OEPI Research Update:

GRF Tax Revenues, Funding Formula Issues, CAUV, & 2015 School Levy Analysis

Dr. Howard Fleeter

Ohio Education Policy Institute

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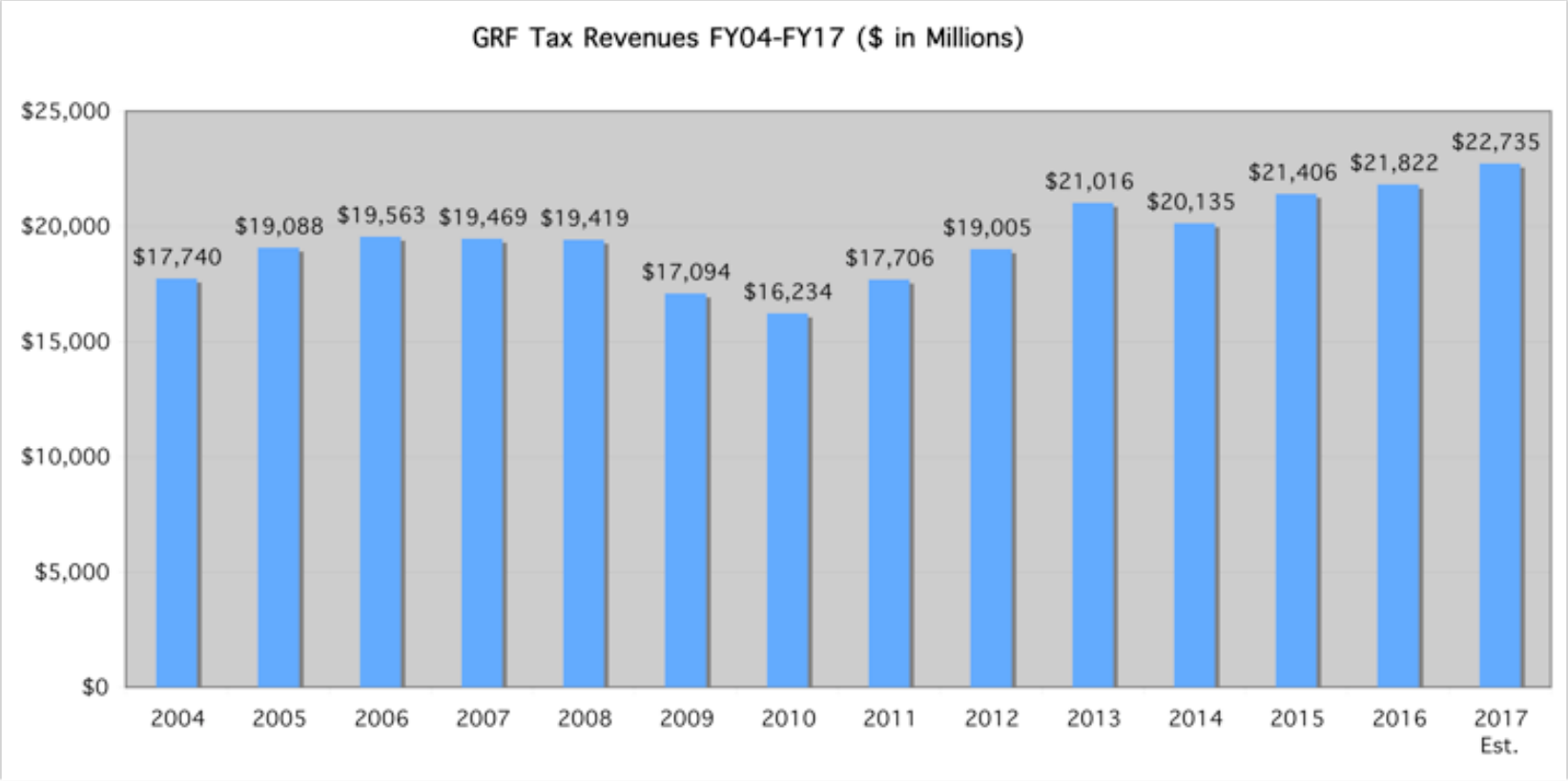
GRF Tax Revenues FY04-FY17



The Preceding Graph Looks Great! However State Policy Changes are a Big Part of the Reason for Increased GRF Tax Revenues

- Reductions in state payments to local governments increased GRF tax revenues in FY12 and FY13. This impact also continued into the FY14-15 biennium.
- This effect occurred because tax revenues that fund payments to local governments are diverted from the state GRF for these purposes.
- Therefore reductions in local government payments increased GRF tax revenues by $870 million in FY12 and $1,550 million in FY13, FY14 and FY15.
- Further reductions in TPP payments will occur in FY16 and FY17.
- The school TPP cuts alone are $149 million in FY16 and another $111 million in FY17. This means that GRF baseline tax revenues are least $149 million less than forecast levels in FY16 and at least $260 million lower in FY17. Thus the cumulative effect of the reduction in state payments to local governments on GRF tax revenues is now approaching $2 billion annually.

