Fiscal Note & Local Impact Statement

122 nd General Assembly of Ohio
REVISED NOTE

BILL:	**Sub. S.B. 160 (LSC 122 1428-1)**	DATE:	**September 10, 1997**
STATUS:	**In Senate Finance and Financial Institutions**	SPONSOR:	**Sen. Espy**

LOCAL IMPACT STATEMENT REQUIRED: **No — Offsetting revenues**

CONTENTS: **To provide additional state revenues for primary and secondary education and to make certain changes to local property taxes**

State Fiscal Highlights

STATE FUND	FY 1998	FY 1999	FUTURE YEARS
General Revenue Fund			
Revenues	Gain of $269 million	Gain of $952 million	Gain of $1 billion or more
Expenditures	Reduction of $58.8 million	Reduction of $215.2 million	Reduction of $18 million or more*
There is also a potential loss in interest income to the GRF from the zero-interest BSF school loans			
Budget Stabilization Fund			
Revenues	-0-	-0-	-0-
Expenditures	Potential indeterminate increase	Potential indeterminate increase	Potential indeterminate increase
* LBO does not show a bigger expenditure cut in FY 2000 because technically appropriations can only be reduced within the biennium. However, one might reasonably expect the FY 1999 cuts to be carried forward into future fiscal years.			

- Extending the state sales tax to various services increases GRF revenues by $269 million in FY 1998 (partial year), $788 million in FY 1999, and more than $800 million in subsequent fiscal years.

- Increasing the corporate franchise tax rate on net income from 8.5 percent to 9.7 percent, in conjunction with increasing the net worth rate from 4.0 mills to 4.3 mills (without changing the $150,000 cap) increases GRF revenue by about $165 million in FY 1999, and $170 million or more in future years.

- The combination of agency-specific GRF cuts in FY 1998-99 and the 4 percent across the board cut in FY 1999 GRF operating reduces GRF appropriations by $58.8 million in FY 1998 and $210.1 million in FY 1999.

- The net impact of repealing the 10 percent rollback on Class II real property and instituting a $75 property tax credit for owner-occupied housing (reimbursed by the GRF) is a decrease in expenditure of $5 million in FY 1998, $18 million in FY 1999 (first full year), and growing amounts thereafter, since the $75 credit will not grow as quickly as the business rollback did. Obviously, this provision also shifts some of the property tax burden from residential property to business property.

- The net GRF impact in FY 1999 of all revenue and spending changes is an increase in available funds of about $1.17 billion. If the FY 1999 spending cuts are carried forward into future fiscal years, the increase in available funds tops $1.2 billion in FY 2000 and grows thereafter. By the time all the changes have full-year impacts (FY 2000) the business share of additional revenues is about 75 percent.

- The Budget Stabilization Fund is authorized to make zero interest loans to school districts in need who cannot obtain loans from other sources. Since it is unclear how a district will qualify as "unable" to obtain a loan from other sources, LBO cannot estimate how many BSF loans will be made. However, we assume that some loans will be made, and that the GRF will lose an indeterminate amount of interest income as a result.

Local Fiscal Highlights

LOCAL GOVERNMENT	CY 1998	CY 1999	FUTURE YEARS
Counties, Municipalities, Townships, Special Districts that Share in LGF and LGRAF Money			
Revenues	Gain of $29.8 million	Gain of $48.6 million	Gain of more than $50 million
Expenditures	- 0 -	- 0 -	- 0 -
Counties and Regional Transit Authorities that Levy Permissive Sales Tax			
Revenues	Gain of $131 million	Gain of $178 million	Gain of $187 million or more
Expenditures	- 0 -	- 0 -	- 0 -
School Districts			
Revenues	-0-	Gain of $107 million	Gain of $138 million or more*
Expenditures	-0-	-0-	-0-
Other Local Governments Levying Property Taxes: Counties, Municipalities, Townships, Special Districts			
Revenues	Gain of $160 million	Gain of $196 million	Gain of $215 million or more
Expenditures	-0-	Potential indeterminate increase	Potential indeterminate increase
Additional revenue to school districts on the formula in FY 2002 ($132 million) and beyond			

- Most groups of local governments gain under the bill, although it is essentially impossible to predict what will happen to individual local governments.

