Explanation of Law Changes Enacted in 2011 Relating to the Reimbursement of Foregone Tangible Personal Property Taxes and Modifications to State Tax Revenue Streams[1]

May 1, 2012

This document discusses changes in the fiscal year 2012-2013 state operating budget (House Bill 153) pertaining to reimbursement programs for foregone tangible personal property taxes and public utility tangible personal property taxes. In 2009 the Department of Taxation issued a document that explains the tangible personal property tax reimbursement program as it existed prior to July, 2011. Although the 2009 document does not reflect 2011 law changes, it contains considerable detail on the program not covered in this document and thus may be useful to those persons inquiring about original program elements. Use the following web link to obtain the document:
http://tax.ohio.gov/divisions/personal_property/phaseout.stm
In addition, information on the public utility personal property tax reimbursement program as it existed prior to July, 2011, is available at the following web link:
http://tax.ohio.gov/divisions/public_utility_property/dereg.stm

Background on Originally-Enacted Reimbursement Program[2]

Over the past decade Ohio has implemented major changes in how it subjects tangible personal property to taxation. The first set of law changes reduced public utility tangible property (PUTP) taxes as part of electric power generation deregulation and natural gas deregulation enacted in 1999 and 2000, respectively. The other major law change, enacted in 2005, reduced and eliminated this state's general tangible personal property (TPP) tax as key component in a set of tax code changes meant to bolster Ohio's competitive posture and enhance its economic growth.

Under these law changes, several state taxes were created in part to generate revenue for the local governments and school districts who were recipients of the reduced or eliminated tangible personal property taxes. The kilowatt-hour (KWH) tax and natural gas distribution (MCF) tax were earmarked in part (KWH) or whole (MCF) for the reimbursement of schools and local governments as a result of property taxes lost due to electricity and gas deregulation. The commercial activity tax (CAT) was earmarked in whole (fiscal years 2007 through 2011) and then in part (fiscal year 2012 and subsequent years) for replacing the TPP taxes foregone due to tax reform.

At the time the FY 2012-2013 budget was being developed it was apparent that the TPP tax reimbursements and PUTP tax reimbursements had grown to become very costly legacy programs for the State of Ohio. These mechanisms were providing hundreds of millions of dollars on the basis of property tax base attributes that existed years before, without consideration for current jurisdictional reliance on those payments.

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[1] This document replaces the publication produced in 2011 entitled "Changing the Schedule for Reimbursement of Lost Property Taxes and Moving Dedicated Taxes from Special Funds to the State GRF."
[2] In this document the terms "reimbursement" and "replacement payment" are used interchangeably.

The TPP tax reimbursement is the costlier of the two programs. The repeal of the TPP tax resulted in $1.65 billion in lost property tax revenue to school districts and local governments, plus an additional loss of almost $200 million in repealed property taxes on telecommunications providers.[3] The law that repealed the TPP tax, HB 66, originally established a five-year "hold harmless" period (2006-2010), during which school districts and local governments would be fully reimbursed for lost property taxes. At the same time the new CAT was being phased in, with CAT revenues earmarked to pay for the reimbursements.

The TPP tax reimbursements have constituted a large budgetary expense for the State of Ohio. They have caused a substantial amount of tax revenue to be directed away from the state General Revenue Fund. Furthermore, CAT revenues in recent years have not been sufficient to fully cover the replacement payments, requiring a GRF subsidy to make those payments.

As presented in Table 1, the CAT in its early years generated enough revenue to cover the TPP tax replacement payments. By FY 2009 and 2010, however, there were large shortfalls that had to be paid for by transfers from the state GRF to the replacement funds. Another large shortfall occurred in FY 2011. (For a more complete version of Table 1 that includes projections for fiscal years 2012-2013, please see the Appendix.)

Table 1 -Commercial Activity Tax Revenues vs. Required TPP Tax Replacement Payments

Dollar amounts in millions

	FY 2007 Actual	FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY 2011 Actual
Total CAT Revenues (1)	$594.9	$963.7	$1,179.2	$1,341.6	$1,436.9
GRF Revenues	$0.0	$0.0	$0.0	$0.0	$0.0
Required Tangible Property Tax Replacement Payments	$571.3	$931.6	$1,275.0	$1,624.0	$1,651.8
Surplus to GRF / (Shortfall paid from GRF)	$23.6	$32.1	($95.8)	($282.4)	($214.9)

1 The state GRF did not directly receive CAT revenues in FY 2007-2011. Any excess revenues over the required TPP replacements may be transferred by the OBM director to the GRF. On the other side, any shortfall in CAT revenues to make the replacement payments must be made up from the GRF. Beginning in FY 2012, the GRF begins to receive a statutory percentage of revenues that had previously been allocated to the school and local government replacement payments.

Along with the large size of these reimbursement expenditures is the nature of the TPP tax reimbursements: they were predicated on a property tax base that existed years ago, with no consideration as to whether these payments remained a revenue source upon which the jurisdiction remained reliant. During the scheduled phase-out period of the

[3] Before the 2005 tax reform such property had been classified as public utility property; tax reform reclassified it as general tangible personal property and therefore it was phased out from taxation.

