current formula contained in the Ohio Revised Code, we would also ask that the same TPP provisions that retain the TPP funding at "2013 and thereafter" levels which were included in the Governor's first budget (HB 153) also be included until a permanent solution can be crafted.

Regardless of whatever actual funding model is ultimately put in place next fiscal 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 members 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, and the Solon City School District, stand ready to work with the Legislature and the Administration to find more equitable solutions. Thank you for your time and attention on this important matter. At this time I would be happy to answer any questions you or the members may have for me.

Tangible Personal Property Tax Changes in H.B. 66

Am. Sub. House Bill 66 (126th General Assembly) phases out the tax on the tangible personal property of general businesses, telephone and telecommunications companies, and railroads. The tax on general business and railroad property (which is public utility property) is eliminated in 2009, and the tax on telephone and telecommunications property will be eliminated by 2011. The tax is phased out by reducing the assessment rate on the property each year. At the same time, the bill replaces the revenue lost due to phasing out the tax. In the first seven years for schools and the first five years for local governments, jurisdictions are reimbursed fully for lost revenue; the reimbursements then phase out with the final payment made in October, 2018.

This document gives an overview of the reimbursement provisions contained in the bill that H.B. 66, the 2006-2007 biennium budget, and subsequent updates in the 2010-2011 budget bill, Am. Sub. House Bill 1 (128th General Assembly).

Definitions

1. "Qualifying levies" are those levies that were in effect for the collection of tangible personal property taxes for TY 2004 or TY 2005 and any levies that were approved by voters prior to September 1, 2005.

2. "Fixed-rate levies" are all levies except fixed-sum levies. Examples: current expense levies, permanent improvement levies, charter levies, and unvoted (inside) general fund millage.

3. "Fixed-sum levies" are those levied to raise a specified amount of revenue and include only voted debt levies and school district emergency levies.

4. The "half-mill threshold" adjustment is used to protect local taxpayers from an excess shift of the tax burden due to valuation losses because of the changes made by HB 66. Under existing levy law, a drop in valuation causes

an increase in the tax rate for a fixed-sum levy so the levy will produce the required amount of revenue. The half-mill threshold limits the increase in the total tax rate for the sum of all qualifying fixed-sum levies (voted debt and school district emergency levies) for a taxing authority to 0.5 mill. Any potential increase in tax rates above the first 0.5 mill will qualify for the reimbursements described below.

5. "Base year amount" is the amount of property tax revenue lost when the tax has been fully phased out. It is equal to the amount of taxable valuation lost multiplied by the qualifying levies prescribed by HB 66, using tax year 2004 as the base year for the calculation. (Tax year 2004 property values determined to be final as of August 31, 2005 will be the property values used in calculating the taxable valuation lost.)

6. "State education aid offset" measures the amount of additional state education aid that school districts or joint vocational school districts receive due to the reduction in tangible personal property taxable values in HB 66, and the corresponding reductions in recognized value and the charge-off.

2006 – 2010: The "Hold-Harmless Period"

The tax on tangible property was phased out over the period from 2006 to 2009.

(See ***Table 1***, below, for annual listing rates for tangible property per HB 66). During this "Hold Harmless Period" all taxing authorities will be fully reimbursed relative to prior law for revenue lost due to the taxable value reductions prescribed by HB 66. (The treatment of telephone company property is somewhat different. This is discussed separately below.)

Reimbursement will be made for the base year amount, except that taxing authorities are only reimbursed for inventory property assessment percentage reductions beyond those already in place before the passage of HB 66. This means taxing authorities are only reimbursed for the amount of revenue projected by using listing percentages for inventory property of 23% in 2006, 21% in 2007, 19% for 2008, and 17% for 2009.

Likewise, since prior law lowered the assessment percentage for telephone and telecommunications property to 25% by 2007 – the first year that the reductions in HB 66 apply to these taxpayers – schools and local governments will only be reimbursed to the amount of revenue projected by using the 25% listing percentages for telephone company property. (See discussion of treatment of telephone company property below.)