- The biggest gainers should be the counties and regional transit authorities that levy permissive sales taxes, who in the aggregate will realize gains of $187 million by CY 2000.

- IF SJR 6 passes and the General Assembly passes a law repealing Class II property tax reduction factors, then school districts will gain $107 million in CY 1999 and $138 million in CY 2000. In addition, individual districts that are net losers can be compensated from the hold harmless fund, and eventually will receive additional money through the foundation formula also. In fact, through the combination of the hold harmless payments and additional foundation aid, it is possible that some districts could be overcompensated for their inventory tax losses, although it is fairly likely that the hold harmless money will be used up once the additional foundation aid starts.

- Non-school local governments (and special taxing districts) also see aggregate gains. Most districts should come out ahead, although it is possible that some could lose more in inventory tax than they gain from all other sources. This is probably more of a problem for special districts such as park districts, ADAMH districts, etc. rather than for local governments such as municipalities or townships.

Detailed Fiscal Analysis

The bill makes numerous changes to state and local taxes and contains numerous provisions to increase funding for primary and secondary education. It:

1) Allows the Budget Stabilization Fund (BSF) to provide emergency loans to school districts facing financial difficulties;
2) Limits the 10 percent roll-back on real property to Class I property (i.e., residential/agricultural property) only;
3) In conjunction with SJR 6, lays the groundwork for county pooling of growth in Class II (commercial and industrial) real property;
4) Grants an additional property tax reduction of $75 for owner-occupied residences;
5) Exempts business inventories from the tangible personal property tax;
6) Increases the corporate franchise tax;
7) Expands the sales tax base to include certain business and personal services;
8) Provides for certain general and specific reductions in General Revenue Fund appropriations for fiscal years 1998 and 1999; and
9) Establishes the Tax Competitiveness Hold Harmless Fund to hold school districts harmless in fiscal year 1999 (and subsequent fiscal years, if sufficient balances exist) from reductions in tax revenues that result from exempting inventories in excess of gains in revenues from eliminating the tax reduction factors (TRFs) on Class II (i.e., industrial/commercial) property.

NOTE: The analysis of this bill and of its companion resolution, SJR 6, were done on the premise that the resolution and the bill would pass in August 1997, and that the ballot proposals would go before voters in November of 1997. In this case, some provisions of SB 160 and SJR 6 would take effect as early as January 1, 1998. Given the current situation, these assumptions now seem very unlikely. However, LBO decided to leave its analysis intact, since the bill and the resolution were intended to be a package with synchronized effective dates, and presumably would be rewritten as necessary to keep the effective dates synchronized.

Summary of Impacts

GRF revenues are increased through extension of the sales and use tax to various services, and through rate increases on both the net income and net worth bases of the corporate franchise tax. GRF expenditures are reduced through appropriations cuts in FY 1998 and FY 1999, and through the elimination of the 10 percent rollback on Class II real property. GRF expenditures are increased through the introduction of a new $75 credit against property taxes for owner-occupied

SB 160 State Revenue and Spending Impacts

Revenues	FY 1998	FY 1999	FY 2000
Sales Tax - expansion of base	$269.0	$787.6	$827.0
Corporate Tax		$164.6	$171.4
Total Revenue Impact	$269.0	$952.2	$998.3
Expenditures			
Appropriations Cuts	($58.8)	($210.2)	$0.0
Eliminates Class II 10% Rollback	$0.0	($110.0)	($228.0)
Additional $75 per residence property tax credit	$0.0	$105.0	$210.0
Total Spending Changes	($58.8)	($215.2)	($18.0)
Net GRF Impact	$327.8	$1,167.4	$1,016.3

