Ohio School Boards Association

TO: Nelson Fox, Fiscal Division Chief

FROM: Richard Lewis, Executive Director
Damon Asbury, Director of Legislative Services

DATE: August 28, 2017

RE: **2017 FISCAL IMPACT STATEMENT REPORT**

The Ohio School Boards Association (OSBA) is pleased to take advantage of the opportunity to review the 2017 Local Impact Statement Report on bills enacted in 2016. The Legislative Services Commission (LSC) report to the Ohio General Assembly and to the general public on the fiscal impact of certain specific legislation is a valuable service.

The 2017 Local Impact Statement Report highlights nine bills enacted during 2016 that require local impact statements. Five of the nine bills have potentially negative fiscal impacts on the level of revenues available to support public school districts. These five bills are House Bill (HB) 390, HB 512, Senate Bill (SB) 2, SB 172 and SB 235.

OSBA does strongly believe and reiterates its longstanding desire to see even more bills subject to having fiscal impact statements prepared. This is particularly true for omnibus bills, such as the biennial budget bill and mid-year budget bills. We do, however, appreciate the opportunity to review and comment on these specific bills.

HB 390 exempts natural gas sold by a municipal gas utility from state and local sales taxes as well as use taxes. In addition, the exemption is retroactive going back 48 months. Based on the estimated tax liability of $6.9 million, it is estimated that state revenues will be reduced by $2.1 million. This results in a direct reduction of state revenues available for school funding purposes.

In addition, HB 390 doubles the total amount of motion picture tax credits from $40 million to $80 million over the biennium. This results in an annual revenue loss, mostly to the General Revenue Fund (GRF), of up to $20 million. A portion of the tax credit would be counted against the Commercial Activities Tax, Financial Institutions Tax and the Personal Income Tax. This leads to a reduction in total tax revenue for the GRF, particularly for districts receiving tangible personal property tax replacement funds.

HB 512 addresses the quality of our water supply which is a critical factor in the health and well-being of our communities. This is particularly true for schools where our youngest and most vulnerable people spend a significant portion of their waking day.

8050 North High Street
Suite 100
Columbus, Ohio 43235-6481

(614) 540-4000
(800) 589-OSBA
(614) 540-4100 [fax]
www.ohioschoolboards.org

Many school districts will likely incur costs associated with EPA required testing for lead and copper in their water systems. Districts may also be required to conduct new or updated corrosion control studies and to identify and map water systems that have lead piping, solder fittings and fixtures within that system.

These new, critical testing and fixture replacement requirements will require large expenditures. Districts will be eligible for at least some level of financial assistance through the Ohio EPA and the Drinking Water Assistance Fund. However, it is expected that the costs will far exceed the available assistance.

SB 2 incorporates changes to the Internal Revenue Code into Ohio income tax law. The changes lead to a reduction in total tax revenues for the GRF and particularly for school districts that levy a school district income tax. While an accurate estimate of these losses is not available, it is estimated that these districts will lose hundreds of thousands of dollars in Fiscal Year (FY) 16 and FY 17 and tens of thousands in future years.

SB 172 reduces the sales and use tax base, and thus decreases sales tax revenues. State sales tax receipts are deposited in the GRF. Any reduction to the GRF tax receipts also reduces the amount of funding available for distribution to the Local Government Fund and Public Library Fund as these entities receive distributions from the GRF. While funding for school districts is not directly impacted, any reduction in GRF has implications for the total dollars available for state support for schools.

The bill also makes changes to the exemption status of certain fraternal organizations from real property taxation. The exemption will increase the fiscal cost to local political subdivisions, including schools. LSC has estimated the cost to political subdivisions across the state to be $5.8 million annually.

SB 235 exempts small business investment companies from the Financial Institutions Tax (FIT). The exemption is applied retroactively to 2014. Companies that made FIT payments would now be eligible to receive refunds, which would reduce the level of total state revenues. However, the impact on school districts is indirect and of an unknown magnitude, but any reduction in GRF limits the dollars available for school funding.

A significant aspect of SB 235 is the tax exemption extended to properties defined as "newly developable property" or "redevelopment property." The exemption generally applies to parcels on which one or more commercial or industrial buildings or structures have not yet been issued a certificate of occupancy. The bill does require any legislative body, such as city or county governance authority, to notify the board of education of any traditional or joint vocational school district of any consideration of granting an exemption.

The exemption may be granted for six consecutive years, provided that the owner can demonstrate that there are no outstanding taxes, assessments, penalties or charges due or unpaid. These exemptions will affect revenues for school districts, counties, municipalities, townships and other political subdivisions beginning in FY 18.

Taken together, the tax exemptions and credits made available through these particular bills play an incessant drumbeat of lower and lower revenues available to support common schooling and other public purposes. Far too often it appears that the education of our young people, a task of paramount importance takes a back seat to tax exemptions and tax credits. When such bills are taken separately the total impact can be easily overlooked. Appropriate funding of education for our young people is an ongoing concern for boards of education and should be so for all Ohio citizens. We encourage our legislators to take the long view when examining such bills and provide ample opportunity for full discussion and debate on the merits.

Once again, OSBA wishes to express appreciation to the Legislative Service Commission for its hard work and diligence on this important task. We look forward to working with you now and in the future.

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