All *qualifying* **fixed-rate** levies will be reimbursed to reflect the losses in tax revenue during the phase-out of the tangible property tax. ***Tables 2A and 2B*** below show the percentages of the base year losses that will be received through the combination of local taxes and state reimbursements (school districts receive their reimbursement through a combination of direct payment of state reimbursement and increases in state education aid, as reflected in the state education aid offset). The reimbursement portion will be received by the jurisdiction during this period even if the qualifying levies expire, are reduced, or are not levied by the taxing authority for any of these tax years. H.B. 1 extended the 'hold harmless' period for schools and local governments. School districts are reimbursed fully for lost revenue from 2006 through May, 2012; reimbursements then phase out in the following six years. Local governments are fully reimbursed through May, 2011; local government reimbursements then phase out with the final payment made in October, 2017 (2018 for telephone property only). Even though HB 1 extended the hold harmless, it did not change the provision that a qualifying levy must continue be in place after 2010 to continue to receive reimbursement.

All *qualifying* **fixed-sum levies for debt purposes** will be reimbursed at 100% of the base year amount beginning in 2006, subject to the half-mill threshold adjustment for all fixed-sum levies of the taxing authority, as long as those levies or a portion of those levies continue to be levied by the taxing authority for that year. Except for one village, only school districts qualified for fixed-sum reimbursements above the half-mill threshold.

All *qualifying* **school district emergency levies** will be reimbursed at 100% of the base year amount beginning in 2006, subject to the half-mill threshold adjustment for all fixed-sum levies of the school district, even if the emergency levy expires, is reduced, or is not levied by the school district for any of these years.

Telephone and telecommunication property is included in the calculations of the base year amounts for both these types of fixed-sum levies even though the HB 66 phase out of telephone company property did not begin until 2007.

2011 – 2017: The "Phase-Out Period"

Reimbursements for qualifying **fixed-rate** levies will be phased out during these years. If during or prior to this period qualifying levies expire, are reduced, or are not levied by the taxing authority for any of these tax years, they are only reimbursed to the extent they are still being levied (renewals and replacements count as still being levied). During this period, taxing authorities will receive a percentage of the base year amount through the reimbursement payment. The reimbursement amounts are shown in **Tables 3A** and **3B** below.

H.B. No. 1, extends full reimbursement for school district fixed rate levy losses through fiscal year 2013. The reimbursement phase out for these levies will now begin in August 2013 instead of August 2011.

For school districts, it is the direct payments to compensate for fixed-rate levy losses that are phased out. The additional state education aid that goes to school districts because of the reduced charge-off as a result of lower property values – the amount measured by the "state education aid offset" – is not affected. Furthermore, 70 percent of commercial activity tax (CAT) revenue is earmarked for education purposes in perpetuity. The aggregate amount of revenue for school district property tax replacement is thus constant or growing (as CAT revenues grow) but direct hold harmless payments to individual school districts are phased-out.

All qualifying **fixed-sum levies for debt purposes** will be reimbursed at the initially calculated level (full reimbursement less the half-mill threshold adjustment for all fixed-sum levies of the taxing authority) during the phase out period, as long as those levies or a portion of those levies are levied by the taxing authority for that year. For levies that continue beyond the phase-out period, the payments will also continue beyond the phase-out period, until the debt is retired.

Qualifying **School district emergency levies** will continue to receive reimbursement payments at the initially calculated level (full reimbursement less the half-mill threshold adjustment for all fixed-sum levies of the school district) if the district continues to renew the qualifying emergency levy. An emergency levy will be considered a renewal if the district has an emergency levy for at least the same amount of revenue generated by the qualifying emergency levy.

Special Treatment for Inside Debt Millage

Unvoted (inside) debt levies will be fully reimbursed at the base year amount for tax years 2006-2017 (there is no phase out), as long as the inside millage continues to be levied for debt purposes. No reimbursement will be made in 2018 or thereafter.

Telephone Company Property Provisions

Until HB 66, Ohio law distinguished between telecommunications property (the property of long distance and cellular companies) and telephone company property (the property of local telephone companies). Prior to HB 66, both these types of property were treated as public utility property but were taxed at different assessment percentages. All long distance and cellular property and local telephone property first subject to taxation in 1995 or after was assessed at 25%. Local telephone company legacy property – that is, property first placed in service before 1995 – was assessed at 88%. To equalize assessment percentages for all such property, HB 95 of the 125th General Assembly included a provision that provided for the phase-down of the assessment percentages on local telephone company legacy property. Accordingly, local telephone legacy property will be assessed at 67% in 2005 and 46% in 2006, and would have been assessed at 25% in 2007 if not for the changes made in HB 66.

