Senate Finance Committee
Substitute House Bill 49 Testimony
Ohio School Boards Association
Buckeye Association of School Administrators
Ohio Association of School Business Officials
June 15, 2017

Good afternoon, Chairman Oelslager, Vice Chair Manning, Ranking Member Skindell, and members of the Senate Finance Committee. Thank you for the opportunity to speak to you today regarding Substitute House Bill (Sub. HB) 49. My name is Barbara Shaner, Advocacy Specialist for the Ohio Association of School Business Officials (OASBO). Joining me today for this testimony and in answering your questions are Jay Smith, Deputy Director of Legislative Services for the Ohio School Boards Association (OSBA) and Thomas Ash, Director of Governmental Relations for the Buckeye Association of School Administrators (BASA).

Our organizations represent public school district boards of education, superintendents, treasurers/CFOs, business managers, and other school business officials from around the state. Our members have a keen interest in the provisions proposed in HB 49. We recognize the difficulty you've encountered with this budget because of sluggish revenues and uncertainty about the future. We appreciate the Senate's effort to minimize reductions in state funding for school districts with your recognition that the school funding formula itself was causing many districts to be on the transitional aid guarantee. The number of districts experiencing cuts in funding under the Senate proposal is significantly reduced. We were also glad to see the Senate version offer some relief for those districts still receiving TPP/PUTPP replacement payments by limiting the magnitude of loss districts would experience. These are the districts that have always been the most reliant on TPP and PUTPP funds.

We would point out that in the Executive, House and now the Senate versions of the budget bill, Pupil Transportation is being cut by $100,369,494 in this biennium when compared to the FY 16 actual and FY 17 estimate contained in the budget in detail. This is the largest GRF cut in the entire budget and this is for a line item that was woefully underfunded to begin with. We urge you to reconsider the investment in funding for transportation.

While we are obviously concerned about the scarcity of resources for schools and other important state services in this budget as just mentioned, we are here today to express opposition of two specific provisions in the Senate Substitute bill. First, returning to current law that requires **school districts to pay the full cost of textbooks** for College Credit Plus students. Both the Executive and House versions of the bill included proposals for shared responsibility between school districts and institutions of higher education for those costs. This is only reasonable. Second, we oppose provisions in the bill that will **artificially lower Current Agricultural Use Values.**

1. College Credit Plus Textbooks:
The governor had proposed to reduce the cost of textbooks for College Credit Plus (CCP) students paid by the school district to $10 per credit hour. The House changed that provision to require both the school district and the institution of higher education to cover 50% of CCP textbook costs. The Senate has removed the provision that would lower textbook costs for school districts.

- It is our position that school districts should not be obligated to cover these costs – the district has no control over which textbooks are required or when textbooks are replaced.

We urge you to restore the House provision on College Credit Plus textbooks.

2. Artificial Reductions to Current Agricultural Use Values (CAUV); Dr. Howard Fleeter, consultant for the Ohio Education Policy Institute (OEPI), estimates values will go down by 30% statewide (a summary of Dr. Fleeter's analysis is attached to this testimony):

The Senate version of the bill includes the provisions taken directly from SB 36, a bill already passed by the Senate to lower CAUV values. Dr. Fleeter's analysis shows the following:

- Residential taxpayers will experience an un-voted increase in property taxes. It is difficult to remember another piece of legislation that has caused such a large tax increase for residential taxpayers.
    - There will be increases in effective Class 1 tax rates in 568 school districts causing an increase in property taxes of over $60 million on residential property owners.
    - According to the OEPI analysis, more than 35 school districts with high concentrations of CAUV property will see millage (tax) increases between 2.51 and 3.97 mills (a list of districts is attached).
    - An additional 133 districts will experience increases of between 1 mill and 2.5 mills in their tax rate.
    - Additionally, over 500 districts will see their millage increase on fixed sum levies (bond, emergencies, and substitutes).
    - When the Class 1 tax shift and the increase in fixed sum levies are taken together, 65 districts will experience a total Class 1 millage increase of between 2.5 and 5.1 mills and another 130 districts will experience an increase of between 1 mill and 2.5 mills.

