Fiscal Note & Local Impact Statement

122 nd General Assembly of Ohio

BILL: **H.B. 10** DATE: **February 18, 1997**

STATUS: **As Introduced** SPONSOR: **Rep. Fox**

LOCAL IMPACT STATEMENT REQUIRED: **Yes**

CONTENTS: **Establishes a tax credit for companies that donate computer equipment to schools and other qualified recipients.**

State Fiscal Highlights

STATE FUND	FY 1997	FY 1998	FUTURE YEARS
General Revenue Fund			
Revenues	$116,000 loss	$137,000 loss	$160,000 loss
Expenditures	$88,200 increase	$90,800 increase	$93,600 increase

- The computer equipment tax credit against various corporate taxes (including corporate franchise, insurance, public utility, and S-corporation) results in a revenue loss to the state based on the number of computers donated. The state GRF will experience 95.2% of the total revenue loss.
- Due to the increased administrative costs of the computer equipment donation program, the state can also expect to incur greater expenditures on employee salaries.

Local Fiscal Highlights

LOCAL GOVERNMENT	FY 1997	FY 1998	FUTURE YEARS
Local Government Funds			
Revenues	$5,900 loss	$6,900 loss	$8,000 loss
Expenditures	- 0 -	- 0 -	- 0 -

- Depending on the distribution of the companies that take the computer equipment tax credit, the local government funds will experience a revenue loss. Assuming that all the donors are liable for the corporate franchise tax, 4.8% of the total tax revenue loss due to the computer equipment tax credit will affect the local government funds (the LGF and the LGRAF).
- To the extent that insurance companies are donors, the local government funds lose less revenue, and to the extent that S-corporations are donors, the local government funds will lose more revenue. If public utilities are the donors, the 4.8% local revenue loss applies.
- The local governments' loss could be higher if school districts are required to compensate facilitators.

Detailed Fiscal Analysis

This bill establishes a computer equipment tax credit for companies that donate computer systems, monitors, or central processing units (CPU's) to qualified recipients, including schools and school districts, other educational institutions, and deaf or disabled persons. The refundable tax credit may be taken against the corporate franchise tax, and is equal to $150 for an entire computer system, $75 for a monitor alone, and $50 for an individual CPU.

The Office of Information, Technology, and Learning will administer the program. Their responsibilities include determining computer equipment standards, adopting guidelines for minimum qualifications for facilitators (or refurbishers), and finding and licensing these facilitators.

Revenue Loss from Tax Credit

The estimated revenue loss from the tax credit is $122,100 in FY97. This estimate is based on the number of donations made to a similar program in place in Indiana (the so-called "Buddy-Up with Education" program) and is adjusted for differences in state population and the growth of the computer industry over time. The Central Indiana Educational Service Center reports the following donations of computer systems.

FY 93 26
FY 94 49
FY 95 227
FY 96 155
FY 97 (First half) 459

The growth in the Buddy-Up program was slow initially, but has picked up over the last few years. Averaging the figures for fiscal years 1995-97 gives an average yearly donation of 433 computer systems.

Since Ohio is a larger state, it is expected that the potential number of computer equipment donors is greater in Ohio. Three measures of the relative size of Ohio to Indiana were considered, and each resulted in a ratio of approximately 1.9. The first ratio uses the number of corporations in each state, the second considers the resident population in each state, and the third looks at the total tax revenue collected in each state. Using the 1.88 ratio computed using each state's number of corporations gives an expected donation of 814 computer systems in the state of Ohio.

The estimated revenue loss is 814 x $150 = $122,100. Since the proposed tax credit is fully refundable, the entire loss will occur in the taxable year.

This estimate loss is a lower bound estimate to the extent that it does not include tax credits issued for partial equipment donations, such as monitors and CPU's that are separately donated. However, it is an upper bound estimate to the extent that Indiana's minimum qualifications for a computer system are lower than those established by Ohio.

The growth of computer sales has been accelerating over the last few years. For example, from 1994 to 1995, U.S factory sales of computer and peripheral equipment increased 17.4%.

Assuming that growth follows the same pattern in the future, we can expect a donation increase from 814 in FY97 (revenue loss of $122,100) to 956 in FY98 (revenue loss of $143,400) to 1,122 in future fiscal years (revenue loss of $168,300).

Administrative Costs

There should also be a measurable administrative cost impact on the Office of Information, Technology, and Learning. According to the Office of Information, Technology, and Learning, the expected revenue impact of determining computer equipment qualification standards is negligible (they are already in place for the purchase of new computers for schools). However, there is a direct cost of overseeing the computer donation program, as well as setting standards for and finding qualified facilitators.

Discussions with the Indiana Central Educational Service Center suggest that the oversight function requires at least two full-time employees and two part-time employees, not including the facilitators themselves. It is estimated that the following positions will be required: an Administrative Assistant 2 (Exempt status) with an annual salary of $41,506 (benefits are included at 30% of the base salary), a Delivery Worker with a benefits-included annual wage of $29,014, and two part-time college interns with a total no-benefits wage of $17,680 per year. The total wage costs for the first year of implementation are $88,200. This amount is assumed to grow at approximately the OBM estimated rate of inflation, or 3.0% for FY98 and thereafter.

A specific estimate could not be attached to the cost of establishing guidelines for the selection of facilitators.

Facilitator Compensation

One ambiguity in the bill is what provision exists for the compensation of facilitators. The Indiana Service Center finds that the minimum cost of refurbishing a computer is $270 for basic cleaning, warehousing, and a one-year warranty. Since Indiana facilitators are state employees, it is unclear the extent to which their wages are included in this estimate. In addition, H.B. 10 provides for the use of independent facilitators, which suggests that their required wages may be quite high. The Indiana Service Center estimates that an independent contractor's wage can be as high as $60 per hour. Although such estimates are not included in the fiscal effects summary, facilitator wage provisions are clearly important to the total impact of this bill.

It is possible that the facilitator will be paid by the donating company, or by the receiving school districts themselves. Refurbishing costs would then be dependent on the number of parts that must be replaced. However, based on the Indiana experience, this might cost more than the Ohio tax credit. If the donating company must pay the facilitator, there may be additional tax benefits under federal and state law that partially offset this higher cost. If the recipients of the computer equipment (i.e. school districts) are required to compensate facilitators, this may increase the overall burden of the tax credit on local governments.

❑ *LBO staff: Marci Castillo*