TPP replacement payments, distributions to each jurisdiction were to decline by the same rate, irrespective of the jurisdiction's TPP tax replacement reliance. Payments were not targeted to those entities whose "full" TPP tax replacement payments (i.e., CY 2010 for local governments, FY 2011 for school districts) accounted for a significant portion of their total revenues. The changes in the FY12-13 budget address this issue.

In contrast to the TPP tax reimbursements, the PUTP tax reimbursements have not exceeded KWH tax and MCF tax revenue deposits, and have actually generated somewhat more revenue than needed to make the required payments. Even so, much of the PUTP reimbursement has been going to school districts and local governments where it represents a small portion of the district's budget. There are relatively few districts (mostly those that contain electric generating plants) where the utility reimbursement represents a significant share of local resources. The changes in the HB 153 budget reflect a decision that the replacement payment allocation should be focused toward those districts where PUTP replacement payments are a significant share of their overall resources.

Explanation of the Tax Reimbursement Programs

Prior Law

School District Utility and TPP Reimbursements

Under the law that existed before the enactment of the FY 2012-2013 budget, TPP tax replacement payments to schools were scheduled to last from 2006 through 2018.[4] Even so, 70% of the CAT was earmarked to generate money for school districts even while the original reimbursements were being phased-out and after their eventual elimination; such revenue was to be distributed to schools through an allocation formula that had not been specified.

PUTP replacement payments for school districts and joint vocational school (JVS) districts were scheduled to run from August 2002 through August 2017. Direct payments for school districts would be eliminated earlier if state aid to the district increased by a large enough amount. PUTP replacement payments to local governments were scheduled to expire after August 2016. Even after the original payments to local governments were "phased-out," the PUTP payments to local governments would continue by means of a different allocation formula included in prior law.

The TPP tax replacement payments provide much different treatment for "fixed-rate" levies and "fixed-sum" levies. With fixed-rate levies, revenues from the tax vary over time as property valuation changes.[5] In contrast, "fixed-sum" levies (debt and emergency

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[4] TPP fixed-rate levy reimbursements would terminate after May 2018 while TPP fixed-sum levy reimbursements would terminate after August 2017. However, the reimbursement for eligible fixed-sum debt levies could go beyond these dates.

[5] The characterization of fixed-rate levy revenue as changing with valuation is an oversimplification. Fixed-rate levy revenue does change with valuation changes, but that change is greatly restricted by what are known as the House Bill 920 tax reduction factors, which essentially work to keep revenue from voted levies constant when valuation changes due to property reappraisal or update. An important exception to

levies) are designed to produce a designated amount of revenue each year, which is usually constant over time; accordingly, the fixed-sum tax rates change over time so that only the intended annual revenue amount is produced. Relatively few local government levies are of the fixed-sum variety while quite a few school district levies are of this type. Under prior law, the fixed-rate tax levy reimbursements phased-out over time; fixed-sum levy reimbursements remained constant until either a specified time (emergency levies) or until the end of the levy (debt levies).

School district replacement payments are differentiated from local government replacement payments by the fact that a portion of the school reimbursements is realized through the state school aid formula. Because the school aid formula provides more aid to districts with lower taxable values per pupil (via a reduced "charge-off'), the legislated reduction in TPP valuation served to increase state aid to school districts. The increased aid to school districts through the state aid formula is essentially permanent, as long as Ohio's formula retains the charge-off concept in its structure. In contrast, under prior law any fixed-rate TPP tax replacement payments to school districts above what was provided through the state aid formula ("direct payments") were to be phased out.[6] Table 1a shows the reimbursement schedule for fixed-rate levies during the phase-out period.

Utility tax replacement payments to school districts share many features with the TPP tax replacement payments. For instance, PUTP payments also provide different treatment for fixed-rate and fixed-sum levies. Direct payments are made to school districts for any required replacement payments that are not already satisfied by means of the state aid formula. The phasing-out of school district direct payments began in FY 2007 through the application of a test that compared the school district's increase in state aid since FY 2002 with its inflation-adjusted utility property tax loss. For school districts whose state aid increase exceeds its utility property tax loss, utility property tax reimbursement direct payments already stopped. In FY 2011, only 133 of the 614 school districts were still receiving current expense utility tax reimbursement direct payments.

Local Government Utility and TPP Reimbursements

Under prior law, the fixed-rate TPP tax reimbursement payments begin phasing out in 2011 (starting with the August 2011 payment) and final payments were scheduled to be made in 2018. PUTP fixed-rate tax reimbursement payments began phasing out in calendar year 2007. However, under the previous law the local government utility tax payments were not fully terminated; these payments were allocated in a different manner (as discussed below). Bond levies were an exception to the phase-out schedule. Bond levies qualifying for reimbursement are reimbursed until the debt is retired. Qualifying emergency levies are reimbursed in full as long as the levy remains in place, through FY 2018.

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this restriction on revenue changes exists for school district fixed-rate levies where the district is at what is known as the 20-mill floor.

[6] Although the phase-out was originally to begin in FY 2012, the FY 2010-2011 state budget bill (HB 1) provided 100 percent reimbursement through FY 2013, with the phase-out instead starting in FY 2014.