Tax Policy Changes Have Also Impacted State GRF Tax Revenues

- Tax policy changes enacted in the FY14-15 and FY16-17 state budgets (primarily continued reductions in state personal income tax rates) have also impacted GRF tax revenues.
- These tax policy changes included an 8.5% income tax rate reduction in 2014, which increased to 10% in 2015. There was also an exemption of 50% of small business income in 2014 which was increased to 75% in 2015. To partially offset these tax deceases, the state sales tax rate was increased from 5.5% to 5.75%.
- The FY16-17 budget continued the steady decrease in state personal income tax rates, this time by 6.3% from 2015 to 2016. The impact of this change is a $900 million reduction in tax revenue. State income tax rates have now been cut by more than 1/3rd since the HB 66 tax reforms of 2005.
- In addition, the small business income tax exemption will be increased from 75% to 100% in 2017.

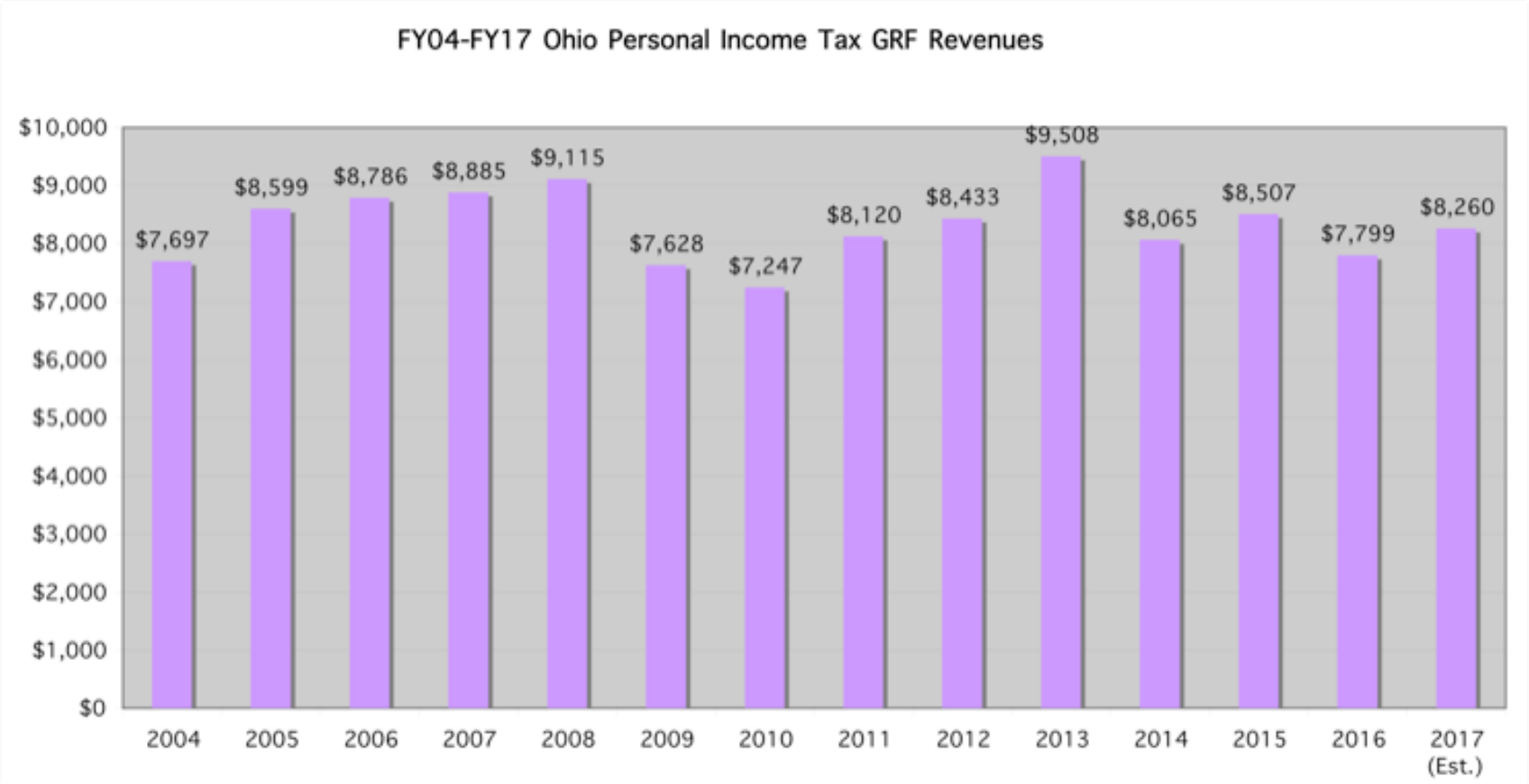
FY16 and FY17 GRF Tax Revenues Lagging Behind Estimates