If spending cuts continue in FY 2000, the GRF impact will exceed $1.2 billion

SB 160 / SJR6 Local Impacts	CY 1998	CY 1999	CY 2000
estimate of impacts based on year of collections, not liability incurred			
Eliminate Inventory Tax	$0.0	($644.3)	($655.5)
Increase Base for Local Sales and Use Tax	$130.6	$178.1	$187.0
SJR 6 - Repeal Class II Tax Reduction Factors	$0.0	$720.8	$771.3
LGFs - increase due to sales tax base broadening	$29.8	$40.7	$42.7
LGFs - increase due to corporate tax rate increase	$0.0	$7.9	$8.2
Net of All Local Impacts	$160.4	$303.2	$353.7

SB 160 / SJR6 School District Impacts	CY 1998	CY 1999	CY 2000
Eliminate Inventory Tax	$0.0	($451.0)	($458.9)
SJR 6 - Repeal Class II Tax Reduction Factors	$0.0	$558.2	$597.2
Net School District Impact	$0.0	$107.1	$138.4

Note: School districts would also get an additional $132.5 million in FY 2002 (starting in CY 2001) through the foundation formula

Other Local Governments			
Eliminate Inventory Tax	$0.0	($193.3)	($196.7)
SJR 6 - Repeal Class II Tax Reduction Factors	$0.0	$162.6	$174.0
Increase Base for Local Sales and Use Tax	$130.6	$178.1	$187.0
LGF Increases from Sales Tax and Corporate Tax	$29.8	$48.6	$50.9
Net Impact	$160.4	$196.0	$215.3

housing, which would be reimbursed through the GRF. The net impact of all these changes is an increase of more than $1 billion in GRF funds for FY 1999 (the first full year).

The broadening of the state sales tax base increases local government revenue also, in two ways. First, local governments get more state sales tax revenue from the Local Government Fund (LGF) and Local Government Revenue Assistance Fund (LGRAF). Second, counties and transit authorities with permissive "piggyback" taxes will get a substantial increase in revenue from the broader base. Local governments will also see a comparatively small increase in revenue through the LGF and the LGRAF as a result of higher corporate franchise tax rates.

On the property tax side, according to LBO's estimates, local revenue losses due to the repeal of the inventory tax are more than made up by the elimination of the tax reduction factors (TRFs) on Class II (non-residential, non-agricultural) property, if SJR 6 passes and the General Assembly passes a law to eliminate the TRFs.

Emergency Loans to School Districts

The bill states that the Budget Stabilization Fund (BSF) may be used to provide emergency loans to school districts who are facing financial difficulty and are unable to obtain loans from other sources. The Office of Budget and Management and the Department of Education would have to develop procedures and eligibility criteria for districts seeking loans. The bill specifies that no interest is to be charged for such loans.

This is not a new concept. In FY 1988 and FY 1989, under the aegis of Am. Sub. H.B. 171 of the 117th General Assembly, school districts were allowed to borrow up to $40 million from the BSF. In fact, $18.6 million was loaned and repaid. However, one key difference between that program and the one proposed in this bill is that under the old program, the Treasurer of State was allowed to charge interest equivalent to the rate of return on the state investment portfolio. In some cases, this rate was higher than commercial bank rates. As already stated, this bill requires that the loans be interest-free.

The following table shows a short history of school district emergency loans since FY 1990. The table shows the number of districts receiving loans and the amount actually borrowed (for various reasons the number of districts receiving loans and the amount borrowed are less than the amount approved by the Controlling Board).

The average amount borrowed from FY 1990 to FY 1997 was $56.2 million per year. As the table shows, the amount borrowed ranged widely, from $11.9 to $162.0 million. If the eligibility criteria developed by the Office of Budget and Management and the Department of Education are similar to current eligibility criteria for emergency loans, there would be potential expenditures in the $11.9 million to $162 million range annually from the Budget Stabilization Fund. Depending on the repayment schedules adopted, any moneys borrowed would eventually be repaid to the fund.