Table 1a - TPP Tax Replacement Schedule for "Fixed-Rate" Levies										
HB 66 is the original tax reform/budget bill from 2005; HB 1 is the FY 2101-2011 budget bill, passed in July 2009.										
	FY 10	FY 11	FY 12	FY 13	FY 14	FY 15	FY 16	FY 17	FY 18	FY 19
TPP Tax Replacement to Schools										
Former ORC 5751.21 (C) (10) - (C)(19)										
Percentage of direct payment guaranteed to district: HB 66 (replaced in 2009)	100%	100%	14/17	11/17	9/17	7/17	5/17	3/17	1/17	0
Percentage of direct payment guaranteed to district: HB 1 (replaced in 2011)	100%	100%	100%	100%	9/17	7/17	5/17	3/17	1/17	0
		Tax Year 2010	Tax Year 2011	Tax Year 2012	Tax Year 2013	Tax Year 2014	Tax Year 2015	Tax Year 2016	Tax Year 2017	Tax Year 2018
TPP Tax Replacement to Local Governments										
Former ORC 5751.22 (A) (1) (a) - (A) (1) (i)										
Percentage of payment guaranteed to district: HB 66 (replaced in 2009)		100%	14/17	11/17	9/17	7/17	5/17	3/17	1/17	0
Percentage of payment guaranteed to district: HB 1 (replaced in 2011)		100%	14/17 (a)	11/17	9/17	7/17	5/17	3/17	1/17	0
(a) The reimbursement to local governments in tax year 2011 is 14/17, except that the May-2011 payment (1/7 of										
the tax year 2011 total) is at 100 percent										

Transition of Utility Payments

Under the law that existed before the FY12-13 budget, when direct reimbursement payments to schools and local governments terminated, revenue from the dedicated taxes was not scheduled to entirely revert to the state General Revenue Fund (GRF). Instead, such revenue was to be deposited into the funds that reimburse the schools and local governments.

Revenues in the utility tax school reimbursement fund that exceeded what was necessary to make the direct payment replacement payments to school districts went to the Half-Mill Equalization Fund. This fund is used to supplement the local contribution to a district's Ohio School Facilities Commission-assisted building project if the district has below-average per-pupil property valuation (payments to a school district are to be used for maintenance of new or renovated buildings). However, any balances in the Half-Mill Equalization Fund not needed for that purpose were transferred to the state GRF. In FY 2010, about $32 million in excess utility tax revenues were transferred to the GRF.

For local governments, one-half of the dedicated tax revenue was to be distributed to each county in proportion to each county's population. The other half was to be distributed to each county in the proportion that the tax losses from the utility property tax changes for all taxing units in the county is of the total utility tax losses from all local taxing units in the state.

Changes Enacted by FY12-13 Budget

Reform of Tax Reimbursements

The FY 2012-2013 state budget bill, House Bill 153, changed both the PUTP tax reimbursement and TPP tax reimbursement programs. A basic concept behind the changes is that continued fixed-rate levy replacement payments should be based on a measure of relative need for school districts (including joint vocational school districts) and local governments. The new law uses constructed measures of reliance on the replacement payments for these various local units.

Reliance is measured by calculating the unit's replacement payment as a percentage of the total revenue resources available to the district or government for current operating purposes (see pages 9 and 13 for detail on "resources"). The reimbursement to the unit is then phased out by a uniform standard, requiring the reimbursement to be reduced by the lesser of the reimbursement or an amount not to exceed a designated percentage of the unit's total revenue resources.

The incremental percentage reduction is two percentage points per year. In the first year, the maximum reduction is two percent of resources, followed by a four percent maximum reduction in the second year, and a six percent maximum reduction in the third year. Local governments experience a cumulative maximum reduction of six percent relative to the CY 2010 base year. However, school districts are not subject to the third-year reduction. Their total maximum cumulative reduction is four percent relative to the FY 2011 base year. According to the law enacted by HB 153, fixed-rate reimbursements remain at the levels reached once the maximum three-year (local governments) or two-year (schools) reductions occur.

School District Reimbursements

The fixed-rate current-expense levy TPP reimbursements to school districts operates as follows.[7] If less than a designated percentage of a school district's total resources is attributable to its TPP reimbursements (i.e., TPP reimbursements associated with fixed-rate levies), those direct TPP reimbursements are eliminated. Otherwise, the TPP reimbursements are equal to the FY 2011 reimbursements after a reduction based on the designated percentage. The first-year designated percentage threshold is two percent. So, if a school district's fiscal year 2011 TPP reimbursements represent an amount smaller

[7] This example assumes none of this school district's levies have been terminated between tax year 2010 and 2011.

than the product derived by multiplying the district's total resources by two percent, then such district receives no further TPP reimbursements starting in FY 2012. Otherwise, in FY 2012 the district will receive an amount equal to its FY 2011 TPP reimbursements, less two percent of its total resources. The same procedure occurs for the FY 2013 reimbursements (i.e., using the same TPP reimbursement base-year and the same amount of total resources) except the threshold percentage is four percent. The basic process described for the FY 2012 and FY 2013 TPP school district reimbursements also applies to the PUTP reimbursements. For example, a school district with 7.5% reliance on TPP reimbursement and 0.8% reliance on PUTP reimbursement would lose its entire PUTP reimbursement in FY 2012, but its TPP reimbursement would be reduced by an amount equal to two percent of calculated resources in FY 2012 and four percent of calculated resources in FY 2013.