- What is not visible on the preceding graph is how GRF tax revenues performed compared to estimate in FY16.
- FY16 Estimate = $22.105 billion
- FY16 Actual = $21.822 billion
- Difference = -$283 million
- The Personal Income Tax (-$218 million), Non-auto sales Tax (-$41 million) and CAT (-$26 million) were responsible for the lower than expected revenue performance.
- As a result of the FY16 GRF tax revenue underperformance, FY17 GRF tax revenues were revised downward by $283 million from $23.017 billion to $22.735 billion.
- Through October (the first 4 months of FY17), GRF tax revnues are $160 million below estimate. OBM has indicated that it is unlikely that the income and sales taxes will meet estimate in FY17. However, because of lower than forecast Medicaid spending the state's overall financial picture is still reasonably in balance for the fiscal year.

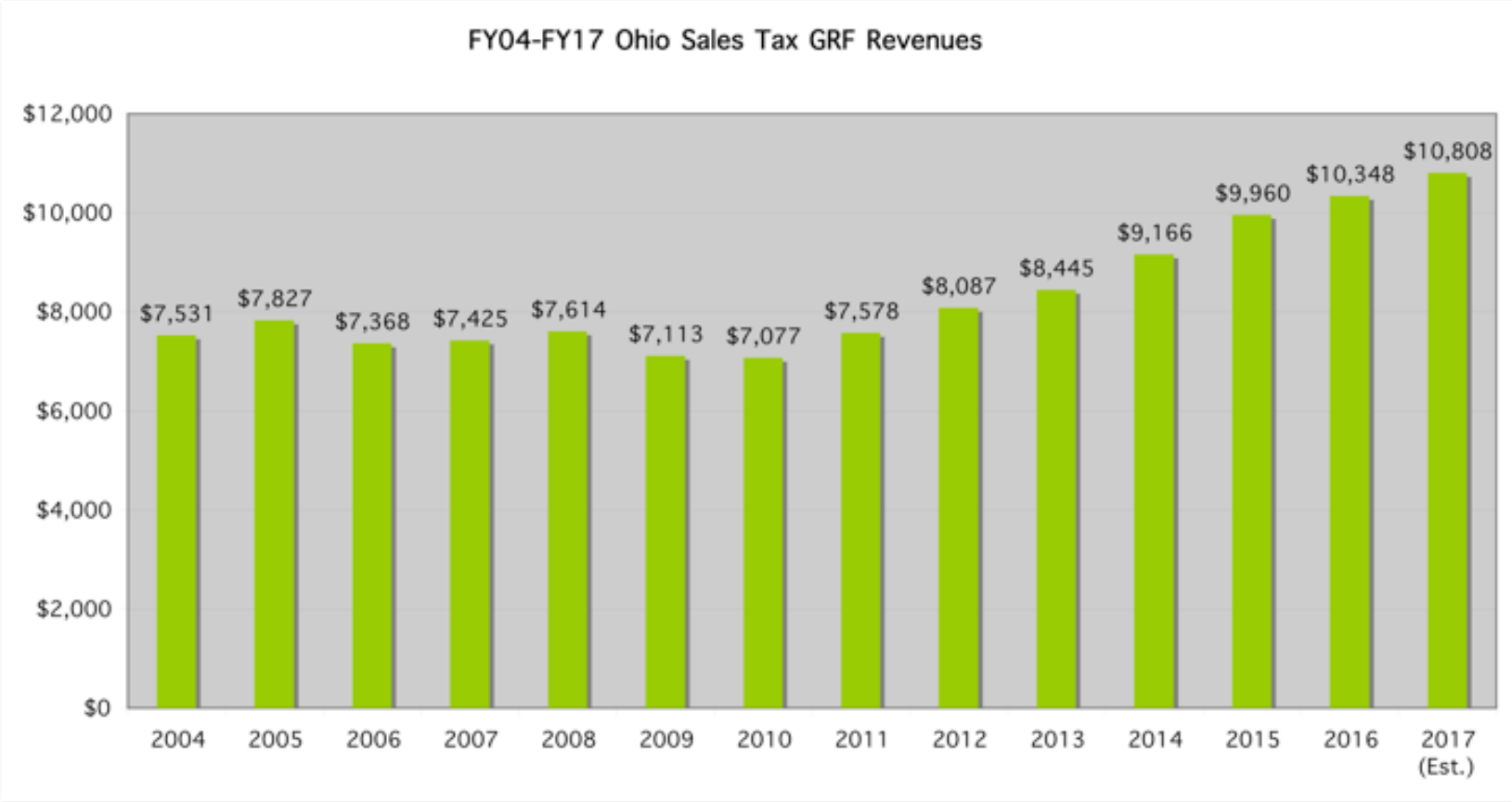
State Income and Sales Tax Trends

- The following 3 graphs show Ohio income and sales tax revenues.
- The 1st graph shows that with the exception of the economic recession in FY09 and FY10, state income tax revenues increased every year from 2004 through 2013. However, revenues fell from FY13 to FY14 as a result of the 8.5% rate reduction for 2014 and after rebounding in FY15, fell again in FY16 due to the 6.3% rate reduction.
- The 2nd graph shows that sales tax revenues have increased steadily ever since the recession ended in 2010.
- The 3rd graph combines income and sales tax revenues and shows that in FY14 state GRF income tax revenues fell below sales tax revenues for the first time since 1986.

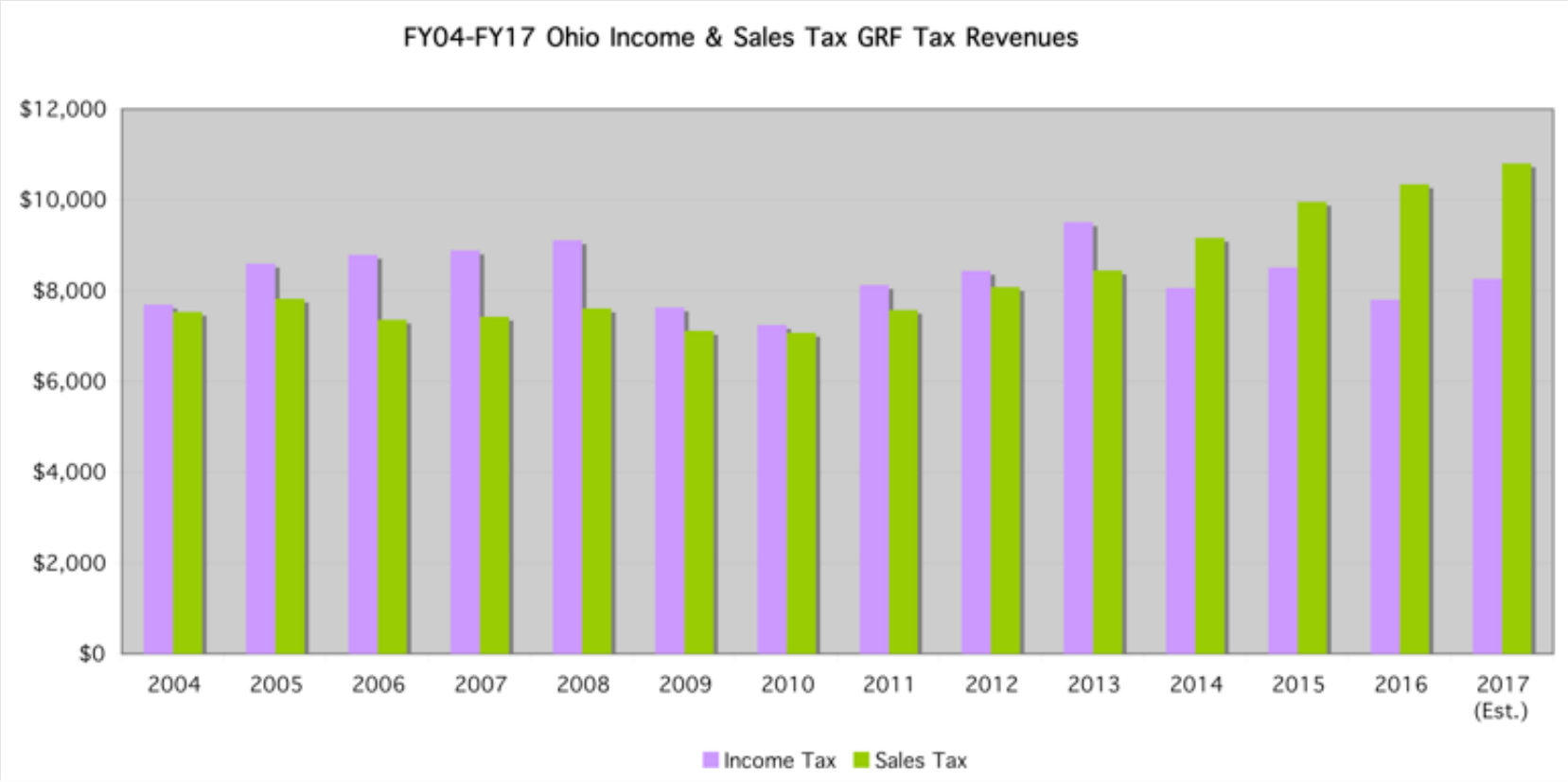
FY04-FY17 Ohio Personal Income Tax GRF Revenues