- CAUV values are already down again for Tax Year 2017 as part of the natural function of the formula.
    - The statewide average CAUV value is less than 55% of market value.
    - A comparison to 2014 CAUV levels shows values have already gone down 25% since the peak high.

- Over 285 school districts that have little or no CAUV property will experience a reduction in the state share of funding because CAUV values will go down.
    - The State Share Index calculation is based on the statewide average valuation per pupil; districts with little or no CAUV will appear wealthier than before.
    - In FY18 288 districts will see a reduction of nearly $8 million in state aid and in FY19 308 districts will lose nearly $14 million in state aid.

- Over 500 districts will lose a total of $15 million in property tax revenue from inside millage.

- Overall, the CAUV reduction will cause Ohio school districts to lose a total of $26 million in property taxes and state aid in FY18 and $32 million in FY19.

At a time when state resources are tight, we urge you to remove the CAUV provisions from the bill so local taxpayers and school districts will not be negatively impacted even further.

37 Ohio School Districts Whose Class 1 Millage Rates will Increase More than 3.0 Mills as a Result of the Proposed CAUV Reductions in HB 49

School District	County	Additional Class 1 Effective Mills from CAUV Decrease (Tax Shift)	Fixed Sum Levy Millage Rate Increase	Total Class 1 Millage Rate Increase
PATRICK HENRY LSD	Henry	3.97	1.11	5.08
LINCOLNVIEW LSD	Van Wert	3.68	1.18	4.86
HOLGATE LSD	Henry	3.68	1.15	4.84
GORHAM-FAYETTE LSD	Fulton	3.36	1.00	4.36
HARDIN-NORTHERN LSD	Hardin	3.74	0.51	4.24
PARKWAY LSD	Mercer	3.37	0.83	4.20
SENECA EAST LSD	Seneca	3.11	1.08	4.18
UPPER SCIOTO VALLEY LSD	Hardin	3.42	0.70	4.12
FAIRLAWN LSD	Shelby	2.61	1.48	4.09
MIAMI TRACE LSD	Fayette	2.48	1.59	4.07
WAYNESFIELD-GOSHEN LSD	Auglaize	3.26	0.76	4.02
RIDGEMONT LSD	Hardin	3.29	0.70	3.98
CRESTVIEW LSD	Van Wert	3.58	0.35	3.94
JACKSON CENTER LSD	Shelby	2.29	1.64	3.92
VANLUE LSD	Hancock	2.78	1.03	3.81
WAYNE TRACE LSD	Paulding	3.48	0.24	3.73
STRYKER LSD	Williams	2.66	0.97	3.63
BUCKEYE CENTRAL LSD	Crawford	2.86	0.77	3.63
NORTH BALTIMORE LSD	Wood	2.86	0.76	3.62
FRANKLIN-MONROE LSD	Darke	2.72	0.77	3.49
ELGIN LSD	Marion	2.20	1.29	3.49
WESTFALL LSD	Pickaway	3.18	0.27	3.45
LEIPSIC LSD	Putnam	2.65	0.78	3.44
MC COMB LSD	Hancock	3.13	0.27	3.41
MISSISSINAWA VALLEY LSD	Darke	3.09	0.28	3.37
RIVERDALE LSD	Hancock	2.85	0.47	3.32
MILLCREEK-WEST UNITY LSD	Williams	2.07	1.25	3.32
NORTH CENTRAL LSD	Williams	2.49	0.73	3.23
EAST CLINTON LSD	Clinton	3.09	0.13	3.22
PETTISVILLE LSD	Fulton	2.35	0.83	3.18
NORTH UNION LSD	Union	2.15	1.00	3.15
ANSONIA LSD	Darke	2.78	0.37	3.15
TRI-VILLAGE LSD	Darke	2.60	0.52	3.12
EDGERTON LSD	Williams	2.48	0.63	3.11
WYNFORD LSD	Crawford	2.39	0.70	3.09
RIDGEDALE LSD	Marion	2.46	0.60	3.06
LAKOTA LSD (SANDUSKY CO.)	Sandusky	2.51	0.54	3.04

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Analysis of Proposed Changes to the CAUV Formula
Howard Fleeter, Ohio Education Policy Institute

June 14, 2017

Since 1973 Ohio has provided a tax adjustment that determines farmland property valuation according to the land's Current Agricultural Use Value (CAUV) instead of on the basis of its market (or "best and highest use") value. The CAUV adjustment is employed in order to improve the equity of the property tax with regards to the state's farmers, as economic trends (such as suburbanization) can increase the market value of farmland well beyond its agricultural use value. The Ohio Department of Taxation's Division of Tax Equalization is responsible for preparing the annual CAUV calculations.