Local Government Reimbursements

The reimbursement phase-down operates in a similar conceptual manner for local governments. Important differences pertain to the measurement periods and the level of phase-down. The local government reimbursements are structured on a calendar-year basis while school districts use a fiscal year (July to June)-based period. And as mentioned above school districts experience two incremental reimbursement reductions (two percent and four percent in fiscal years 2012 and 2013, respectively) while local governments experience three incremental reimbursement reductions: two, four and six percent thresholds for calendar years 2011, 2012, and 2013, respectively.

It should be noted that under the law enacted by the FY 2012-2013 budget, those schools and local governments receiving payments in 2013 will continue to be reimbursed at that level in future years.

Allocation of CAT, KWH, and MCF Revenue

The changes to the replacement payments are accompanied by law changes that redirect CAT, KWH and MCF tax revenues from the dedicated reimbursement funds to the state GRF.

House Bill 153 deposits 25% of the CAT into the state GRF in FY 2012 and 50% of the CAT into the state GRF in FY 2013. These revenues are still not quite be enough to make the reimbursement payments in those years, but the estimated amount of the GRF subsidy required in FY 2012 and 2013 will be much smaller than the subsidies incurred in FY 2009-2011 (as shown in Table 1). The GRF transfers necessary to make the replacement payments are estimated to be $36 million in FY 2012 and $58 million in FY 2013.

The shares of the CAT dedicated to the GRF and to the TPP tax replacement funds under both prior law and HB 153 are shown in Table 2.

Table 2: CAT Revenue Allocation by Fund, Prior Law vs. HB 153			
Fiscal year	General Revenue Fund	School District Tangible Property Tax Replacement Fund	Local Government Tangible Property Tax Replacement Fund
Prior Law			
2011	0.0%	70.0%	30.0%
2012	5.3%	70.0%	24.7%
2013	10.6%	70.0%	19.4%
2014	14.1%	70.0%	15.9%
2015	17.6%	70.0%	12.4%
2016	21.1%	70.0%	8.9%
2017	24.6%	70.0%	5.4%
2018	28.1%	70.0%	1.9%
2019 and thereafter	30.0%	70.0%	0.0%
HB 153			
2012	25.0%	57.0%	18.0%
2013 and thereafter	50.0%	35.0%	15.0%

For PUTP replacement payments, the GRF will also receive an enhanced share of revenues. Under prior law, all of the MCF tax revenues were dedicated to the two replacement funds. KWH tax revenues were divided between the state GRF and the two replacement funds. HB 153 altered the allocation of MCF and KWH tax revenues in conjunction with the phasing out of the utility tax replacement payments. The MCF tax is now entirely dedicated to the state GRF (the GRF share is 100 percent, compared to zero percent previously). The KWH tax allocation is now allocated as shown in Table 3.

Table 3 - KWH Tax Revenue Allocation by Fund, Prior Law vs. HB 153			
Fiscal year	General Revenue Fund	School District Utility Property Tax Replacement Fund	Local Government Utility Property Tax Replacement Fund
Prior Law			
2011	63.0%	25.4%	11.6%
2012 and thereafter	63.0%	25.4%	11.6%
HB 153			
2012 and thereafter	88.0%	9.0%	3.0%

The remaining sections of this analysis provide some detail about the calculation of the reliance measure (including the special calculations made for counties), the types of levies that are exempt from the general phase-out schedule for replacement payments, and the estimated impacts of the phase-out on school districts and local governments.

Construction of the TPP Reimbursement and Utility Deregulation Reimbursement Reliance Measures, With Examples of HB 153 Reimbursements

Because the phase-out of TPP tax replacement payments and utility tax replacement payments depends on the measured reliance of each school and local government unit on those payments, the calculation of the reliance measure is a crucial part of the HB 153. The law reflects the choice to use revenue data rather than spending data to construct the reliance measures. There were two primary reasons for that choice. First, there is a theoretical argument that, since property tax replacement payments are a form of revenue received by localities, those payments should be measured as a against the total resources available to the unit. Second, there is the more practical consideration that revenue data proved to be more viable to attain than spending data for the schools and local governments. In all cases the reliance calculations used the latest comprehensive data then available. Some of the data are, by necessity, from different years.

School Districts

For school districts, the "total resources" variable is the sum of the following: local property taxes[8], state education aid for FY 2010, school district income tax collections for FY 2010, TPP tax replacement payments for FY 2010 (for operating non-debt levies),

[8] "Local property taxes" are the sum of half the tax year 2008 and half the tax year 2009 current expense property taxes, including state payments for the 10% rollback, 2.5% rollback, and homestead exemption.

and PUTP replacement payments for FY 2010 (for operating non-debt levies). Across all school districts, the calculated total resources figure for FY 2010 is $15.80 billion.

A district's FY 2010 TPP tax reimbursement for fixed-rate current expenses (no debt or emergency levies) is then divided by its total resources variable to obtain that district's TPP reimbursement reliance measure. The same reliance computation and definition of "total resources" exists for JVS districts (except that JVS districts do not have income tax revenue).

Similarly, PUTP reimbursement for FY 2010 is divided by the total resources variable to obtain the utility reimbursement reliance measure for each school district and JVS district.