FY04-FY17 Ohio Sales Tax GRF Revenues



FY04-FY17 Ohio Income Tax vs. Sales Tax GRF Revenues



Selected Funding Formula Issues

- Guarantee & Gain Cap
- Community School Deduction
- Funding for economically disadvantaged students
- TPP Replacement Payment Phase-out

FY15-17 Guarantee & Gain Cap

- Transitional Aid Guarantee:
  - FY15: $165.9 million (188 districts)
  - FY16: $123.6 million (173 districts)
  - FY17: $105.2 million (135 districts)

- Gain Cap (7.5% in both FY16 and FY17):
  - FY15: $669.2 million (237 districts)
  - FY16: $603.9 million (188 districts)
  - FY17: $470.1 million (146 districts)

FY17 figures are based on ODE November # 1 SFPR

Community School Deduction

- Community schools receive 100% state funding for all funding formula components for which they are eligible because they have no local taxing authority
- However, the method of deducting the full per pupil amount (+ categoricals) rather than just the state share of formula aid has been frustrating school districts for nearly 20 years.
- In FY16 119,000 students went to community schools. The deduction amount was $937 million.
- Under the old chargeoff system of determining the local share of funding there was some ambiguity about the extent to which local money was following students to charter schools.
- Under the SSI there is no more ambiguity - local money absolutely follows each student to charter schools.
- I estimate that roughly $280 million (about 30%) was the “local share” of community school funding in FY16.

Direct Funding of Community Schools

- Direct funding of community schools would entail removing community school students from the Formula ADM of school districts (thus eliminating the C.S. deduction) and having the state fund community schools directly.
- However, a decision would have to be made about whether or not to continue including C.S. students in the Total ADM of school districts (as JVSD students currently are). This is important to the calculation of the State Share Index. Preliminary analysis of this issue shows that it does not appear to be as big an issue as previously thought.
- In addition, decisions would have to be made about how to appropriately compute the preceding year "base funding amounts" for districts on the Guarantee and Gain Cap. Simply comparing a year when C.S. students were included in Formula Aid with a year when they are not would very problematic.
- Direct funding of community schools would also cost the state more money, because the current C.S. deduction system is essentially "subsidized" by local school districts.

Ohio's Achievement Gap

- Poverty is nearly perfectly negatively correlated with educational outcomes
- The districts with the highest Performance Index scores have the lowest average % of economically disadvantaged students, and *vice versa*
- The same pattern is true for graduation rate, and college enrollment, and other "prepared for success" measures
- Narrowing this Achievement Gap is one of Ohio's most pressing public policy problems

Funding for Economically Disadvantaged Students

- In FY16 actual (post-gain cap) funding for economically disadvantaged students was $377 million
- In FY99 it was $345 million
- The % of economically disadvantaged students is more than 50% higher now than it was 15 years ago
- Modifying the poverty aid formula will be difficult until ODE determines how to accurately count the number of economically disadvantaged students in districts that utilize the Community Eligibility Program (CEP) for free and reduced price lunch.

