Policy Matters Ohio

Local government

How the 2022-23 state budget will affect Ohio local governments

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Policy Matters Ohio priority: *Help local governments provide critical public services.*

Recommendation: *Restore state aid for local governments to 3.68% of general revenue.*

Budget outcome: *Not good. State revenues are up, so flexible aid — described below — increased at about the pace of inflation over the next two years. The Local Government Fund lost a bit, reduced from 1.68% to 1.66% of state GRF revenues. State law mandates municipalities must provide refunds on the commuter tax.*

Local governments will receive about $5.9 billion in flexible state funds across eight separate line items in the two-year budget for 2022-23. This is forecast to be $222 million more (3.9%) than in the prior biennial budget. Funding rises not because lawmakers boosted aid but, in part, because state revenues — which are shared on a very small scale with local governments through the Local Government Fund — are projected to rise over the next two years. In addition, property values are rising, which means the state share of residential property taxes — 10% for all residential property and an additional 2.5% for homeowners who live in their homes — is forecast to increase, too.

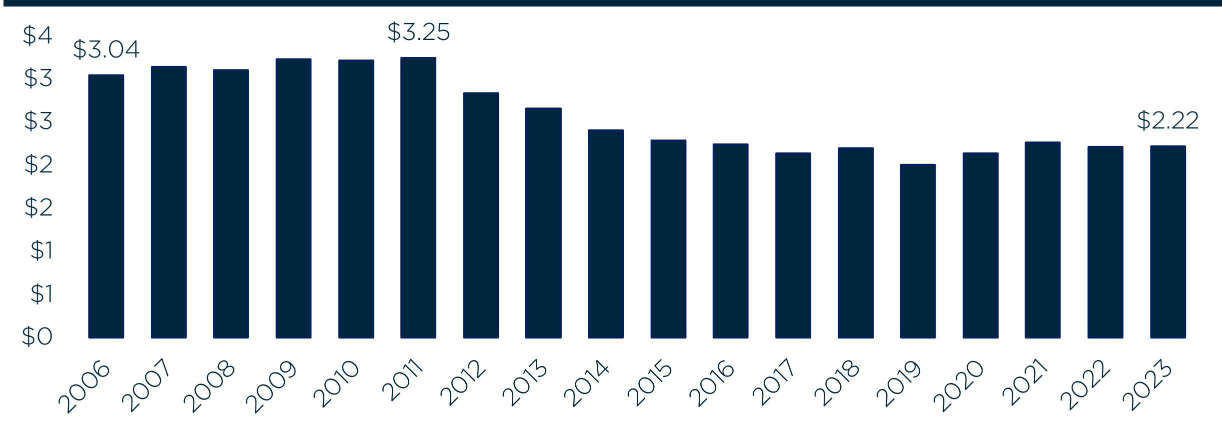
However, local governments receive less than they need due to years of state lawmakers' cuts to revenue sharing and tax reimbursements and their elimination of certain local tax sources. Because of these changes in funding and policy, Ohio's local governments as a whole — across cities, villages and townships, counties, health and human service and other local levies — are operating with about $1 billion a year less, adjusted for inflation, compared to the level of 2011.

In Ohio, local governments are mostly responsible for paying for critical public services like public health and child protective services, while the state's contribution to services like these remains among the lowest of any state in the nation. Flexible revenue sharing from the state was to help make up the difference. Lawmakers have made such severe cuts to state aid over the past decade that many local governments still struggle to provide essential services.

Figure 1

Flexible state aid to support local services remains $1 billion below a decade ago

Billions of dollars, adjusted for inflation



Source: Policy Matters Ohio based on the eight specific funds show in Figure 2, below. Adjusted for inflation using the CPI-U-RS. Note: Inflation for 2021 through 2023 is based on June 2021 LSC revenue forecast for state of Ohio.

The table below shows forecasted revenue distribution funds the state will provide to localities, by fund name. School funding is not included.

Figure 2

Increase in flexible state funds to aid local governments barely covers inflation

Two-year budget expenditures: flexible funds that go to local government entities

Name of line item in state budget	2020-21 biennium	2022-23 biennium	Change	Percent change
Gasoline Excise Tax Fund	$1,746,363,228	$1,820,000,000	$73,636,772	4.2%
Property Tax Reimbursement - Local Government	$1,278,801,264	$1,309,800,000	$30,998,736	2.4%
Public Library Fund	$845,178,946	$893,000,000	$47,821,054	5.7%
Local Government Fund	$845,121,483	$871,000,000	$25,878,517	3.1%
Auto Registration Distribution	$659,303,091	$656,000,000	-$3,303,091	-0.5%
Gross Casino Revenue Payments-County	$252,780,954	$303,000,000	$50,219,046	19.9%
Gross Casino Revenue - Host City	$24,782,446	$29,700,000	$4,917,554	19.8%
Property Tax Replacement Phase Out-Local Governme	$20,884,636	$13,563,000	-$7,321,636	-35.1%
TOTAL	**$5,673,216,048**	**$5,896,063,000**	**$222,846,952**	**3.9%**

Source: Policy Matters Ohio, based on Ohio Legislative Budget Office Appropriation spreadsheets. 2020-21 figures are actual; 2022-23 are appropriated.