HB 66 combines telecommunications and telephone company property into one classification – telephone company property – and, starting in tax year 2007, reclassifies it as general business property rather than public utility property. Since telephone company property is to be classified as general business property, it will be included in the elimination of the general business tax, but HB 66 gives it a unique phase-out schedule. Other tangible property will be phased out over four years beginning in 2006, but telephone company property will be phased out over five years beginning in 2007. (***Table 1***, below, lists the old and new assessment rates for tangible and telephone company property.) Furthermore, reimbursement on all other types of property ends in 2017 while reimbursements on telephone company property end in 2018.

Second, public utility property taxes, like real property taxes, are paid in the year following the tax year (e.g., 2006 taxes are paid in 2007), but tangible property taxes are paid during the tax year (2006 taxes paid in 2006). Thus, in 2007 – the year of the transition from public utility to general business tangible property – local governments received payment of both the public utility property tax levied in 2006 and the general tangible property tax levied in 2007. As a result of the double payment in 2007 to school districts and local governments, the state reimbursement payments for telephone company property assessment rate declines will not begin until tax year 2009 (see **Tables 2a and 2b**, below). In 2018, fixed rate levy reimbursements are based only on telephone property levy losses.

The Reimbursement Table for Fixed-Rate Levies

HB 66 treats each of the different types of tangible property somewhat differently for the purposes of phasing out the tax on tangible property. First: all new manufacturing and machinery property put into service in 2005 or thereafter is excluded from taxation. Second: since inventory property was currently being phased out (without reimbursement) under prior law, HB 66 provides reimbursement only for that portion of the lost revenue that is over and above the amount that would be lost according to prior law. Third: telephone company tangible property does not begin to be phased out until tax year 2007. Due to these differences the reimbursement rates for each of the types of property varies slightly.

In tax year 2006, for example, the assessment rate on furniture and fixtures (part of the "other property" classification) is reduced by one-fourth (from 25% to 18.75%). The state reimbursement payment of 25% of the base year amount holds schools and local governments harmless, so that they receive 100% of the base year amount by a combination of local levies and state reimbursement payments. (See **Table 2a** below, which shows the percentage of the base year revenue loss by property classification that local governments will receive through existing levies and state reimbursement payments for tax years 2006 through 2018.)

In tax year 2006 the assessment rate on existing manufacturing machinery and equipment was also reduced by one-fourth to 18.75 percent. However, new manufacturing machinery and equipment is not listed for taxation at all. In an effort to hold schools and local governments harmless, the reimbursement rate for manufacturing machinery and equipment is set at 33.8 percent of the base year amount instead of 25 percent. The higher reimbursement rate is designed to offset the loss in local tax revenue due to the new manufacturing machinery and equipment having a zero assessment rate, so that in general schools and local governments receive 100% of the base year amount through a combination of reimbursement payments and local property tax revenues. In tax years 2007 and 2008, the reimbursement rates for machinery and equipment continue to be higher than the percentage decline in the assessment rate to attempt to account for new property coming on the rolls with a zero assessment rate.

In general, the values used to determine the reimbursements to school districts and local governments are (1) the tax year 2004 property values in the district as of August 31, 2005, (2) the “qualifying levy” rates (see term in “Definitions” section above), (3) a percentage equal to the difference between the new (HB 66) and old assessment rates, and (4) the reimbursement rate, which, for nontelephone company property, is equal to 100 percent from 2006 to 2010 and a declining percentage thereafter.

For example, in Tax Year 2006 the assessment rate on general business tangible property was reduced from 25 percent under prior law to 18.75 percent. The difference (25% minus 18.75%) is the amount reimbursed. The reimbursement rate applied to manufacturing machinery and equipment does not precisely fit this formula due to the fact that new manufacturing machinery and equipment is not taxed at all beginning in tax year 2006. Therefore, the reimbursement rate is increased to, on an estimated statewide basis; compensate schools and local governments for the zero percent property in tax years 2006 through 2008.