Funding for Economically Disadvantaged Students FY99-FY16

Year	Program	Poverty Aid Amount	% Increase	# of Econ. Disadvant. Students	% Econ. Disadvant. Students
FY99	DPIA	$344,923,77		?	
FY00	DPIA	$337,543,39	-2.14%	?	
FY01	DPIA	$333,118,79	-1.31%	494,829	27.0%
FY02	DPIA	$324,640,21	-2.55%	512,624	28.0%
FY03	DPIA	$315,546,71	-2.80%	535,072	29.1%
FY04	DPIA	$322,838,79	2.31%	544,374	29.5%
FY05	DPIA	$330,423,01	2.35%	575,202	31.3%
FY06	PBA	$361,350,11	9.36%	*597,517*	*32.5%*
FY07	PBA	$408,755,29	13.12%	619,247	33.7%
FY08	PBA	$452,149,54	10.62%	616,031	*33.8%*
FY09	PBA	$470,178,046	3.99%	661,151	36.4%
FY10	ECF	--	--	709,928	40.2%
FY11	ECF	--	--	745,121	42.5%
FY12	Bridge Formula	--	--	758,106	43.6%
FY13	Bridge Formula	--	--	795,120	47.8%
FY14	EDA	$332,697,67	-29.24%	801,657	46.5%
FY15	EDA	$372,144,22	11.86%	830,275	48.3%
FY16	EDA	$377,290,97	1.68%	822,111	48.1%
FY01-16 Change		**$44,172,18**	**13.3%**	**327,282**	**66.1%**

SB 208: Modification to TPP Replacement Payment Phase-out

- Instead of basing the TPP reductions on a maximum percentage of each district's total resources, SB 208 provides that each district that is still receiving TPP replacement payments in FY17 will then see annual reductions of a maximum of 5/8th of a mill of local property valuation.
- The SB 208 TPP phase-out formula slows down the loss of TPP replacement payments for many districts. No regular K-12 district is worse off under SB 208 than they would have been under HB 64.

FY11-FY27 TPP Replacement Payments and # of Districts

Fiscal Year	TPP Operating Replacement Payments ($ in millions)	# of Districts Receiving TPP Payments
FY11	$985.9	610
FY12	$651.8	421
FY13	$420.3	260
FY14	$420.3	260
FY15	$420.1	260
FY16	$281.7	202
FY17*	$180.5	131
FY18*	$142.7	101
FY19*	$111.9	82
FY20*	$90.7	69
FY21*	$73.4	56
FY22*	$60.0	44
FY23*	$48.6	42
FY24*	$39.8	35
FY25*	$32.6	29
FY26*	$26.6	22
FY27*	$22.0	19

* FY17 -FY27 figures are estimates prepared by Howard Fleeter based on ODE FY16 data LSC SB208 data.

Average CAUV Value Per Acre, TY2007 - TY2016

Year	Average Value Per Acre	$ Change	% Change
TY07	$181		
TY08	$249	$68	37.6%
TY09	$459	$210	84.3%
TY10	$505	$46	10.0%
TY11	$700	$195	38.6%
TY12	$719	$19	2.7%
TY13	$1205	$486	67.6%
TY14	$1668	$463	38.4%
TY15	$1,388	-$280	-16.8%
TY16	$1,279	-$109	-7.9%
TY07-TY16 Increase		$1098	606.1%

Source: Ohio Department of Taxation, Tax Equalization Division Annual CAUV Explanations

CAUV vs. “Best and Highest Use” Property Values, TY2006-2015

Tax Year	Avg. CAUV Value Per Acre	State Total CAUV Taxable Value	State Total Highest & Best Use Value	CAUV % of H&B Use Value
TY06	$116.46	$1,862,2[illegible]624	$13,567,0[illegible]800	13.7%
TY07	$124.59	$2,000,9[illegible]3434	$14,088,6[illegible]9920	14.2%
TY08	$166.23	$2,671,8[illegible]7240	$15,174,6[illegible]8860	17.6%
TY09	$191.16	$3,082,7[illegible]7365	$15,422,0[illegible]0980	20.0%
TY10	$224.42	$3,621,2[illegible]2584	$15,789,7[illegible]7520	22.9%
TY11	$322.91	$5,220,4[illegible]9230	$16,862,8[illegible]8080	31.0%
TY12	$348.01	$5,629,1[illegible]9220	$17,242,2[illegible]2070	32.6%
TY13	$420.53	$6,803,9[illegible]6520	$18,100,6[illegible]6450	37.6%
TY14	$651.55	$10,526,2[illegible]2850	$20,404,2[illegible]2890	51.6%
TY15	$714.32	$11,512,5[illegible]8865	$21,195,8[illegible]8735	54.3%
% Increase TY06-TY15	513%	518%	56%	

