



Ohio Legislative Service Commission

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Fiscal Note & Local Impact Statement

Bill: H.B. 99 of the 131st G.A.

Date: May 4, 2015

Status: As Introduced

Sponsor: Rep. Curtin

Local Impact Statement Procedure Required: No

Contents: Requires proceeds from the state income tax to be distributed in support of primary and secondary education

State Fiscal Highlights

- No direct fiscal effect on the state, but the bill may change how GRF revenues are allocated among primary and secondary education and other state programs.

Local Fiscal Highlights

- The bill may or may not have a direct fiscal impact on school district subsidies provided by the state, as income tax receipts could dictate a higher level of spending on primary and secondary education than would otherwise have been the case.
- The bill does not prevent the General Assembly from supplementing income tax revenues with other GRF tax sources to support the desired level of primary and secondary education funding, the vast majority of which is paid out as subsidies to school districts and other educational entities.
- Ultimately, the impact of the bill on political subdivisions is uncertain because it depends on appropriations set in the budget process and the allocation of state resources among competing needs every two years.

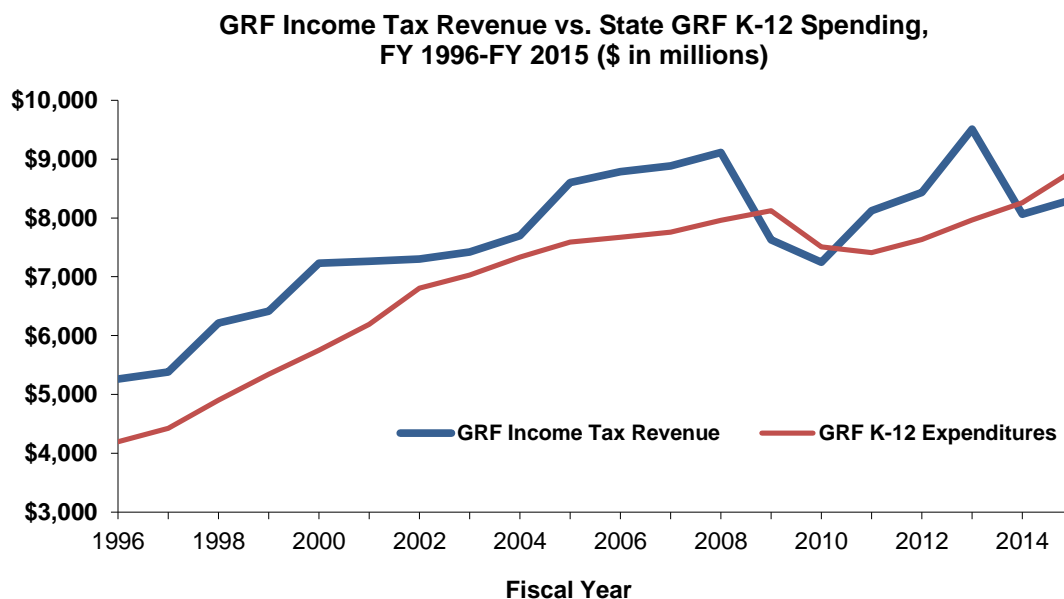
Detailed Fiscal Analysis

The bill requires state income tax collections credited to the General Revenue Fund (GRF) to be spent for the sole purpose of supporting elementary, secondary, vocational, and special education programs, hereafter referred to as primary and secondary education. Under continuing law, all revenue from income tax collections, except for amounts contributed to the Ohio Political Party Fund via an income tax checkoff, is credited to the GRF. Under current law, state appropriations of this revenue are, generally, unrestricted. However, under Section 9 of Article XII, Ohio Constitution, at least 50% of the income tax collected must be returned to the county of origin. Also,

under continuing law, 1.66% of all revenue credited to the GRF is transferred to the Local Government Fund and an additional 1.66% is credited to the Public Library Fund.

Although the bill guarantees that income tax revenues are dedicated to primary and secondary education funding, the bill has no direct fiscal impact on the state, as the bill neither changes tax policy with respect to rates or the tax base nor requires a net change in GRF expenditures. However, to the extent that income tax receipts in the future are greater than what the General Assembly would appropriate for primary and secondary education without the bill's restriction, the bill may result in higher appropriations for primary and secondary education and lower appropriations for other purposes.

The chart below compares GRF income tax revenues to state-source GRF spending on primary and secondary education over the past 20 fiscal years. As the chart shows, GRF income tax revenues have generally exceeded GRF primary and secondary education expenditures in varying amounts. The amount by which income tax revenues exceed primary and secondary education expenditures annually has been as much as \$1.5 billion during this period. However, in FY 2014 and FY 2015, such expenditures were or are estimated to be greater than GRF income tax revenues. In FY 2014, the difference was \$192.5 million. This amount grows to \$482.8 million based on estimated spending and tax revenue forecasts for FY 2015.¹



Assuming no change in tax policy from current law, LSC forecasts GRF income tax revenues to total \$9.1 billion in FY 2016 and \$9.5 billion in FY 2017. Under the House-Passed version of H.B. 64 of the 131st General Assembly, the most recent version

¹ LSC's current forecast of FY 2015 GRF income tax revenues is \$8.3 billion and GRF expenditures for primary and secondary education are estimated at just under \$8.8 billion.

of the main operating budget bill for the upcoming biennium, GRF appropriations for primary and secondary education are set at \$9.2 billion and \$9.7 billion in FY 2016 and FY 2017, respectively. It is possible, therefore, that in the upcoming biennium the bill will not change the allocation of state spending. However, the amounts that are required for primary and secondary education, under the bill, will be based on actual receipts not the forecasts. Actual receipts will depend on several factors, primarily state tax policy and the state of the economy. Revenues fluctuate with changes to the taxable base and to the tax rates. Also, receipts fluctuate with the business cycle. Generally, a growing economy increases the tax base while a sagging economy acts to decrease the tax base.

As noted above, GRF primary and secondary education spending has exceeded GRF income tax revenue recently and may continue to do so in the upcoming biennium. Note that the bill does not prevent the General Assembly from supplementing income tax revenues with other GRF tax sources to support the desired level of primary and secondary education funding. Therefore, the bill may or may not have a direct fiscal impact on school districts and other outside entities that receive revenue in the form of subsidies from the state. Of the \$8.3 billion in GRF expenditures for primary and secondary education in FY 2014, about \$7.8 billion, or 94.6%, went out as subsidy. Ultimately, the impact of the bill on school districts and other political subdivisions is uncertain because it depends on appropriations set in the budget process and the allocation of state resources among competing needs every two years.