Bill Analysis

Ralph D. Clark *Legislative Service Commission*

H.B. 14

127th General Assembly
(As Introduced)

Reps. **Hughes, Peterson, Combs, J. McGregor, Schindel, Wagner, Stebelton, Wagoner, Hite, B. Williams, Dodd, Garrison, Uecker, Evans, Koziura, DeGeeter, Brown, R. McGregor, J. Stewart, DeBose, D. Stewart, Strahorn, Bacon, Lundy**

BILL SUMMARY

- Indefinitely extends state reimbursement to school districts for the elimination of business tangible personal property taxes; reimbursement currently is scheduled to terminate in fiscal year 2018.

CONTENT AND OPERATION

Reimbursement of school district revenue losses due to elimination of business personal property tax

(R.C. 5751.20 and 5751.21)

Current law

The main appropriations act for the 2006-2007 biennium eliminates taxation of tangible personal property used in business. Specifically, the act accelerates the previously scheduled elimination of inventory taxation, phases out taxation of all other general business personal property over four years, and phases out taxation of telecommunications property. (H.B. 66 of the 126th General Assembly.)

H.B. 66 reimburses school districts and other local taxing units for net revenue losses caused by the elimination of business personal property taxes. The duration and extent of reimbursement depends on whether the tax levy is imposed to raise a fixed or predetermined sum of money each year (e.g., voted debt levies and school "emergency" levies) or is imposed at a fixed millage rate (e.g., conventional current expense and permanent improvement levies). A school district's fixed-sum levies are reimbursed to within one-half mill of the total fixed-sum millage; the unreimbursed one-half mill is raised locally through a one-half mill increase in the total rate of fixed-sum levies. Voted debt levies are reimbursed until the debt is retired even if that does not occur until after 2018. Emergency levies are reimbursed through fiscal year 2018, including renewals of emergency levies that expire before the end of fiscal year 2018 if the renewal is for at least the same amount as the 2004 or 2005 levy.

Fixed-rate levies are reimbursed fully through fiscal year 2011, and then in declining amounts through the end of fiscal year 2018. If a fixed-rate levy expires before then, it is not reimbursed after its expiration unless it is renewed. The rate of decline in the reimbursement for fiscal years 2011 and 2012 is 3/17 per year of the computed fixed-rate loss; the rate of decline for fiscal years 2013 through 2018 is 2/17 per year. In fiscal year 2018, the last 1/17 is paid, and no reimbursement is paid thereafter. Unvoted millage for debt is fully reimbursed through the end of fiscal year 2018, but the reimbursement is payable only so long as the millage continues to be levied for debt purposes. If the purpose is changed to some other purpose, the reimbursement is computed according to the phase-out reimbursement percentages applicable to fixed-rate levies.

The amount of reimbursement paid to school districts is offset by the increase in state base-cost formula funding caused by the reduction in the taxable property value of business personal property. (Base-cost formula funding increases by a factor of 2.3% of the reduction in taxable property value.)

Reimbursement is paid from a portion of the revenue from the commercial activity tax (CAT). Under current law, 70% of CAT revenue is earmarked for reimbursing school districts through 2018 but, since the amount of reimbursement will decline after 2011, the balance of the 70% portion not needed for reimbursement is scheduled to be applied to state school funding through fiscal year 2018. After fiscal year 2018, none of the CAT revenue is to be devoted to reimbursement; instead, all the revenue is to be credited to the General Revenue Fund.

Proposed reimbursement for indefinite period

The bill extends the full reimbursement of school district and joint vocational school district revenue losses indefinitely. Reimbursement will continue beyond fiscal year 2018 until a levy expires (unless it is a renewed emergency levy, as explained below) and the reimbursement amount will not be phased down after fiscal year 2011. If a levy expires, it will not be reimbursed after expiration unless it is an emergency levy that is renewed for the same amount as the levy in effect in 2004 minus the 2006 reimbursement for the levy.

To accommodate the indefinitely extended reimbursement, 70% of the revenue from the commercial activity tax will continue to be earmarked for school district reimbursement beyond fiscal year 2018. Any amount of the 70% portion not needed for reimbursement will continue to be used for general state school funding.

The bill does not extend or otherwise change the reimbursement for taxing units other than school districts and joint vocational school districts.

HISTORY

ACTION	DATE
Introduced	02-20-07

H0014-I-127.doc/jc