Note that the numerator of the reliance calculation reflects the TPP tax reimbursement or PUTP tax reimbursement but **excludes** emergency levies, debt levies, and non-current expense fixed-rate levies. **This is because reimbursement payments for outside millage debt levies, emergency levies, and inside millage debt levies are not subject to phase-out** (either full reimbursement or no reimbursement occurs)**.** As under prior law, full replacement payments for debt levies continue as long as the levy is in place, until the bonds are retired. Full replacement payments for emergency levies[9] occur through August 2017 as long as the emergency levy remains in effect.

Replacement payments for non-current expense fixed-rate levies are phased-down in the following manner: reimbursements in FY 2012 will be 75 percent of the FY 2011 level, and FY 2013 reimbursements will be 50 percent of the FY 2011 level. Non-current expense fixed-rate levies include levies for permanent improvement, classroom facilities, educational technology, and recreation. Reimbursement continues at the FY 2013 level (i.e., at 50 percent of FY 2011) for the life of the levy.

An actual example of the total resources variable, reliance and FY 2012 TPP and PUTP reimbursement computations may enhance understanding of how the reimbursement revisions work. Table 4 presents a sample calculation of school district reliance.

[9] Under the TPP reimbursement program, "renewal levies" authorized under RC section 5705.213 are also eligible for fixed-sum reimbursement in the same manner as emergency levies.

Table 4- Reliance Calculations for Indian Lake Local SD in Logan County			
[A]	[B]	[C]	[D]
FY 2010 TPP FIXED RATE DIRECT REIMBURSEMENT	FY 2010 TPP FIXED SUM REIMBURSEMENT	FY 2010 UTILITY FIXED-RATE DIRECT REIMBURSEMENT	FY 2010 UTILITY FIXED-SUM DIRECT REIMBURSEMENT
$927,293	$78,417	$86,936	$5,403
[E]	[F]	[G]	[H=sum of A to G]
FY 2010 STATE AID	PROPERTY TAXES INCLUDING ROLLBACKS	FY 2010 SCHOOL DISTRICT INCOME TAX	TOTAL RESOURCES
$4,963,651	$9,411,430	$0	$15,473,129
[I = C/H]	[J]	[K= J/H]	
UTILITY REIMBURSEMENT AS % OF TOTAL RESOURCES	FY 2011 TPP FIXED RATE DIRECT REIMBURSEMENT	TPP REIMBURSEMENT AS % OF TOTAL RESOURCES	
0.56%	$942,429	6.09%	

We use Indian Lake Local School District (in Logan County) as an example of the change in the reimbursements. Starting in FY 2012, Indian Lake will not receive the $86,936 PUTP reimbursement reduction for fixed-rate current expense levies received in FY 2011 (this outcome does not affect debt and emergency levies). This is because its PUTP reliance is under the 2% threshold.

In contrast, Indian Lake's reliance on the TPP tax reimbursements is over the maximum 4% reduction level, at 6.09%.[10] Its TPP tax replacement payments for fixed-rate current expense levies will phase-out in the following way: 2% of total resources in FY 2012, equaling a $309,463 reduction; and an additional 2% of total resources in FY 2013, equating to another $309,463 reduction. As a result it will receive a $632,966 TPP reimbursement on its fixed-rate levies in FY 2012, and its FY 2013 reimbursement on such levies will be $323,503. The fixed-rate levy reimbursement is currently scheduled to remain at this level, as long as those fixed-rate levies remain in effect. Indian Lake's TPP tax and utility tax replacement payments are recapped in Table 5.

[10] Note that Indian Lake Local School District (LSD) has slightly higher reliance on TPP and PUTP tax replacement payments than the statewide averages for school districts, which are 5.71% and 0.43% respectively.

Table 5 - TPP and Utility Fixed-Rate Levy Reimbursement Example for Indian Local SD					
	FY 2010 Actual	FY 2011 Actual	FY 2012	FY 2013	
TPP Reimbursements	$927,293	$942,429	$632,966	$323,503	
Annual Incremental Reduction			-$309,463	-$309,463	
Utility Reimbursements	$86,936	$86,936	$0	$0	
Annual Incremental Reduction			-$86,936	$0	

Local Governments

Reliance calculations for non-school local governments follow the same general concept as those for school districts. The denominator of the measure is a calculated amount of total resources for current expenses. The variables that enter into the denominator of the reliance calculations differ depending on the type of local government.

The numerators of the reliance calculations are essentially the same as those for school districts. For the both the TPP and PUTP reimbursement reliance measure, the numerator is the reimbursement for calendar year 2010 for fixed-rate current expenses. Reimbursements for municipal debt, capital projects, and pensions are excluded from the calculation.[11]

Municipalities, townships, and special districts have very similar reliance calculations and phase-out formulae. The treatment of the counties is somewhat different. For the counties, there are four different types of levies that are treated separately, almost as if the service provided by the levy was provided by its own unit of government. The four types of levies, corresponding to four categories of service provision, are:

(1) Mental health and developmental disabilities;
(2) Senior services;
(3) Children's services; and

[11] "Municipal current expense property tax levies" means all property tax levies of a municipality, except those with the following levy names: airport resurfacing; bond or any levy name including the word "bond"; capital improvement or any levy name including the word "capital"; debt or any levy name including the word "debt"; equipment or any levy name including the word "equipment," unless the levy is for combined operating and equipment; employee termination fund; fire pension or any levy containing the word "pension," including police pensions; fireman's fund or any practically similar name; sinking fund; road improvements or any levy containing the word "road"; fire truck or apparatus; flood or any levy containing the word "flood"; conservancy district; county health; note retirement; sewage, or any levy containing the words "sewage" or "sewer"; park improvement; parkland acquisition; storm drain; street or any levy name containing the word "street"; lighting, or any levy name containing the word "lighting"; and water.