Table 1 – As Property fr
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HB 66 assessment rates							
Tax Year	2005	2006	2007	2008	2009	2010	2011
Inventory	23%	18.75%	12.5%	6.25%	0%	0%	0%
Machinery, equipment, and all other business tangible	25%	18.75%	12.5%	6.25%	0%	0%	0%
Local telephone company property placed into use after 1995 and all long distance and cellular property	25%	25%	20%	15%	10%	5%	0%
Telephone company legacy property	67%	46%	20%	15%	10%	5%	0%
Prior assessment Percentages (Assessment percentages in effect before the passage of HB 66)							
Tax Year	2005	2006	2007	2008	2009	2010	2011
Inventory	23%	23%	21%	19%	17%	15%	13%

Machinery, equipment, and all other business tangible	25%	25%	25%	25%	25%	25%	25%
Local telephone company property placed into use after 1995 and all long distance and cellular property	25%	25%	25%	25%	25%	25%	25%
Telephone company legacy property	67%	46%	25%	25%	25%	25%	25%

Table 2A: Percent of Base Year Amount of Revenue to Local Governments through the Combination of Reimbursements and Remaining Property Taxes by Tax Year and Class of Property, Fixed-Rate Levies*

	TY 06	TY 07	TY 08	TY 09	TY 10	TY 11	TY 12
Inventory Reimbursement	106.5	95.6	84.8	73.9	73.9	63.4	47.8
Manufacturing M & E	100.0	100.0	100.0	100.0	100.0	84.9	64.7
Telephone Company property	100.0	180.0	60.0	100.0	100.0	100.0	87.5
All Other Property	100.0	100.0	100.0	100.0	100.0	84.9	64.7

	TY 13	TY14	TY15	TY 16	TY 17	TY 18
Inventory Reimbursement	39.1	30.4	21.8	13.0	4.3	0.0
Manufacturing M & E	52.9	41.2	29.4	17.6	5.9	0.0
Telephone Company property	75.0	62.5	50.0	37.5	25.0	12.5
All Other Property	52.9	41.2	29.4	17.6	5.9	0.0

*In tax years 2006 – 2010 for telephone property and tax years 2006 – 2008 for other property, the percentages shown represent money to be received by jurisdictions through a combination of reimbursement payments and remaining local property taxes. In other years, the revenue to be received is solely from reimbursement from the state. The amount received for inventory in 2006 exceeds the loss due to assessment rate changes because of the mismatch between the decline in assessment rates and the reimbursement rates.

Table 2B: Percent of Base Year Amount of Revenue to School Districts through the Combination of Reimbursements and Remaining Property Taxes by Tax Year and Class of Property, Fixed-Rate Levies

	FY 06	FY 07	FY 08	FY 09	FY 10	FY 11	FY 12*	FY 13*
Inventory Reimbursement	106.5	104.9	96.1	85.0	73.9	73.9	73.9	73.9
Manufacturing M & E	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Telephone Company Property	100.0	104.0	129.0	96.4	119.5	101.9	101.9	101.9
All Other Property	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

*Beginning in FY 2012, the percentage of base year losses that will still be received will depend on a district's charge-off. The phase-out only applies to direct payments above what is reimbursed through the foundation program. A district that gets most of its reimbursement through increased foundation payments because of lower values will see relatively less impact from the phase-out than a district that gets most of its reimbursement in direct payments. In general, districts with high millage rates and/or districts receiving foundation payments through the guarantee portion of the foundation program will see a bigger impact from the phase-out of direct reimbursements.

Table 3A: Ratio of Base Year Amount of Revenue Paid to Local Governments the Phase-out Period

	TY 11	TY 12	TY 13	TY 14	TY 15	TY 16	TY 17	TY 18
Business Tangible Property	84.85%	11/17 ths	9/17 ths	7/17 ths	5/17 ths	3/17 ths	1/17 th	0
Telephone Company Property	100%	7/8 ths	¾	5/8 ths	½	3/8 ths	¼	1/8 th

Table 3B: Ratio of Base Year Amount of Revenue Paid to Schools During the Phase-out Period*

	FY 11	FY 12	FY 13	FY 14	FY 15	FY 16	FY 17	FY 18
Business Tangible Property	100%	100%	100%	9/17 ths	7/17 ths	5/17 ths	3/17 ths	1/17 th
Telephone Company Property	60%	80%	100%	9/17 ths	7/17 ths	5/17 ths	3/17 ths	1/17 th

*For school reimbursements the phase out only applies to direct payment.