It is unclear exactly how these proposed BSF loans will interact with existing law that requires the OBM Director to make annual transfers from the GRF to keep the BSF balance at 5 percent of prior-year GRF revenues. If outstanding loans are counted against the BSF balance, then there might have to be large temporary transfers from the GRF to raise the BSF balance to the threshold, until loan repayments were made.

School District Emergency Loans		
Fiscal Year	*Number of Districts Receiving Loans*	*Amount Actually Borrowed ($ in millions)*
1990	29	$11.9
1991	26	$41.8
1992	44	$102.5
1993	27	$94.5
1994	28	$41.1
1995	29	$71.1
1996	20	$87.2
1997	13	$162.0

All dollars in millions.

Elimination of Ten-percent Roll-back on Class II Property

LBO projects that the 10% rollback on Class II property will reduce tax bills by $220 million in tax year 1998. This means that under current law the state would have to reimburse all local taxing districts $220 million in calendar year 1999, since the state reimburses local taxing districts for the lost revenue out of the GRF, but in the year after the liability is incurred. On a fiscal year basis, since only one payment will be made in FY 1999, the state will pay $110 million in FY 1999. Therefore repealing the rollback saves the state $110 million in fiscal year 1999 (half-year impact), and $228 million in fiscal year 2000 (full year impact).

If the repeal of the Class II tax reduction factors (TRFs) in the companion joint resolution (SJR 6) is adopted, then taxes on Class II property will increase, and the savings from repealing the Class II rollback also increase. LBO estimates that if the tax reduction factors are repealed, then the additional savings from repealing the rollback are approximately $36 million in FY 1999 and $75 million in FY 2000 (please see LBO's fiscal note on SJR 6, As Introduced).

Pooling of Growth in Class II Property Values

The bill contains temporary law stating that it is the intent of the General Assembly to propose a method to pool half of the revenue from growth in Class II property valuation. The pooling would be done within counties: no property tax money would flow across county borders.

Whatever proposal the General Assembly might invent, it would have to deal with the Constitutional prohibition on redistributing revenue from property tax levies that had already been voted for a specific purpose. This might be done through implementing the "pooling" as the calculation of notional amounts that would then be added to or subtracted from district state aid payments, as has been proposed in bills from prior General Assemblies.

The countywide pooling of growth would be made possible by the elimination of Class II tax reduction factors (TRFs) in SJR 6. Without that provision, the pooling mechanism being contemplated would probably generate very little pooled revenue. The reason is that the pooling being proposed would not pool all growth in revenue, but only growth in revenue due to growth in valuation. In other words, new levies would not be subject to pooling. If new levies were subject to pooling, it would probably be even more difficult to pass them than it is now. Voters would not object to the pooling of growth in business property in their district as strenuously as they would object to the pooling of growth in residential property, but there would be a disincentive for passing new levies.

The proposed pooling would take place on a fixed, base-year millage, applied to all growth in Class II property valuation, whether from new construction or appreciation of existing property. An example of how this might work for one individual district follows:

Example of Pooling from the Perspective of a Single School District

	Year 0	Year 1	Year 2	Year 3	Year 4
Class II valuation	$10,000,000	$10,500,000	$11,025,000	$11,576,250	$12,155,063
Class II valuation growth		$500,000	$1,025,000	$1,576,250	$2,155,063
base year millage	30	30	30	30	30
new levies			5	5	5
actual millage	30	30	35	35	35

Revenue					
Tax revenue					
(no reduction factors)	$300,000	$315,000	$385,875	$405,169	$425,427
Revenue Growth		$15,000	$85,875	$105,169	$125,427

Pooling					
Base-Year Millage x Valuation Growth		$15,000	$30,750	$47,288	$64,652
Amount to be Pooled (50%)		$7,500	$15,375	$23,644	$32,326
Pooled $ as % of Revenue Growth		50.0%	17.9%	22.5%	25.8%
Non-Pooled Revenue Growth		$7,500	$70,500	$81,525	$93,101
Non-Pooled $ as % of Revenue Growth		50.0%	82.1%	77.5%	74.2%

Note that the introduction of new millage will always erode the share of revenue growth that goes into the pool, vs. the amount of revenue growth kept by the district.

