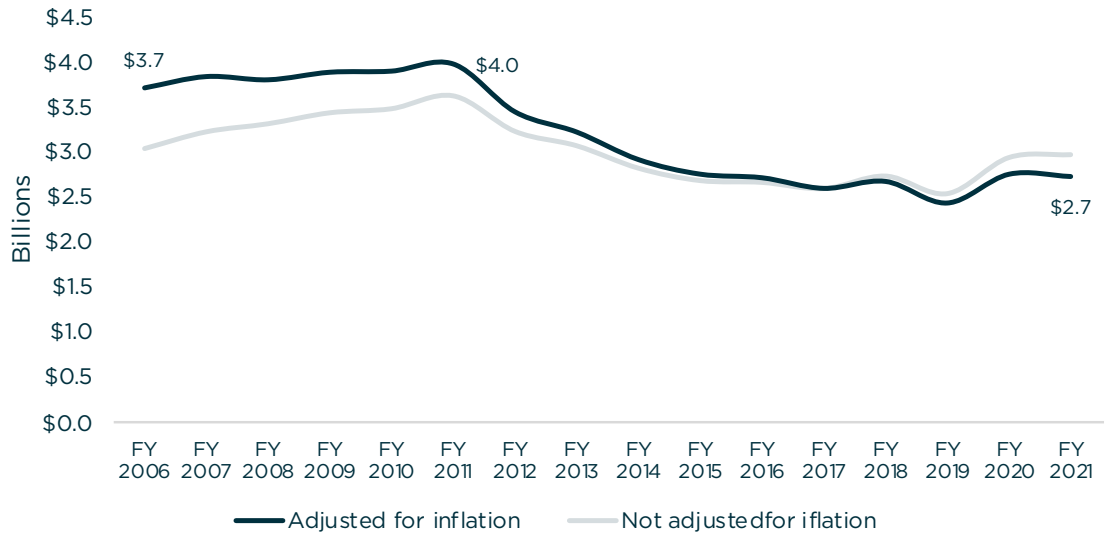
Local Government

Ohio's state and local governments are intertwined through services and funding. The state provides funding for services that local governments deliver, including many health and human services. The state provided revenue sharing so localities could meet their own, diverse needs.

Over the past eight years, state policymakers cut revenues sharing in half. They eliminated the tangible personal property tax but provided reimbursement for revenue loss; these reimbursements were phased out. They abolished the estate tax. Motor fuel taxes shrank and casino revenues did not grow enough to replace the losses. By the end of 2021, local governments will be getting $1.3 billion a year less - adjusted for inflation – than they got in 2011, the last budget year before the cuts started in the budget for 2012-13. Figure 14 gives a visual representation of the cuts.

Figure 14

State lawmakers have curtailed local governments revenues over time (Adjusted for inflation, billions of dollars)



Source: Policy Matters Ohio, based on Ohio Legislative Service Commission (LSC) appropriation spreadsheets and Ohio Department of Taxation data on casino revenues and Medicaid Managed Care Organization sales tax revenues. Deflated using CPIU-RS, 2018$$, inflation for 2020 and 2021 based on Ohio LSC forecasts in June 2019 revenue forecast to Conference Committee. This chart includes Gross Casino Revenue Payments-County, Gross Casino Revenue- Host City, Property Tax Replacement Phase Out - Local Government, Property Tax Reimbursement - Local Government, Local Government Property tax Replacement – Utility, Local government property tax replacement – business, Gasoline Excise Tax Fund, Public Library Fund, State and Local Government Highway Distributions, Local Government Fund, Auto Registration Distribution, Local government services collaboration, Local government revenue assistance, Local government and library support fund, Estate tax, Tangible tax exemption, Medicaid Managed Care Organization (MCO) sales tax revenues and the MCO Local Sales Tax Transition Fund.

The 2020-21 budget helps many local governments, especially smaller and rural ones. Across non-program sources, local governments – counties, municipalities, levies and townships – gain $633 million (12%) compared to 2018-19. The biggest increase is in gas tax revenue, from the Transportation budget. Table 3 compares local government funds provided by the state to localities in the 2020-21 budget compared to the prior, two-year budget period.

Table 3

Gas tax boosts revenues for local governments, 2020-21 budget period (Millions of dollars; not adjusted for inflation)

2019 Incomes	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Income Range	Less than $24,000	$24,000 – $42,000	$42,000 – $63,000	$63,000 – $101,000	$101,000 – $208,000	$208,000 – $496,000	$496,000 or more
Tax Change as % Total of Income	+0.25%	+0.23%	+0.19%	+0.15%	+0.11%	+0.06%	+0.03%
Average Tax Change	+$35	+$75	+$98	+$120	+$146	+$168	+$368
Share of In-State Tax Increase	+7%	+15%	+20%	+25%	+22%	+7%	+4%

Source: Policy Matters Ohio, based on Ohio Legislative Service Commission (LSC) appropriation spreadsheets and Ohio Department of Taxation data on casino revenues and Medicaid Managed Care Organization sales tax revenues.

Many policy changes and changes in program funding affected local governments in the new budget. A few are highlighted below.

