State cuts sting Ohio localities

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In the last five years, Ohio began replenishing its coffers by cutting revenues to local government, eliminating the estate tax, ending reimbursements for local taxes abolished earlier and slashing revenue sharing in half. The cuts have slowed recovery in some communities hit by the foreclosure crisis, shuttered recreation centers in others, eroded human services, caused hikes in fees for services such as trash pickup and swimming pools, driven privatization of critical services and left local officials with diminished ability to maintain streets and roads.

Casino revenues have not replaced losses in large or small cities. They help some counties but are insufficient to help others. Growth of other local funding sources, such as the Medicaid provider tax in the sales tax base and Ohio Bureau of Workers Compensation rebates, have helped in some years and in some places. Cities have not seen much relief from these sources.

Key findings

- Local governments have lost more than a billion a year by 2017 compared to 2010, adjusted for inflation.
- Biggest losers are the biggest cities and urban counties.
- Eliminating estate tax clobbered revenues in some smaller cities.
- Casino tax revenues and MCO sales tax revenues cushion small counties.
- Human services levies hit hard by loss of tax reimbursements.
- Motor fuel tax revenue has not kept pace with inflation, adding to local fiscal pressures.

Another state budget brings another round of threats, even as needs grow. The drug epidemic is fought at the local level. Resources in public health, mental health, addiction services and public safety are thin, even with new levies approved this year. Counties and public transit agencies may lose hundreds of millions in sales tax revenues as the state changes the Medicaid provider tax ("MCO tax") to comply with tax laws. The cost of maintaining local streets and roads has grown more rapidly than gas tax revenues, which have not kept pace with inflation. Uncertainty around federal funding for critical needs, including health and human services, makes planning for local public services more difficult. The municipal income tax faces unquantified changes that many fear will also hurt revenue.

This year, legislators could take a new approach, holding local governments harmless as they adjust the MCO tax, boosting state share of funding in critical human services and restoring revenue sharing. The motor fuel tax could be raised, boosting resources for road and street repair everywhere in the state.

In this report, Policy Matters Ohio reviews statewide budget cuts and changes in tax policy that have reduced local governments' bottom line. We examine 20 percent of counties, and municipalities within those counties, to demonstrate how the various types of cuts affect different types of jurisdictions. We interviewed fiscal officials to gauge how coping strategies have changed. We found wide variation in impact by size and type of local government. Some units have not been badly hurt; others have faced daunting loss; few have been unscathed. Our policy recommendations for the pending state budget include:

- **Retain the MCO tax or replace lost revenues to counties and transit.** Retaining managed care services in the sales tax base while broadening the base would preserve local revenues. Alternatively, replacement funds could be provided through restoration of revenue sharing through the Local Government Fund.

- **Raise the gas tax and distribute additional funds to local governments.** Ohio's motor fuel tax is more than 20 percent lower than the gas tax rates in Pennsylvania, Michigan, Indiana, Illinois and West Virginia. Ohio's local governments are responsible for the majority of lane miles and bridges. Construction costs have risen but inflation has eroded motor fuel and auto license distribution. This creates fiscal problems for local government that can and should be addressed by the state.

- **Boost spending for public transit**. The Ohio Department of Transportation found that in 2015, Ohio's system failed to meet market demand by 37.5 million rides because of insufficient state financing. The report suggested that the state should pay for 10 percent of public transit costs – it presently pays for 1 percent – and called for an annual investment of $120 million to meet demand.

- **Restore Local Government Fund.** To enable communities to address varied needs, the state should restore revenue sharing through the Local Government Fund.

- **Restore estate tax on estates worth over $1 million.** Reinstate an estate tax on Ohio's wealthiest estates – those over $1 million in value – and direct the revenues to local government entities. In the past, this money was used to pay capital costs of police fleets and fire trucks, taking pressure off a community's general fund.

- **Pick up a larger share of health and human services.** Ohio communities bear a far greater share of the cost of health and human services than in other states. In addition, local levies provide less funding because the state phased out reimbursements for local business and utility taxes abolished in 2005. With state cuts to local governments, the burden of providing services should be recalibrated as well. Because Ohio has cut revenue sharing and tax reimbursements, the state needs to provide more funds for things like children's services, community mental health and addiction treatment.