(4) Public health.

County general fund levies are combined with all other types of county levies into a fifth category, which has its own reliance measures and phase-out formula.

The variables included in the total resource calculation, as well as the estimated amount of total resources, for each type of local government, are shown in Table 6 below.

Clearly, municipalities have the largest total resources for current expenses to draw from ($5.48 billion) due mostly to municipal income tax collections, which reached $4.15 billion in 2008 (slightly more than three quarters of the computed total). Counties are second in total resources for current expenses at their disposal, with $4.77 billion.

Table 6 - TPP and PUTP Tax Reimbursement "Total Resources" Component Used in Local Government Reliance Computations

Dollar amounts in millions

Government Type	Variables Included in "Total Resource" Calculation	Total Resources
Municipality	local property taxes, median annual estate taxes, local admissions taxes, municipal income taxes, local government fund (LGF) distributions, TPP tax reimbursements, PUTP tax reimbursements	$5,481.9
Township	local property taxes, LGF distributions, TPP tax reimbursements, PUTP tax reimbursements	$1,015.5
Special District	local property taxes, LGF distributions, TPP tax reimbursements, PUTP tax reimbursements	$862.1
County General	local property taxes, LGF distributions, county sales taxes, TPP tax reimbursements, PUTP tax reimbursements	$2,086.6
County MH/DD	local property taxes, TPP tax reimbursements, PUTP tax reimbursements	$1,331.7
County Children's Services	local property taxes, TPP tax reimbursements, PUTP tax reimbursements	$412.7
County Public Health	local property taxes, TPP tax reimbursements, PUTP tax reimbursements	$312.6
County Senior Services	local property taxes, TPP tax reimbursements, PUTP tax reimbursements	$129.0

As mentioned above, for purposes of computing reliance measures, and calculating the phase-out of reimbursements, counties are somewhat disaggregated; the reimbursements are segregated by functional expense category. These categories can individually constitute a significant amount of resources. For example, county mental health and disability resources alone are greater than township resources.

Reliance Calculation Outcomes

After computing total resources, the reliance measures were derived. The TPP tax and PUTP tax reimbursements included in the numerator are only those related to fixed-rate levies for current expenses. In the case of school districts, only "direct payment" TPP reimbursements are included.

Aggregate reliance on TPP tax and utility tax reimbursements differs markedly by type of government. As Table 7 shows, school districts have the largest reimbursements in dollars, but they do not have the highest degree of dependency. Townships have the greatest average reliance on utility tax reimbursements, while county public health services have the greatest dependency on TPP tax reimbursements.

Of course, the averages by type of government do not reveal wide variations within each category. Cuyahoga Heights Local SD has a computed 30.7% reliance on TPP tax reimbursements while Nelsonville York City SD has a computed TPP reliance of 0.05%.

Table 7 - TPP Tax and Utility Tax Reimbursement Reliance Measures for School Districts, JVS Districts, and Local Governments (as of July 21, 2011)

Dollar amounts in millions

Amounts shown are for FY 2010 (schools) or calendar year 2010 (non-schools)

Government Type	Total Resources	Total TPP Tax Reimbursement	Total Utility Tax Reimbursement	TPP Reimbursement Reliance	Utility Reimbursement Reliance
School Districts	$15,806.9	$919.89	$67.80	5.8%	0.4%
JVS Districts	$620.7	$32.91	$6.34	5.3%	1.0%
Municipality	$5,481.9	$68.55	$8.65	1.3%	0.2%
Township	$1,015.5	$66.64	$12.16	6.6%	1.2%
Special District	$862.1	$57.47	$8.77	6.7%	1.0%
County General	$2,086.6	$57.99	$10.81	2.8%	0.5%
County MH/DD	$1,331.7	$122.00	$14.65	9.2%	1.1%
County Children's Services	$412.7	$36.99	$4.70	9.0%	1.1%
County Public Health	$312.6	$29.65	$3.27	9.5%	1.0%
County Senior Services	$129	$9.68	$1.25	7.5%	1.0%

With respect to PUTP reimbursements, there are four school districts with reliance measures ranging from 28.7% to 39.6%; after those four districts, the next highest utility tax reimbursement reliance for a school district is 5.0%. Many school districts and JVS districts have less than 2% reliance on utility tax reimbursements and so will see their reimbursement go to zero in tax year 2011 (state fiscal year 2012).

Among local governments, there are somewhat more extreme divergences in reliance within and among types of government. For example, there are six townships whose TPP tax reimbursement reliance exceeds 50 percent of total resources (although the total TPP reimbursement for these townships in 2010 was slightly less than $2 million). There are also two municipalities and six special districts with TPP tax reliance of 50 percent or more.

Only one government, the village of Moscow in Clermont County, has a reliance on PUTP tax reimbursement of greater than 50%, at 50.5% (in fact, there are only three municipalities with over 15% reliance). The township with the greatest reliance on utility tax reimbursement is also in Clermont County – Washington Township, at 44.2%. There are a dozen townships with reliance of 20 percent or more.