The CAUV formula takes into account various factors including farmland utilization, crop prices and interests rates. Crop prices are incorporated on a 7-year rolling average basis with the high and low value excluded. This method typically minimizes the impact of large fluctuations in agricultural prices. The CAUV formula does not take into account the impact of federal farm subsidies.

Table 1 shows CAUV statewide average value per acre as computed annually by Tax Equalization from Tax Years 2005 through 2017. In 2005 the average CAUV value was only $123 per acre, which was a record low. CAUV values then increased every year through 2014, which appears to be a record high for CAUV. The CAUV increases over this period were driven primarily by increasing crop prices (which lead to higher incomes and thus make farmland more valuable) and historically low interest rates (which lower production costs by making the cost of borrowing cheaper). At the same time, the Tax Department made adjustments and updates to the CAUV formula that corrected flaws that had led to record low CAUV values in TY 2005.

Table 1: CAUV Average Value per Acre, Tax Years 2005-2017

Tax Year	Avg. CAUV Value Per Acre	Tax Year	Avg. CAUV Value Per Acre
TY05	$123	TY12	$719
TY06	$177	TY13	$1205
TY07	$181	TY14	$1668
TY08	$249	TY15	$1,388
TY09	$459	TY16	$1,310
TY10	$505	TY17	$1,249
TY11	$700		

Source: Ohio Department of Taxation Division of Tax Equalization Calculations

In response to the 10-year period of increasing CAUV values, the Tax Department again modified the CAUV formula in 2015. Table 1 shows that the formula changes in combination with the reversal of the underlying crop price and interest rate trends have led to a decline in CAUV values in 2015, 2016, and again in 2017. The data in Table 1 show that the statewide average CAUV value per acre has decreased by 25% since 2014. This reversal in CAUV value suggests that the modified CAUV formula is working as intended to lower values from the TY 2014 level.

The changes proposed in both the House and Senate versions of HB49 would further lower the value of agriculture property by altering the method by which capitalization of land appreciation and equity are included in the CAUV formula. The Ohio Department of Taxation estimates that the proposed CAUV reductions would be roughly 30%. In addition, the HB49 CAUV proposal would also alter the method by which land used for conservation purposes would be valued in the CAUV formula. This change would also lead to reductions in CAUV value by setting eligible land at the lowest CAUV value in the annual table. The impact of the proposed change in conservation land valuation cannot currently be quantified.

The CAUV formula changes proposed in HB49 would have several effects, which are discussed in detail below. In May 2017 the Ohio Department of Taxation was able to compute CAUV values by school district for Tax Year 2016. This data, combined with the estimate that the proposed CAUV formula changes would result in an average reduction of 30% in CAUV values, allow for analysis of the estimated impact of the proposed CAUV changes in each of Ohio's 610 K-12 school districts.

1) Tax Shifting from Agricultural Taxpayers to Residential Taxpayers

First, any reductions in CAUV values will lead to increases in taxes paid by residential taxpayers. This effect operates through two channels. The first channel is for what are known as fixed-dollar levies. These are generally bond levies and school district emergency levies. These levies are designed to raise a designated amount of revenue annually, whatever happens to property values. Decreases in agricultural values, all else equal, will mean that tax rates will have to increase in order to generate the necessary revenue. This means that taxes will go up on all other property in the district, including residential property. Analysis of the Tax Dept TY16 CAUV data by school district shows that ***514 school districts would experience increases in fixed sum levy millage rates as a result of the proposed CAUV changes.***

The second channel by which property tax rates will increases as result of the proposed CAUV formula modifications is through the HB 920 tax reduction factors. HB 920, which was enacted in 1976, was designed to insulate property taxpayers from escalating tax bills resulting from inflationary increases in property values. This is done through a complex mechanism of "tax reductions factors" which serve to effectively reduce effective property tax rates after property reappraisal increases values. To give a simplistic example, if the real property in taxing district increased by 10%, the tax rate would adjust downward by approximately 10% so that the total amount of property taxes collected in the taxing district remained roughly the same (tax revenues from new construction are allowed to rise, unlike the fixed-dollar levy case). HB 920 also works in reverse: if property values decrease then property tax rates will adjust upward (although with some limits) in order to keep the total amount of property taxes collected the same. Finally, HB 920 only applies to "real" property (land and buildings) and not to the Tangible Personal Property (equipment and fixtures) of public utilities.