Additional Property Tax Reduction for Owner-Occupied Residences

If all homeowners were able to take advantage of the full $75 tax reduction, the estimated cost would be $212 million. However, Census data indicates that there are taxpayers whose annual property tax bill is less than $75. Adjusting the estimate for these taxpayers reduces the estimate very slightly, to $210 million.

Support for this estimate comes from U.S. Census data for Ohio. The 1990 Census, covering CY 1989 data, reported 2,754,060 households in Ohio residing in owner-occupied housing. Since 1989, this figure has increased. Census data from 1997 indicates that over the 1990-1996 period, total households in Ohio increased by 0.7 percent annually (4.2 percent total). Housing units increased by 0.8 percent annually over the same period. However, based on Census data on state homeownership rates, owner-occupied homes in Ohio probably only increased about 0.3 percent annually. Applying this growth to the 1989 base figure yields an estimate of

2,829,320. A flat $75 credit against the property tax liability of all those homeowners would result in a revenue loss of $212.2 million for tax year 1998.

The bill language does not speak directly to the issue of whether or not the property tax credit would be refundable, but there are no other instances in Ohio of refundable property tax relief. Therefore, LBO assumes that the credit would not be refundable: i.e., a homeowner who owes $60 in property tax before the credit would be entitled to $60, not $75. However, the adjustment in the revenue loss based on this assumption is small.

Census data for 1989 shows that 167,240 Ohio owner-occupied households owed property tax of $99 or less. However, many of those households would still have property taxes above $75, particularly when the data are adjusted for valuation and tax rate increases from 1989 to 1998. Therefore LBO has assumed that only half of the households in that property tax bracket would get less than $75 in relief, and the average relief is assumed to be $50. This reduces the revenue loss in tax year 1998 to $210.1 million.

The estimated additional cost to the GRF is $105 million (half-year impact) in FY 1999, and $210 million annually thereafter.

One important difference between this proposal and a percentage rollback is that percentage rollbacks tend to grow rather quickly over time, as property values and effective tax rates increase. Conversely, without periodic adjustment, this flat credit will grow only very slowly, as the number of households owning homes grows. The value of the credit per household would decline with inflation, unlike the percentage rollbacks.

Exemption of Business Inventories from the Personal Property Tax

The exemption of business inventories from the personal property tax is subject to the passage of Senate Joint Resolution 6 of the 122nd General Assembly. Since the resolution was not adopted by August 6th, it probably cannot be adopted until sometime in calendar year 1998. Based on this and LSC's interpretation of the language involving effective dates in this bill, LBO assumes that business inventories would be excluded from the tangible personal property tax beginning in calendar year 1999.

LBO estimates that exempting inventories from the personal property tax base in 1999 would cost local governments $644.3 million in local property tax revenue in calendar year 1999. Seventy percent of this, or $451.0 million would be a cost to local school districts; while the remainder - $193.3 million – would be a cost to other local governments.

Beginning in fiscal year 2002, those school districts which are "on the formula" would be reimbursed for a portion of the lost revenue via the foundation formula. They would receive additional state aid from the property tax changes equal to their change in taxable (or assessed) value times 23 mills [i.e., the loss in taxable value of inventories times 23 mills]. If all school districts were "on the formula" the proposed inventory exemption would result in an increase in state aid of $203.8 million in fiscal year 2002. In fact, 27% of school districts, accounting for 35% of property tax valuation, are not on the formula. Such school districts, along with other local governments, will have no additional GRF payments to reduce their losses. Taking these school districts into account, the exemption would increase state aid by roughly $132 million in fiscal year 2002.