State Fiscal Savings from HB 153

State budgetary savings from the changes to the TPP tax reimbursements are $468 million in FY 2012 and $717 million in FY 2013. The total state budgetary savings from the PUTP tax reimbursement phase-down is $108 million in FY 2012 and $114 million in FY 2013. Additional savings is expected through the repeal of the “excess” KWH tax distributions to local governments (discussed below), amounting to an estimated $23 million in FY 2012 and $37 million in FY 2013.

If one includes the effects of eliminating the “excess” distributions, the phase-down of TPP and PUTP reimbursements in the FY12-13 budget bill produces estimated state savings of $599 million in FY12 and $868 million in FY13.

TPP Tax Reimbursements

For school districts alone, the TPP tax current expense fixed-rate reimbursements eliminated in the FY 20102-2013 biennium are approximately $295 million and $525 million, respectively. These reductions are 32% and 57%, respectively, of the FY 2011 amount of $927 million. See Table 8 for these results.

School districts also are receiving TPP tax reimbursements for levies which are non-operating fixed-rate levies.[12] These reimbursements amounted to $26.5 million in FY 2011, an amount that is less than 3% of the current expense TPP tax school district reimbursements. These reimbursements are also phased-down under HB 153, but under a much simpler method that does not involve the computation of reliance percentages. One quarter of the reimbursements are eliminated each year over the two year period from FY 2012 – 2013; reimbursement continues at the 2013 level through 2030.

For JVS districts the same principle applies as for school districts. The current expense levy replacement payments are phased-down based on reliance, but the small amount of non-current expense levy replacement payments are phased down on a straight-line three year schedule.

[12] Non-operating fixed-rate levy purposes include permanent improvement, classroom facilities, recreation, and education technology.

Table 8 - School and JVS TPP Fixed-Rate TPP Tax Replacement Payments for FY 2011-2013 Dollar amounts in millions				
Entity Type	Fixed-Rate Levy Type	FY 11 TPP Tax Reimbursement	FY 12 Reimbursement Reduction	FY 13 Reimbursement Reduction (cumulative)
School District	Current Expense	$919.9	$294.6	$523.0
	pct reduction		32.0%	56.9%
	Non- Current Expense	$25.6	$6.4	$12.8
	pct reduction		25.0%	50.0%
JVS District	Current Expense	$32.9	$12.3	$22.6
	pct reduction		37.4%	68.7%
	Non- Current Expense	$1.3	$0.33	$0.67
	pct reduction		25.0%	50.0%
Total School District and JVS District		$979.7	$313.6	$559.1
			32.0%	57.1%

For the local governments, the calculations in Table 9 are shown by tax year. As with the school districts, the use of the reliance measures is used to phase-out current expense fixed-rate levy replacement payments. However, municipal non-current expense replacement payments are phased-out by 25 percentage point annual increments in tax year 2011, until dropping to a 25 percent level for tax year 2013 and thereafter.

Table 9 - Local Government TPP Replacement Payments			
Includes Current Expense Levies and Others			
Dollar amounts in millions			
	FY 2011	FY 2012	FY 2013
County TPP Reimbursements	$256.2	$156.2	$106.6
Municipality TPP Reimbursements	$78.3	$23.4	$17.1
Township TPP Reimbursements	$66.6	$43.5	$32.4
Special District TPP Reimbursements	$57.5	$35.8	$23.9
Total Local Government TPP Reimbursements	$485.7	$258.9	$179.9
Reimbursement Eliminated Relative to Tax Year 2010 – HB 153		$199.7	$279.3
Percentage of Reimbursement Eliminated		43.6%	60.8%
Reimbursement Eliminated Relative to Tax Year 2010 - Prior Law		$66.3	$151.3
Savings Relative to Prior Law		$133.5	$127.4

PUTP Tax Reimbursements

The phase-down of utility tax reimbursements is much faster than the TPP tax reimbursement phase-down, with almost three quarters of the replacement payments being removed in FY 2012. This is because, as shown in Table 7, the reliance measures for utility tax replacement payments are much lower on average than for TPP tax replacement payments. This rapid phase-out allows the reallocation of the entire MCF tax (forecast at $66 million per year) to the GRF, and a significant reallocation of the KWH tax from the replacement funds to the GRF, as shown in Table 3.[13]

Table 10 provides expected impacts of the PUTP reimbursement changes, by type of entity. It also shows the projected prior-law gain in "excess" local government distributions that will be eliminated by the new law.[14] In the prior law PUTP tax replacement structure, local government replacement payments were to phase-out, but the dedicated KWH and MCF tax revenues were to continue to be deposited into the replacement fund. Any "excess" (or "surplus") revenues remaining in the fund after the replacement payments, were to be distributed to local governments by a specified formula.

[13] In fact, because the GRF amount has actually been a residual after subtracting the dedicated revenues for the replacement funds and half the allocation to the Public Library Fund (PLF), the effective GRF percentage of KWH tax revenues increases by more than shown in Table 3.

[14] The estimates shown here of the savings in direct payments and the savings in avoided "excess" payments are inexact, but more precise estimates should yield the same sum of the two components shown here. That is, any changes to the estimated savings relative to current law in the replacement payments should be offset by an equivalent change to the estimated savings from the excess payments avoided.

