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CLEVELAND: 3631 PERKINS AVENUE SUITE 4C - EAST • CLEVELAND, OHIO, 44114 • TEL: 216/361-9801 • FAX: 216/361-9810
 COLUMBUS: 300 EAST BROAD STREET, SUITE 490 • COLUMBUS, OHIO, 43215 • TEL: 614/ 221-4505 • FAX: 614/ 224-8132
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BUDGET BRIEF

Sharing the pain: State seizes Local Government Fund and tax replacement funds

Wendy Patton
 3/29/2011

Introduction

The Executive Budget Proposal for state fiscal years 2012 and 2013 garners approximately \$2 billion over the biennium by elimination of revenue sharing and tax replacement for local government, libraries and schools (Table 1). The biggest loss to local government comes from a tiered reduction of half of the Local Government Fund. The state anticipates gaining more than \$555 million for the General Revenue Fund from this recapture of funds that had been earmarked for the Local Government Fund.

In this fact sheet, an overview of the changes to the local government fund is provided. Survey information from 68 Ohio communities, mostly in the southwestern part of the state, illustrates the type of impact that may be felt by cities, townships and villages. The appendix contains information on reductions possible by county over the course of the next two fiscal years.

Table 1: Change in biennial funding for tax replacement and revenue sharing with local government, schools and libraries

Entity	Fund number	SFY 2010-2011	SFY 2012-2013	Change, biennium to biennium	% change
Schools					
Public utilities	7053	\$170,976,647	\$64,000,000	\$(106,976,647)	-62.6%
TPP	7047	\$2,191,559,489	\$1,197,000,000	\$(994,559,489)	-45.4%
	TOTAL	\$2,362,536,136	\$1,261,000,000	\$(1,101,536,136)	-46.6%
Local governments					
Public utilities	7054	\$174,531,759	\$27,000,000	\$(147,531,759)	-84.5%
TPP	7081	\$887,918,184	\$472,000,000	\$(415,918,184)	-46.8%
LGF	7069	\$1,306,794,520	\$865,000,000	\$(441,794,520)	-33.8%
	TOTAL	\$2,369,244,463	\$1,364,000,000	\$(1,005,244,463)	-42.4%
Libraries	7065	\$689,617,890	\$699,000,000	\$9,382,110	1.4%
TOTAL		\$5,421,398,489	\$3,324,000,000	\$(2,097,398,489)	-38.7%

Source: Policy Matters Ohio based on Ohio Office of Budget and Management Executive Budget Proposal for 012-13



Ohio's Local Government Fund and proposed changes

Ohio's Local Government Fund (LGF) was created when the state sales tax was introduced in 1934. Monies from the new sales tax were to be split among the counties for use in relief for the poor, for schools and for local governments to use as needed. It differs from other forms of aid to local governments in that it is not restricted in use – it is flexible funding that may go into the local general fund – and it is distributed on the basis of criteria other than origination of funds.¹

The executive budget proposal for SFY 2012-13 changes the distribution formula for the LGF and reduces funding in steps by half over the course of the biennium. The current formula is replaced with an appropriation for the biennium. The budget utilizes the FY 2011 distribution and appropriates 75% of that amount to the political subdivisions in FY 2012 and 50% of that amount in FY 2013. In the Executive Budget, (Fund 7069, line 110969) Local Government Funds are shown as illustrated in Table 1. The actual impact against local governments is anticipated to be around 21 percent in the first year because of how the funding is distributed, and about 36 percent in the following fiscal year. Over the biennium, this impact is approximately \$440 million. The cut from the biennium-to-biennium is 34 percent.

Table 1: Local Government Funds, 2010 – 2013 (Millions of dollars)

Year	Millions of dollars	Percent change
SFY 2010	\$641,794,520	
SFY 2011	\$665,000,000	3.63%
SFY 2012	\$526,000,000	-20.90%
SFY 2013	\$339,000,000	-35.55%

Source: Policy Matters Ohio, based Ohio Executive Budget for SFY 2012-13

Because of the change in LGF formula, the state's General Revenue Fund (GRF) should increase by \$167.1 million in SFY 12 and \$388.2 million in SFY 13, for a total of \$555.3 million. The gain to the state is a loss to the locals. Because of the way that Local Government Funds are distributed (on a calendar year basis) and because of timing relative to the commencement of the proposed changes in the monthly distribution payments, it is anticipated that the proposed reduction will be just over a third (33.80 percent or approximately \$440 million) during the period of time covered during the biennial budget. Table A in the appendix, attached, illustrates the impact on a fiscal year basis to Ohio's 88 counties.