As if the above paragraph were not complicated enough, a 1980 Constitutional amendment separated real property into two classes. "Class 1" property is that owned by residential and agricultural taxpayers. "Class 2" property is that owned by business and commercial entities.

The tax shifting that will result from the CAUV changes contained in HB49 occurs because agricultural and residential property are both in Class 1. If CAUV values go down, HB 920 will cause the property tax rates of all Class 1 taxpayers within a given taxing district to increase. Agricultural taxpayers will generally receive a net tax reduction in their property taxes owed because their decrease in property value will typically be larger than the increase in tax rates. However, residential property owners will experience an increase in taxes owed because their values are remaining the same, yet their tax rates are increasing as a result of the CAUV value decrease triggering the district-wide increase in tax rates.

The magnitude of this tax shift will depend primarily on 2 factors:

1) The degree to which CAUV values are decreased (the larger the decrease in CAUV values, the larger the increase in residential property taxes)

2) The mix of agricultural and residential property in the taxing district (the larger the share of agricultural property, the larger the increase in residential taxes)

The Ohio Department of Taxation has simulated the impact of the proposed CAUV changes in 8 counties. The results of these simulations show that, as expected, the greater the proportion of agricultural property in the county, the larger the tax shift to residential taxpayers. In counties with a reasonably large share of agricultural property it was not uncommon to finding taxing districts where residential taxes increased by more than 10% as a result of the HB 398 CAUV decreases. In Van Wert County where agricultural property was 51.3% of total Class 1 property value in Tax Year 2014 (the 4th highest percentage in the state) ***the average increase in residential taxes was 7.8%*** according to the Tax Department' calculations. Note that the Tax Department simulations do not take into account the changes that HB 398 would make to the valuation of conservation land.

In addition to the Tax Department's analysis of shifts in Class 1 tax rates summarized above, OEPI has been able to estimate the extent and magnitude of the shift in Class1 tax burdens at the school district level. OEPI's analysis shows that over 500 school districts would experience an increase in Class 1 effective millage as a result of the proposed CAUV formula changes. The tax shift from agricultural to residential taxpayers at the school district level can be summarized as follows:

- ***In 35 school districts residential tax rates are estimated to increase between 2.5 mills and 4.0 mills***
- In an additional 123 school districts residential tax rates are estimated to increase between 1.0 and 2.5 mills
- In an additional 88 school districts residential tax prates are estimated to increase between 0.5 and 1.0 mills
- And in 318 school districts the estimated increase in residential tax rates would be less than 0.5 mills

When the HB920 Class 1 tax shift and the fixed sum levy rate increase effects are combined, the impact can be summarized as follows:

- ***65 school districts will experience residential tax rate increases between 2.5 mills and 5.1 mills***

- ***25 districts will experience residential tax rate increases between 2.0 mills and 2.5 mills***
- ***47 districts will experience residential tax rate increases between 1.5 mills and 2.0 mills***
- 58 districts will experience residential tax rate increases between 1.0 mills and 1.5 mills
- 83 districts will experience residential tax rate increases between 0.5 mills and 1.0 mills
- 287 districts will experience residential tax rate increases less than 0.5 mills

Finally, in terms of tax revenue, the combined impact of the millage rate increases described above is that ***residential taxpayers in Ohio will pay more than $60 million in additional school property taxes as a result of the proposed CAUV changes in HB49***. Note that this estimate is conservative as the impact of the conservation land provisions on CAUV values (currently unknown) is not included in these figures.

2) Reductions in Tax Revenue for Schools and other Local Governments

While the HB 920 tax rate adjustment factors will generally function in a way that adjusts Class 1 effective tax rates upward in response to CAUV decreases in order to maintain property tax revenue collections at the existing level, there are two exceptions to this.

