



Coalition for Fiscal Fairness in Ohio

The TPP group that wants to be part of the solution

Tim Pickana ■ 33800 Inwood Road ■ Solon, Ohio 44139 ■ 440-349-6207

Testimony before the House Finance & Appropriations Subcommittee on Primary and Secondary Education

Tim Pickana, President, Coalition for Fiscal Fairness in Ohio (CFFO)

March 7, 2017

Presentation and discussion related to the permanent elimination of TPP reimbursements and TPP supplemental reimbursements to schools

Chairman Cupp, Ranking Minority Member Miller, and the members of the House Primary & Secondary Education Subcommittee, thank you for the opportunity to submit testimony today. My name is Tim Pickana, President of the Coalition for Fiscal Fairness in Ohio (CFFO). I am here to brief the committee on the importance of the Tangible Personal Property (TPP) tax reimbursement for those Ohio school districts that are heavily reliant and would be negatively impacted if those funds were permanently eliminated. It is because of this long-standing reliance that we remain highly involved with any tax policy or funding change as there are many Ohio public school districts who will be financially exposed if the TPP supplement and reimbursement funding is eliminated.

The CFFO is an organization created to help address one issue, the Tangible Personal Property phase-out issue facing school districts across the state of Ohio that will be devastated by the current TPP phase-out. Our organization prides itself on believing that while we all must be a part of the solution to help address any state financial deficit or funding formula fix; we must not be a part of the problem. This was evident during the last Biennium Budget (HB 64) when our organization worked with members of the Legislature, especially the House, in retaining TPP. However, as you are aware the Governor line-item vetoed the second year of the TPP supplement which put many of our members at best in a state of unpredictability and tasked them with extremely difficult budget decisions. Subsequently we worked with the Ohio General Assembly and in Senate Bill 208 we were able to work with the Legislature to craft a solution to the line-item veto. As you know, while Senate Bill 208 went far in addressing the line-item veto by bringing stability when planning district budgets, it still did not address fully the problem that our

state's heavily impacted TPP districts' face. Today we want to highlight the issue at hand for your consideration and hopefully continue the dialogue toward a more comprehensive and long term solution to the TPP issue that preserves necessary and once local resources for schools and students.

Mr. Chairman, it is important to note that collectively over the years high TPP districts have faced massively reduced amounts of funding to help with the state's financial deficit. While we agreed to the tax reform provisions contained in House Bill 66 (126th G.A), that created the Commercial Activity Tax, we also believed that a sound solution would be provided to help our districts cope with local tax base losses. In our opinion simply stating that districts should be prepared is not a solution.

Our organization believes we must continue to be upfront and fully educate and inform our communities and taxpayers, both residential and commercial, of the pending consequences of what many high TPP districts face should a permanent and complete phase-out be continued. As you are aware this is an extremely complex issue and remains at times a daunting task when educating and informing our local taxpayers of potential revenue loss based on several state biennium budget tax and school funding formula changes over the last few years. However, Mr. Chairman and members of the Committee, we are here today to not only help you understand the financial dilemma our members face, but to also thank you for your willingness to listen. As in the past we firmly believe that the Legislature remains our partner in finding workable solutions and/or providing us the necessary tools to help the high percentage TPP loss districts.

During your deliberations we respectfully ask you to please not make the assumption that all of the high TPP loss districts are wealthy and will simply have to absorb the loss. As you are aware, there is a significant cross-section of districts that will be impacted. When taking into consideration the impact of TPP reductions, it is important to note that many districts will not be able to make enough reductions and/or pass additional millage great enough to maintain the integrity and quality of the education services they are providing to students. We have made available to subcommittee members a spreadsheet that shows both the TPP losses and the losses under the Governor's proposed budget as a percentage of both district operating revenue and cash balances. The printout shows that the impacts vary widely from district to district. Many districts will not have the ability to comfortably absorb the cuts within their revenue and cash balances. A few additional thoughts to consider regarding the variation in district to district cash balances are:

- The timing districts receive cash varies and cash is inflated at year end to help support low cash points during a fiscal year based on cash flow.
- Cash balances are required for any business and/or district to survive. Especially for public school districts who operate based on levy cycles which begin with net gains the first couple of years, and then net losses (annual cash balance loss) the last couple of years before the next levy attempt.

- Cash balances will be significantly impacted through the end of the upcoming biennium budget (June 30, 2019) based on current law. This will force districts to go to the taxpayers earlier to raise additional funds in order to retain enough cash for operation.

As mentioned, in the last biennium budget bill, the Legislature included language for the 2016/2017 biennium that kept districts from having a net decrease in funding from FY 2015 in the combination of state aid and TPP reimbursements, for which the Governor vetoed the 2017 provision, and ultimately the Legislature salvaged a portion of the vetoed language in SB 208. CFFO is requesting that the language be returned to the last budget bill language, but have the provision in permanent law rather than temporary law. We are estimating there are about 120 districts who would otherwise be receiving less revenue in combined aid in FY 2018 than they were receiving in FY 2015, before factoring in the guarantee phase-down proposal in the Governor's current budget proposal. Going forward, under the CFFO proposal, the TPP payments would continue to be phased-out, but districts would continue to be held harmless to FY 2015 as long as state aid is not increasing enough to offset the TPP reductions. We estimate the cost of this proposal to be about \$90 million in FY 2018 and \$100 million in FY 2019 compared to the introduced budget.

In addition to this proposal, CFFO is also suggesting that language be included in the budget bill to address the situation where a district has capped state aid but is continuing to get TPP reimbursements. By allowing the capped aid to replace TPP reimbursement, we estimate that 20 districts would come off the funding cap and another 31 would have their TPP reimbursements fully phased-out, with no additional cost to the state and no district losing additional funding. This helps achieve two goals, lowering the number of districts on the funding cap and the number of districts receiving TPP.

In summary, Mr. Chairman and members of the Committee, the CFFO member districts firmly believe we must be forthright in crafting a workable solution in order to ensure that the great state of Ohio grows stronger over the years and not weaker. As mentioned, there are many different circumstances and criteria facing many different schools and more importantly there are many different type of high TPP districts across the state. The question remains – if we do nothing do they drastically reduce their budgets and forever lower the quality of education and services provided to their children? Or, do they continue to pass an additional levy to tax their way out of the TPP loss and place additional tax burdens on their residential and commercial taxpayers? If they do, many businesses will simply relocate or collapse to being “double-taxed” by a higher Commercial Activities Tax (compared to what they were paying in TPP) plus an additional millage tax to replace the local district TPP revenues taken away forever.

Thank you Mr. Chairman and members of the Committee for allowing me to testify this morning. At this time I would be happy to answer any questions that you or the committee may have.