Table 10 – School District and Local Government Utility Tax Replacement Payments			
Includes Current Expense Levies and Others			
Dollar amounts in millions			
School and JVS	FY 2011	FY 2012	FY 2013
School District Reimbursements	$71.0	$31.0	$27.5
JVS Reimbursements	$6.5	$1.4	$0.9
School and JVS Utility Reimbursements	$77.5	$32.4	$28.4
Amount of reimbursement eliminated		$45.0	$49.1
Percentage of reimbursement eliminated		58.2%	63.4%
Local Governments	FY 2011	FY 2012	FY 2013
County Utility Reimbursements	$35.2	$4.2	$3.3
Municipality Utility Reimbursements	$11.7	$3.6	$3.3
Township Utility Reimbursements	$12.4	$3.6	$3.3
Special District Utility Reimbursements	$8.8	$1.7	$1.5
"Excess" Local Government Utility Reimbursements	$7.8	$0.0	$0.0
Total Local Government Utility Reimbursements	$75.9	$13.1	$11.4
Amount of reimbursement eliminated		$62.8	$64.5
Percentage of reimbursement eliminated		82.7%	85.0%
Total school, JVS, and local government reimbursement eliminated		$107.8	$113.7
Percentage of reimbursement eliminated		70.3%	74.1%
Projected prior-law gain in "excess" distributions that will not occur due to HB 153 law change		$22.5	$36.6
Net GRF gain relative to current law = TY 2010 reimbursement eliminated plus additional "excess" local government distributions avoided		$130.3	$150.3

Because KWH tax revenues are projected to increase in fiscal years 2012 and 2013, and because the replacement payments continued to phase-out under prior law, there would have been larger excess payments in fiscal years 2012 and 2013 than existed in tax year 2010. The avoidance of this increase in the "excess" payments is the final element of the savings relative to prior law in HB 153, beyond the reductions in direct payments to local governments.

APPENDIX

Table 11 below extends the analysis shown in Table 1 of how the GRF had to subsidize the TPP tax replacement payments to schools and local governments under pre-HB 153 law because CAT revenues have been insufficient to make those payments. Table 11 includes projections for fiscal years 2012 and 2013 under prior (pre-HB 153) law and the law enacted by HB 153. It shows the total resources provided to the GRF with the HB 153 law change: these resources are comprised of GRF revenues attributable to the revised GRF funding share and the reduced subsidies the GRF incurs to make the required tax reimbursements. More specifically, GRF revenues after subsidy are forecasted to be $326.8 million ($363.3-$36.5) in fiscal year 2012 and $677.3 million ($735.0-$57.7) in fiscal year 2013. The table also shows what the fiscal year 2012 and 2013 results would have been had the law not changed: the GRF would have incurred a net loss in each year because the reimbursement subsidy would have been larger than the revenues initially deposited into the GRF. The subsidy in excess of GRF revenues would have been $141.1 million in fiscal year 2012 ($77.0-$218.1) and $39.2 million ($155.8-$195.0) in fiscal year 2013. The differential between these two sets of figures means that the HB 153 law changes will produce an estimated GRF gain of $467.8 million in fiscal year 2012 and $716.5 million in fiscal year 2013.

Table 11 - Commercial Activity Tax Revenues vs. Required TPP Tax Reimbursements
($ in millions)

	FY 2009 Actual	FY 2010 Actual	FY 2011 Estimate	FY 2012 Forecast	FY 2013 Forecast
House Bill 153 Law					
Total CAT Revenues - Baseline	$1,179.2	$1,341.6	$1,436.9	$1,470.0	$1,495.0
Expanded Job Retention Tax Credit				$17.0	$25.0
CAT After JRTC Expansion				$1,453.0	$1,470.0
GRF Revenues - new allocation (25% and 50%)				$363.3	$735.0
Revenue gain to GRF relative to prior law				$286.2	$579.2
Administrative cost reimbursement				$12.4	$12.5
CAT allocated to school and local reimbursements				$1,077.4	$722.5
Required Tangible Property Tax Reimbursements - actual through FY 2011, forecast for FY 2012-2013	$1,275.0	$1,624.0	$1,651.8	$1,113.9	$780.2
Surplus to GRF / (Shortfall paid from GRF)	($95.8)	($282.4)	($214.9)	($36.5)	($57.7)
If Prior Law had continued					
CAT After JRTC Expansion				$1,453.0	$1,470.0
GRF Revenues – prior-law allocation (5.3% and 10.6%)	$0.0	$0.0	$0.0	$77.0	$155.8
Administrative cost reimbursement				$12.4	$12.5
CAT allocated to school and local reimbursements				$1,363.6	$1,301.7
Required Tangible Property Tax Reimbursements - actual through FY 2011, prior law for FY 2012-2013	$1,275.0	$1,624.0	$1,651.8	$1,581.7	$1,496.7
Surplus to GRF / (Shortfall paid from GRF)	($95.8)	($282.4)	($214.9)	($218.1)	($195.0)
Gain in GRF revenues relative to prior law				$286.2	$579.2
Gain to GRF realized through reduced reimbursement subsidy				$181.6	$137.3
Total GRF Gain				$467.8	$716.5