The first is the case of Inside Millage. The Ohio Constitution allows for the imposition of 10 mills of property taxes that can be imposed without voter approval. These 10 mills are often referred to as "unvoted" or "inside" mills. Inside mills have been allocated by counties across different units of local government. School districts typically have between 3.5 and 5 inside mills. Inside mills are pertinent to this discussion because they are exempt from HB 920. This means that when property values increase, inside mills generate more tax revenue, and when values decrease inside mills will generate less tax revenue. Thus, under the proposed HB 49 reductions in CAUV values, all units of local government that have inside millage will experience a decrease in tax revenue. OEPI estimates that ***554 school districts will lose a total of $15.0 million in inside millage tax revenue as a result of the proposed reductions in CAUV value***.

Because schools typically have about 4 of the allowable 10 inside mills, the impact for non-school local governments will be roughly an additional $20 million in lost revenue. Again note that these figures are conservative because they exclude the impact of the conservation land provisions.

The second exception to the "residential tax shift" scenario is when the millage rate of an individual property tax levy cannot adjust upward by a large enough amount to offset the decrease in valuation and preserve the original level of tax revenue. This scenario occurs when the tax rate increase necessary to offset the decrease in CAUV value would cause the millage rate of the levy to exceed its originally voted millage rate. Under Ohio law the effective millage rate of a voted levy cannot ever exceed its initially voted level. In this case the local government unit (be it a school, library, township, or other entity) would the see a reduction in tax revenue as result of the CAUV decrease. ***OEPI estimates that Ohio school districts will lose an additional $3 million in property tax revenue due to this effect of the CAUV formula changes.***

The discussion of points 1) and 2) above demonstrates that there are only 2 possible outcomes of the proposed CAUV changes on local taxes: 1) residential taxpayers will pay higher taxes; or 2) local governments will see a reduction in tax revenue. In the case of local governments that have both

inside mills and voted levies* (*such as school districts) both of these effects could occur simultaneously.

3) Adverse Impact on Future Tax Levy Yield

A third effect of the proposed CAUV decreases contained in HB 398 would be that future property tax levies will not generate as much local revenue as they would currently. This means that a higher millage rate will be required to generate given amount of tax revenue for a library, school district, township, or other local government entity. In essence, this is really a second tax shift, as residential taxpayers will now pay slightly higher property taxes than they would have without the lower CAUV values. For agricultural taxpayers, however, the higher millage rate will be offset by the decrease in table property value.

4) Impact on the School Funding Formula

A fourth effect of the proposed CAUV decreases will be on the state's school funding formula. Beginning with the FY14 school year, the funding formula now determines the state and local share of school funding for each of Ohio's 610 school districts by computing the State Share Index (SSI). The SSI is a complicated series of calculations that takes into account each school district's property value per pupil as well as the income of district residents. Without going into undue detail, the main calculation of the SSI is to compute the total property value per pupil in each school district and then compare this figure to the statewide average property value per pupil. The HB 398 CAUV decreases will affect the SSI in 2 ways:

1) The Statewide average property valuation per pupil will decrease. This is because the state total property value will decrease due to lower CAUV values, while the number of students remains the same.

2) Every school district with CAUV value will also see a decrease in its own valuation per pupil figure (for the same reason as above).

The combined impact of these 2 effects is that the state share of school funding will change for all 610 school districts in the state. Districts with significant CAUV decreases will have lower ratios of value per pupil to the state average and thus receive more state aid. And districts with nominal (or even no CAUV value) will now have higher value per pupil ratios compared to the state average, and thus receive less state aid. The estimated impact of the proposed changes to the CAUV formula contained in HB49 on the State Share index and state aid to Ohio's school districts are as follows:

- ***279 school districts with relatively little or no agricultural property will see their State Share index reduced***
- ***In FY18 288 school districts will receive $7.8 million less in state aid***
- ***In FY19 308 school districts will receive $13.8 million less in state aid***

Once again the figures above are conservative because they do not include the impact of the reductions in conservation land values. Finally, it is imperative to note that these increases and decreases in state aid will occur even though the HB 920-induced tax shifts described above will work to keep local tax revenue largely unchanged (although districts with CAUV property will lose revenue from inside millage).