Increasing the Corporate Franchise Tax

The bill increases corporate franchise tax revenues by increasing the tax rate on net income from 8.5 percent to 9.7 percent, increasing the tax rate on net worth from 4.0 mills to 4.3 mills, and by doubling the minimum tax (from $50 to $100). These changes are projected to increase revenues in tax year 1999 by about $172 million. The bulk of the increase would result from the increase in the tax on net income. The majority of the increase (95.2 percent, or about $165 million) would be deposited in the state General Revenue Fund; while the remainder would be deposited into the local government funds (4.2 percent in the Local Government Fund (LGF) and 0.6 percent in the Local Government Revenue Assistance Fund (LGRAF)).

Am. Sub. H.B. 215 of the current General Assembly made numerous changes to the corporate franchise tax. Among other things H.B. 215 expanded the base of the tax for net worth purposes, but reduced the rate on net worth from 5.82 mills to 4.0 mills. It also capped the liability calculated on the net worth basis at $150,000. It reduced the top rate on net income from 8.9 percent to 8.5 percent. And it changed the allocation and apportionment formulas for both the net worth and net income calculations.

LBO bases its projections on data from tax year 1996, adjusted to the extent possible to reflect the changes made by H.B. 215 (specifically, the rate changes and the impact of the cap) and to account for growth in the base over time. The rate change would take effect in tax year 1999 (largely covering calendar year 1998 liabilities). LBO estimates the gain from the rate changes in that year to be as follows:

Corporate Franchise Tax Changes

	FY 1999	FY 2000
GRF	$164.6	$171.4
LGFs	$8.3	$8.6
Total	$172.9	$180.0

All dollars in millions

The estimates assume that there would be no changes in the corporate franchise tax base as a result of the tax increases (i.e. no behavioral changes). This is unlikely in the long run. The higher rates on net income would likely cause some corporations to leave Ohio, or to shift many of their assets out of the state. Fewer corporations would form in Ohio; the proposed changes would exacerbate the existing trend of new businesses choosing to organize as limited partnerships or limited liability companies, neither of which pays the corporate franchise tax. In summary, the corporate tax base would undergo considerable erosion as taxpayers adjusted to the situation. While plant investment is not mobile in the short run, it is mobile over an extended period, and new investment activity is particularly mobile.

Expansion of the Sales Tax Base

The bill imposes the state sales and use tax on a number of services, which are enumerated below. The new taxes on services would begin on January 1, 1998. LBO's revenue estimates are based on the figures in the ***Tax Expenditure Report*** for fiscal years 1998 and 1999 (volume II of the Executive Budget). The FY 1998 numbers are adjusted to account for five months of revenue. Since non-auto sales taxes are collected with a one-month lag, January implementation means that revenue collections will begin in February. The estimates of the taxes on services are summarized in the table below.

Expansion of Sales Tax Base - GRF, LGF, and LGRAF Amounts

Business and Professional Services	FY 98	FY 99
Professional		
Accounting, Bookeeping, Tax Prep.	$31.0	$90.6
Engineering, Surveying	$45.0	$131.0
Legal Services	$104.4	$311.5
Business		
Interior Design	$1.6	$4.6
Management Services	$52.5	$151.0
Total Business & Professional	$234.4	$688.7

Personal Services	FY 98	FY 99
Recreation		
Amusement parks	$3.3	$9.8
Bowling/billiards	$1.7	$4.8
Cable television	$22.5	$63.5
Professional sporting events	$2.4	$7.0
Public golf courses	$4.5	$13.7
Theatrical live entertainment	$4.3	$12.9
Personal & Other		
Auto parking	$5.0	$14.5
Laundry/dry cleaning	$4.3	$12.4
Total Recreation & Personal	$48.2	$138.6