The funds shown in Figure 2 are all helpful to local governments, but some are more flexible than others. Automotive-related funds must go to roads, streets and related expenditures. The Local Government Fund is among the most important because it is entirely flexible and can help communities and counties meet needs of residents. In 2010, the state provided 3.68% of general revenue funds. The Kasich administration reduced that share to 1.66%;

lawmakers raised it to 1.68% in the budget for 2020-21 but dropped it again to 1.66% in the new budget.[1]

The property tax reimbursement line reflects what is commonly known as the “rollback.” State law requires each county auditor to reduce all “qualifying” levies against real property taxes charged by a 10% “non-business credit.”[2] In addition, state law requires the county auditor to further reduce the same qualifying levies against real property taxes by a 2.5% owner occupancy credit for people who live in a home they own. This effectively “rolls back” the property tax bill that homeowners and owners of farms or residential property receive, while making counties and local governments whole.

Ohio has a commuter tax: Ohioans pay a municipal income tax to the city where they live and also to the city to which they commute for work. (Most cities offer a credit to offset the commuter tax for residents). In the new budget bill, however, lawmakers mandated that people who work from home rather than from their office — as many white-collar workers did during the pandemic — can request and receive a refund of any commuter tax they paid in 2021. Now cities face millions of dollars in losses if many people file for these refunds. It’s not clear whether many taxpayers will benefit from this, because even if they get a refund from the city where they worked before the pandemic, they will now need to pay those taxes to the city in which they work from home. The offsetting credits mitigate the impact of taxes like this for many people. However, many cities will be negatively affected. An analysis from the Regional Income Tax Authority (RITA), which collects municipal income tax for 330 small and medium-sized Ohio jurisdictions, found 85% of cities analyzed would be net losers under a scenario in which 20% of former commuters who worked from home during the pandemic apply for a refund. Municipalities would lose between $35 million and $105 million in that scenario.[3] The Greater Ohio Policy Center estimated Ohio’s six largest cities could lose $306 million annually because of the change in tax collection.[4]

Context and recommendations

In Ohio, local governments pick up the tab for a far greater share of basic health and human services than in other states, and in return, they receive a share of state revenues. But lawmakers cut in half the state’s revenue-sharing in 2012, eliminated the estate tax (which mostly supported cities), narrowed the sales tax base (which supports counties and transit agencies), and phased out tax reimbursements promised in 2005 when state laws eliminated major local property taxes. State lawmakers have reduced resources available to local governments by $1 billion a year, adjusted for inflation, harming locally funded services like public health, children’s protective services and others. New revenue from casino taxes (shown in Figure 2, above — less than $30 million a year for cities, about $300 million a year

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[1] E-mailed communication from Gary Gudmondsen of the Department of Taxation communications office to Wendy Patton, September 1, 2021.

[2] The Non-Business Credit rollback is not intended primarily for use in a business activity. Qualifying property includes property subject to the following uses: farming; leasing property for farming; occupying or holding or leasing property improved with single-family, two-family, or three-family dwellings; or holding vacant land that the county auditor determines will be used for farming or to develop single-family, two-family, or three-family dwellings. See Ohio Department of Taxation at https://bit.ly/3D0H7Ux

[3] Patton, Wendy, “Municipal Income Tax Shift Could Hurt Most Ohio Communities, Policy Matters Ohio, October 2020 at https://www.policymattersohio.org/files/news/103020ritaestimate.pdf

[4] A Mortal Threat to Ohio’s Economic Competitiveness: SB352, HB754, and the Buckeye Institute Lawsuit, Greater Ohio Policy Center, September 2020 at https://www.greaterohio.org/publications/income-tax-rebuttal

for the 88 counties) does not make up for such losses. State policymakers should restore revenue-sharing through the local government fund to its previous level of 3.68% of state funds, reinstate the estate tax for municipalities, and ensure locally funded services like child and adult protective services and public health are sufficiently financed through the state.