MEDICAID LOCAL SALES TAX

A Medicaid provider tax known as the Managed Care Organization (MCO) tax was placed in the base of the sales tax in 2009 and distributed to counties based on residence of Medicaid enrollee. The state moved this tax to the base of the insurance tax in 2018. The change left counties, and transit agencies that levied a sales tax, with an annual loss of millions of dollars. The state provided replacement funds in the budget for 2018-19 at a level comparable level to annual MCO tax revenues state-wide. Lawmakers gave extra funds to some counties and transit agencies with the least capacity to replace lost revenues from local sales or property taxes. The transition fund was not renewed in the budget for 2020-21.

TRANSPORTATION-RELATED FUNDING

House Bill 62, the transportation budget, boosted the gas tax by 10.5 cents per gallon for gasoline and 19 cents per gallon for diesel, which will substantially increase revenues in the Gasoline Excise Tax Fund for local governments.[1] The new revenues are restricted: per ongoing state policy, they can only be used on roads, bridges and related expenditures.

In some smaller counties, this boost makes up for the loss of the MCO tax, although there is a loss in flexibility. In big cities and urban counties, increased gas tax revenue will provide millions of dollars, but does not begin to make up for losses over time. In Cleveland, for example, the additional $5.8 million the city gets because of the new gas tax rates is helpful but does not make up for the $25 million loss over the decade.[2]

NEW LOCAL TAX AUTHORITY

At the same time that local revenue sources were eliminated and state cuts made, lawmakers made it easier for locals to raise taxes in other ways, by allowing smaller increments of sales taxes to be imposed and broadening the uses of sales tax funds. This illustrates how income tax cuts and slashed state revenue sharing has been replaced in part by increases in local taxes which, like the sales tax, tend to weigh the most heavily on people of low income.

LOCAL GOVERNMENT FUND (LGF) AND PUBLIC LIBRARY FUND (PLF)

The share of state revenue dedicated to these revenue sharing lines rises by .02 percentage points in each of these funds, which boosts state aid by $10 million over the biennium to the Local Government Fund and $10 million to the Public Library Fund.

Separately from legislative action, state revenues that are shared through the LGF and the PLF have grown overall, so the LGF rises by $94 million during the 2020-21 budget period compared to the prior biennium, and PLF by $64 million.

COUNTIES WELCOME INCREASED FUNDS FOR SERVICES

In Ohio, children's services are largely funded at the local level, but the drug epidemic boosted needs which strained local budgets. The boost in state funding of public children services agencies, which is doubled to $200,000 for each county annually, will help.[3]

Lawmakers also increased funding for indigent legal defense, which is legal representation for people accused of a crime who cannot afford a lawyer. State and local government share this cost.[4] The state and counties ostensibly split the cost, but counties pointed out that there were years that the state did not pay its fair share, straining county budgets. According to 2019-20 the legislative platform of the County Commissioners' Association of Ohio, the state reimbursement rate to counties has averaged 35% over the last 10 years.[5]

The new budget bill for 2020-21 increases reimbursement to counties by $152 million over the two-year budget period, a 248% increase that boosts funding for this service from about $31 million a year in the last budget to $125 million in 2021.

MORE AND EXTENDED TAX BREAKS AND TAX ABATEMENTS

Were authorized for local governments, including exclusion of certain "top hat" retirement plans from the municipal income tax and expansion of property tax breaks. Other changes included expanded tax abatements for arenas and convention centers in certain counties and allowing tax increment financing (TIF) to be extended to 30 years instead of 15 in certain instances. The governor vetoed one tax break for undeveloped, subdivided residential land that could have cost local governments millions.[6]

Ohio localities have turned to 'bootstrap' strategies like increased TIFs and other tax incentives in the face of state cuts and other revenue loss. Yet tax incentives at the state and local level sap funds for critical public services like good schools, clean water, and safe streets, and are often used to attract profitable, even multinational firms at the expense of local residents and existing businesses.

Endnotes

1. "ODOT Budget Facts," Ohio Department of Transportation, at https://bit.ly/2muF5Kh
2. See Ohio Department of Transportation, "Local Gas Tax Revenue" at https://bit.ly/2muF5Kh and Patton, Wendy, "State cuts sting Ohio localities," Policy Matters Ohio, Dec. 19, 2016 at https://bit.ly/2MEX4GM
3. Language in HB 166 restrains counties that funded child protective services in 2019 from eliminating that funding as new state dollars flow. The formula for restraint will be developed by the state.
4. Patton, Wendy, "Investing in Ohio and Ohioans," Policy Matters Ohio, Feb. 22, 2019 at https://bit.ly/2Tfr42N; see also, Futty, John, "Providing poor with defense lawyer varies by county," Columbus Dispatch, March 23, 2013 at https://bit.ly/2Vo36QH and
5. County Commissioners Association of Ohio 2019-2020 Legislative Platform at https://bit.ly/2gjswfg
6. Patton, Wendy and Zach Schiller," Ohio's Ballooning Tax Breaks" Policy Matters Ohio, September 5, 2019 at https://bit.ly/2ma5nla