Grand Total	**$282.6**	**$827.3**
GRF Amounts	**$269.0**	**$787.6**
LGF + LGRAF Amounts	**$13.6**	**$39.7**

The GRF would get 95.2 percent of the increased sales tax revenue, or $269.0 million in FY 1998 and $787.6 million in FY 1999. The Local Government Fund (LGF) and Local Government Revenue Assistance Fund (LGRAF) get 4.2 percent and 0.6 percent, respectively. This means that the LGFs would get $13.6 million in FY 1998 and $39.7 million in FY 1999.

Expanding the state sales tax base also increases the base against which the county and transit authority "piggyback" taxes are applied, so the counties and transit authorities will also see revenue gains. One can approximate what these gains would be by assuming that the county and transit authority percentage of the new sales tax revenue would be the same as their percentage of the existing sales tax revenue. In FY 1997, permissive sales tax collections were about 21 percent of state sales and use tax collections (including both the GRF portion and the amounts going to the LGFs). Under this assumption, counties and transit authorities would gain $59.3 million in FY 1998 and $173.7 million in FY 1999. The gains have also been expressed in calendar year terms in the summary at the beginning of this document, so that net local government impacts could be calculated.

General and Specific Reductions in GRF Appropriations

The bill enacts both across the board GRF spending cuts and a number of specific reductions. First, a number of GRF agencies are targeted for specific cuts, freezes, or growth limitations. Second, specific cuts are made to business development items within the Department of Development. Third, in addition to the specific cuts, the Director of Development is required to come up with an additional $30.6 million in cuts for FY 1999, in consultation with the OBM Director. Fourth and finally, after all the specific reductions are made, GRF appropriations for personal service, purchased personal service, maintenance, and equipment are cut by 4 percent for fiscal year 1999. The bill obviously does not refer to object codes, but essentially this means that object codes 10, 13, 20, and 30 are to be cut 4 percent. The agencies can make recommendations to the OBM director about where to make the cuts, and the OBM director then has discretion over the final allocation.

The agency specific cuts are detailed below:

- Adjutant General – appropriations are held at FY 1997 levels for both FY 1998 and FY 1999.
- Ohio Arts Council, line item 370-502 (Program Subsidies) appropriations are held at FY 1997 levels for both FY 1998 and FY 1999.
- The Attorney General, Department of Health, Department of Natural Resources, Environmental Protection Agency, and Ohio Historical Society are all allowed 3 percent growth in FY 1998, 0 percent in FY 1999.
- The Department of Administrative Services is cut by $2 million in FY 1998 and $3.5 milion in FY 1999.
- Controlling Board line item 911-401, Emergency Purposes, is cut 50%, from $6 million down to $3 million, in both fiscal years.
- In the Board of Regents, the Agricultural Research and Development Center appropriation is reduced to 5 percent growth for both FY 1998 and FY 1999. The Cooperative Extension line item is allowed no growth in FY 1999.
- All GRF appropriations for the Department of Rehabilitation and Correction are reduced by one percent in FY 1999. The savings are supposed to be achieved through implementation of an electronic monitoring program.
- In Development, the Business Development and Regional Offices and Economic Development line items are cut. In addition, $11 million in loan repayments (including interest) each fiscal year is redirected away from Fund 037, the Facilities Establishment Fund, to the GRF.

In total, the cuts reduce GRF appropriations by $58.8 million in FY 1998, and $210.2 million in FY 1999 ($269.0 million over the biennium). In addition, the elimination of the increase for the Cleveland Pilot School earmark also frees up $2.1 million in Disadvantaged Pupil Impact Aid (DPIA) in FY 1998, and $3.7 million in FY 1999. However, this money is not completely free, since it would still have to be spent for DPIA.