The LGF has been an important source of funds for counties, municipalities and townships, and this reduction can be expected to have a substantial impact. The results of a survey on the impact of loss of the estate tax and of LGF revenues was presented at a House Ways & Means Committee hearing on House Bill 3 on February 9, 2011. Of the 40 cities that responded to the survey, monies from the LGF comprised 6 percent of their 2010 general revenue funds, on average. The average for the seven villages included in the survey was 4.3 percent. For the 21 townships, it was 15.1 percent (Table 2).

¹ Christopher Hall, Ohio Department of Taxation, A History of the Ohio Local Government Fund, at http://www.tax.ohio.gov/channels/research/documents/LGF_presentation.pdf

Table 2: Local Government Funds from state revenue distribution as share of the general revenue fund of 68 Ohio communities

Surveys received	Type of jurisdiction	GRF, 2010	LGF, 2010	LGF as % of GRF
40	City	\$852,062,943	51,196,054	6.00%
21	Township	57,628,970	8,710,835	15.10%
7	Village	19,689,872	837,434	4.30%
68	Total	929,381,785	60,744,323	6.50%

Source: "Estate Tax Analysis and Summary," presented by Michael Hinnenkamp, Administrator of Springfield Township in Hamilton County, on behalf of a coalition of local governments that opposed HB 3 in its current form.

Reductions in LGF are not the only reductions aimed at local governments in the governor's proposed budget. Other reductions include an elimination of the Dealers in Intangibles tax and a phased-in elimination of Tangible Personal Property (TPP) reimbursements and Public Utility Reimbursements.

Dealers in Intangibles Tax: The Executive Budget proposes redirecting approximately \$11 million per year currently distributed to localities directly to the state General Revenue Fund.

Local Government Property Tax Replacement Fund (Fund 7054) – Under current law, the Local Government Property Tax Replacement Fund receives 11.6 percent of the Kilowatt Hour Tax and 31.3 percent of the Natural Gas Consumption Tax. The moneys are distributed by the Department of Taxation to local authorities to compensate for their revenue losses due to reduced tax collections for gas and electric utility properties as a result of utility deregulation. Local governments and schools are expected to receive \$422 million less over the biennium due to this change.

The Local Government Tangible Personal Property Tax Replacement Fund (Fund 7081) – Under current law the Local Government Tangible Personal Property Tax Replacement Fund receives 30 percent of the Commercial Activity Tax. The monies are then distributed to local governments to compensate for their tax revenue losses due to the phase-out of the tangible personal property tax. Local governments and schools are expected to receive \$870 million less over the biennium from these changes.

Proposed reductions to the two property tax replacement funds: The executive budget proposes to reduce each one of the two funds separately by no more than 2 percent of the jurisdiction's total resources year over year. While this will protect some heavily dependent communities from a sudden and devastating transition, it significantly reduces overall support. What constitutes 'total resources' has not yet been clarified, nor has the schedule for reduction. Some level of reimbursement is expected to extend beyond 2016, and as far as 2030.

The executive budget contains other fiscal changes that will impact local budgets. Cuts to line items impacting subsidy in Developmental Disability, in the Bureau of Medically Handicapped Children, even in water and soil conservation districts, will remove capacity from the local level and force choices: between one vulnerable population and another, between



raising levies or reducing services. The Athens County Job and Family Service press release of 3/23/2011 pointed to a \$2 billion dollar cut faced by Athens County alone. This cut comes on top of another \$3 billion in cuts since 2008.²

New tools – The state provides some new tools to address budget challenges, including a statewide public notice website with online advertising. Budget director Tim Keen argues that proposed shifts in pension funding from governments to employees, an end to restrictions on communities sharing services, and other administration proposals will allow communities to cope with the funding reductions. However, such arguments are speculative, and these proposals raise other issues. For instance, shifting pension funding will cause a shortfall for the Ohio Public Employee Retirement System. Less than 10 percent of townships, which are heavily impacted by the loss of local government funds, engage in collective bargaining.