Source: Ohio Department of Taxation PD32 data files, 2006-2015

CAUV Compared to Total Agricultural Property Value, TY2006-2015

Tax Year	State Total CAUV Taxable Value	State Total Agricultural Value	CAUV as% of Ag Value
TY06	$1,862,2[illegible]624	$9,095,4[illegible]290	20.5%
TY07	$2,000,9[illegible]434	$9,415,7[illegible]235	21.3%
TY08	$2,671,8[illegible]240	$10,286,8[illegible]610	26.0%
TY09	$3,082,7[illegible]365	$10,635,8[illegible]490	29.0%
TY10	$3,621,2[illegible]584	$11,260,0[illegible]760	32.2%
TY11	$5,220,4[illegible]230	$12,764,5[illegible]360	40.9%
TY12	$5,629,1[illegible]220	$13,128,6[illegible]340	42.9%
TY13	$6,803,9[illegible]520	$14,348,9[illegible]580	47.4%
TY14	$10,526,2[illegible]850	$18,136,3[illegible]849	58.0%
TY15	$11,512,5[illegible]865	$19,215,2[illegible]300	59.9%

Source: Agricultural values from Ohio Dept. of Taxation SD1 data files, 2006-2015

If CAUV Values are going back down, then why is this still a problem?

- CAUV values are determined by the Ohio Department of Taxation based on a complex formula that depends on several factors:
  - Crop Yields, Planting Patterns & Soil Types
  - Crop Prices & Productions Costs
  - Capital Costs
- Because crop prices typically fluctuate widely, crop prices for any given year are based on a 7 year rolling average with the high and low values discarded.
- From 2009 to 2012 Ohio crop prices increased steadily to record highs while interest rates have remained at historic lows. Prices have since fallen in 2013, 2014 and 2015.
- These factors have combined to raise CAUV values steadily since 2007. In 2005, CAUV values were at record lows and by 2014 they had risen to record highs.
- As the next slide explains, CAUV tax increases for farmers have continued even though CAUV values have fallen since 2014.

CAUV is also a HB 920 Problem

- Recent media reports have detailed that CAUV values in certain counties have increased more than 100%.
- This is because the CAUV changes are (rightly) considered to be inflationary increases in property values, so even though the CAUV values are recomputed every year they are only implemented every 3 years when counties undergo property reappraisal or update.
- As a result, farmers experience 3 years of CAUV changes all at once.
- Additionally, because the CAUV values are averaged, farmers in districts undergoing reappraisal and update have seen CAUV values continue to rise even though the yearly values are now declining.

CAUV is also a HB 920 Problem

- From a school district perspective, CAUV increases do not necessarily translate into greater property taxes because of the HB 920 reduction factors.
- In addition, because the HB 920 reduction factors apply to Class 1 values as a whole, large increases in CAUV values are resulting in tax shifts from residential taxpayers to agricultural taxpayers.
- In extreme cases where residential values have fallen while CAUV values have increased (i.e Montgomery County in 2014), farmers see a tax rate increase in addition to their valuation increase - a double whammy.

HB 398 and SB 256 - Further Modifications to the CAUV Formula

- In response to complaints from farmers about rising tax bills, the Ohio Farm Bureau has been pursuing additional modifications to the CAUV formula. Indications are that these changes will be considered in the lame duck session.
- Because agricultural and residential property are both part of Class 1 real property, any changes that reduce the value of agricultural property will result in increases in taxes for residential taxpayers.
- The magnitude of these tax shifts depend on the extent to which CAUV values are reduced and the percentage of agricultural and CAUV property within the district.
- Furthermore, even districts with little CAUV property will be negatively impacted as their state share of formula funding will fall as a result of appearing wealthier compared to the statewide average property value per pupil.