The 3 percent cut to the Merchandising line item in the Department of Commerce is puzzling. Moneys in this account are used to purchase liquor and pay for transportation. Cutting the appropriation could reduce purchases, and thereby also cut sales volume and reduce liquor profit transfers to the GRF. The department might be able to maintain GRF profits after such a cut, but it would require skillful reallocation of purchases from low-margin liquor to high-margin

Summary of Agency Cuts, in millions of $

Agency Summary		FY 98 Cut	FY 99 Cut	Biennium
Specific Cuts				
Adjutant General	ADJ	($1.45)	($1.71)	($3.17)
Ohio Arts Council	ART	($1.84)	($2.61)	($4.45)
Attorney General	AGO	($7.77)	($10.15)	($17.92)
Department of Health	DOH	($13.30)	($13.77)	($27.07)
Department of Natural Resources	DNR	$0.00	($3.59)	($3.59)
Environmental Protection Agency	EPA	($4.32)	($2.01)	($6.33)
Ohio Historical Society	OHS	($2.96)	($2.84)	($5.79)
Department of Administrative Services	DAS	($2.00)	($3.50)	($5.50)
Controlling Board	CEB	($3.00)	($3.00)	($6.00)
Board of Regents	BOR	($2.86)	($5.40)	($8.27)
Department of Rehabilitation and Correction	DRC	$0.00	($11.92)	($11.92)
Subtotal Agency-Specific Cuts		($39.50)	($60.49)	($99.99)
Development Cuts				
Department of Development Business Subsidy Cuts		($8.30)	($39.00)	($47.30)
GRF Recapture of Loan Repayments to Facilities Establishment Fund		($11.00)	($11.00)	($22.00)
Subtotal Development Cuts		($19.30)	($50.00)	($69.30)
Across the Board Cuts				
4% Cut in Objects 10,13,20,30		$0.00	($99.70)	($99.70)
Total - All Appropriation Changes		($58.80)	($210.20)	($269.00)
Aditional: DPIA Reallocation		($2.10)	($3.70)	($5.80)

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Tax Competitiveness Hold Harmless Fund (TCHH Fund)

The bill requires that the OBM director transfer $138 million from the state GRF to this new fund within the first 30 business days of FY 1999. Although LBO's estimates project that in the aggregate school districts will gain more from the elimination of Class II tax reduction factors than they will lose from the elimination of the inventory component of the tangible tax, it is still probable that some individual districts will be net losers. The TCHH fund is intended to compensate those districts who are net losers for the amount of their loss in FY 1999. If balances remain after the FY 1999 compensation is paid, then carryover moneys can be used for FY 2000 and onward until the funds run out.

It is difficult for LBO to estimate which districts would be net losers and in what degree. While good information exists on the impact of Class II TRFs by district, there is no hard data on inventory taxes by district. LBO has done its best to impute inventory amounts to districts on the basis of the amount of tangible property and Class II real property that districts have, but these estimates are very rough. On this basis, LBO believes that $138 million will be more than enough to hold districts harmless for the loss in tax revenue in FY 1999, but the money will probably not cover all the losses in FY 2000.

Administratively, one problem in the introduced bill has been solved. Since the inventory tax will no longer be collected, it is unclear how the Tax Commissioner could make the calculation of school district net losses on a year-by-year basis. Therefore, the bill now specifies that the gain from the elimination of the Class II TRFs is to be compared to school district inventory tax collections for tax year 1998, the last year that the tax would be in effect.

Based on LBO's analysis of all the GRF impacts, the bill would create enough additional revenue in FY 1998 that $138 million could be transferred to the TCHH fund and still have additional money left over.

An additional problem or complication in the hold harmless provision is that the language does not include any offset for additional foundation aid received by districts as a result of lower inventory tax collections. If the state continues to equalize valuation for 23 mills, then districts will receive $133 million through the basic aid formula. When the additional basic aid is combined with the hold harmless money, some districts could be overcompensated: i.e. they would receive more money than they would have if none of these changes had occurred.

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