2014, 2015 & 2016 School Levies by Election

Election	Total #of Issues	#Passing	#Failing	2014% Passing
February	1	0	1	0.0%
May	147	101	46	68.7%
August	7	1	6	14.3%
November	162	105	57	64.8%
2014 Totals	**317**	**207**	**110**	**65.3%**

Election	Total #of Issues	#Passing	#Failing	2015% Passing
February	3	3	0	100.0%
May	102	86	16	84.3%
August	3	2	1	66.7%
November	109	92	17	84.4%
2015 Totals	**217**	**183**	**34**	**84.3%**

Election	Total #of Issues	#Passing	#Failing	2016% Passing
February	NA	NA	NA	NA
March Primary	68	48	20	70.6%
August	14	4	10	28.6%
November	150	115	35	76.7%
2016 Totals	**232**	**167**	**65**	**72.0%**

School Operating and Capital Levies from 2007-2016

Year	Total # of Issues	% Passing	# Operating Issues	% Passing	# Capital Issues	% Passing
2007	406	50.7%	247	51.4%	159	49.7%
2008	427	53.4%	255	52.2%	172	55.2%
2009	378	60.6%	251	63.3%	127	55.1%
2010	429	53.1%	317	52.7%	112	54.5%
2011	366	51.6%	275	50.9%	91	53.8%
2012	339	56.6%	245	56.1%	95	57.9%
2013	351	57.5%	236	58.9%	115	54.8%
2014	317	65.3%	207	69.1%	110	58.2%
2015	217	84.3%	149	88.6%	68	76.5%
2016	232	72.0%	136	77.9%	96	63.5%

New and Renewal School Operating Levies from 2007-2016

Year	Total # of Operating Levies	% Passing	# New Levies	% Passing	# Renew & Replacement Levies	% Passing
2007	247	51.4%	123	22.8%	124	79.8%
2008	255	52.2%	135	24.4%	120	83.3%
2009	251	633%	122	35.2%	129	89.9%
2010	317	52.7%	173	26.0%	144	84.7%
2011	275	50.9%	168	26.2%	107	89.7%
2012	245	56.1%	138	33.3%	106	85.8%
2013	236	58.9%	135	36.3%	101	89.1%
2014	207	69.1%	69	31.9%	138	87.7%
2015	149	88.6%	26	65.4%	123	93.5%
2016	136	77.9%	33	42.4%	103	89.3%

New & Replacement vs Renewal School Operating Levies from 1994-2016

Year	# of New Operating Levies	# of Replacement Oper. Levies	# of Renewal Operating Levies	Total # of Operating Levies	# of New + Replacement Oper. Levies	% New + Replacement Oper. Levies	
1994	281	1	54	336	282	83.9%	
1995	262	16	43	321	278	86.6%	
1996	205	14	60	279	219	78.5%	1994-97 Avg
1997	161	17	49	227	178	78.4%	**82.3%**
1998	92	10	72	174	102	58.6%	
1999	105	17	64	186	122	65.6%	
2000	96	12	106	214	108	50.5%	
2001	82	16	73	171	98	57.3%	
2002	107	15	79	201	122	60.7%	
2003	169	23	78	270	192	71.1%	
2004	313	25	97	435	338	77.7%	
2005	255	13	94	362	268	74.0%	1998-06 Avg
2006	184	13	85	282	197	69.9%	**67.4%**
2007	121	19	107	247	140	56.7%	
2008	131	11	113	255	142	55.7%	
2009	119	12	120	251	131	52.2%	
2010	173	13	131	317	186	58.7%	
2011	168	4	103	275	172	62.5%	
2012	138	3	103	244	141	57.8%	2007-13 Avg
2013	135	3	99	237	138	58.2%	**57.5%**
2014	67	3	137	207	70	33.8%	
2015	26	2	121	149	28	18.8%	2014-16 Avg
2016	33	1	102	136	34	25.0%	**26.8%**
1994-2013 Average	165	13	87	264	178	67.3%	

2016 School Levy Summary

- The preceding slides show that there were only 232 school levies (136 operating levies and 96 capital levies) on the ballot in 2016.
- The 232 school levies is the second lowest since 1984 (the earliest year I have complete data), with only the 217 total levies in 2015 being lower. The 136 operating levies on the ballot in 2016 is the lowest since HB 920 was passed in 1976.
- Even more significantly, there were only 33 new operating levies on the ballot in 2016. 2014, 2015 & 2016 are the 3 lowest totals of new operating levies ever.
- Finally, the unusually high 72.0% passage rate of school levies in 2016 is largely due to the very high proportion of renewal levies on the ballot which typically pass at more than twice the rate of new levies.