Casino Revenue also is unlikely to make up the shortfall any time soon. County revenues from the temporary Cleveland and the Toledo casinos are estimated to be \$5.7 million in SFY 2012 and \$138.9 million in SFY 2013. State Issue 3 of 2009, which altered the constitution to allow for casino gambling, articulated a formula for distribution of funds to local governments, schools and others through a “Gross Casino Revenue County Fund.” Counties are to receive 51 percent of tax on gross casino revenue in proportion to population; schools, cities, host cities and so forth all are to receive a specific share. However, the ballot measure also stipulated that casino tax collections and distributions to local governments and schools are ‘intended to supplement, not supplant, any funding obligations of the state.’ Further, no provision of the ballot measure held developers of the casinos to any scale of operation. Developers have already scaled back plans for some casinos by as much as 40 percent in terms of the number of slot machines and tables to be opened.³

Summary and conclusion

Ohio’s local governments have relied on the Local Government Fund to help provide the public services and fulfill public mandates. The Kasich Administration proposes an unprecedented cut in this revenue sharing program, recapturing 50% to help solve the state’s own revenue crisis. In so doing, the fiscal crisis of the state is pushed down to the local level. The problem is compounded by the administration’s proposal to seize replacement funds for tax sources eliminated in prior state tax overhauls. Altogether, local governments stand to lose 42 percent of what the state has traditionally provided, taking a billion-dollar hit over the course of the biennium.

Taking away major revenue sources will add pressure on localities, making them more reliant on local revenues and therefore less likely to want to share with others. This will make regional cooperation more, not less, difficult. We have already seen how this works with the libraries, after their state funding was cut by 23 percent in the last budget. Libraries put 71 levies on the ballot last year, up from 45 in 2009 and double the number of any other year since 1980. There is little reason to anticipate local governments will act differently.

² Athens County Department of Job and Family Services, Impact of the proposed state budget on Athens County Job and Family Services, March 22, 2011.

³ Doug Caruso, Casino’s reduced size may cut tax revenue, The Columbus Dispatch, February 17, 2011.

The response of the Ohio Municipal League captures the shock and distress of local governments at the Executive Budget:

“Although we expected the support to be reduced, it would be a severe understatement to say that it baffles the mind how we have been told the administrations governing priorities is to strengthen the partnership between the state and our service providing communities but yet those words ring hollow with the defunding scheme that would force local communities to try and raise taxes on the local level to sustain the vital programs our citizens and businesses depend on every day.” - Ohio Municipal League Legislative Bulletin, March 25, 2011.

Appendix

Table A: Local government fund – effect on fiscal year funding in new budget proposal relative to estimated fiscal year allocations under the last biennial budget

County	Estimated funding in current biennium (SFY 2010-11)	Proposed funding for upcoming biennium (SFY2012-13)	Difference
ADAMS	\$1,656,895	\$1,096,820	\$(560,075)
ALLEN	\$9,938,810	\$6,579,223	\$(3,359,587)
ASHLAND	\$4,635,382	\$3,068,498	\$(1,566,885)
ASHTABULA	\$8,783,579	\$5,814,491	\$(2,969,088)
ATHENS	\$4,472,753	\$2,960,841	\$(1,511,912)
AUGLAIZE	\$5,016,574	\$3,320,836	\$(1,695,738)
BELMONT	\$6,200,163	\$4,104,340	\$(2,095,823)
BROWN	\$2,453,525	\$1,624,167	\$(829,358)
BUTLER	\$31,583,672	\$20,907,535	\$(10,676,137)
CARROLL	\$1,746,382	\$1,156,058	\$(590,325)
CHAMPAIGN	\$3,150,755	\$2,085,715	\$(1,065,041)
CLARK	\$12,435,559	\$8,232,003	\$(4,203,556)
CLERMONT	\$9,522,779	\$6,303,821	\$(3,218,957)
CLINTON	\$3,527,809	\$2,335,314	\$(1,192,495)
COLUMBIANA	\$8,987,093	\$5,949,212	\$(3,037,881)
COSHOCTON	\$3,135,588	\$2,075,675	\$(1,059,914)
CRAWFORD	\$4,592,430	\$3,040,064	\$(1,552,366)
CUYAHOGA	\$234,555,471	\$155,269,367	\$(79,286,104)
DARKE	\$5,192,726	\$3,437,444	\$(1,755,282)
DEFIANCE	\$3,905,924	\$2,585,616	\$(1,320,308)
DELAWARE	\$10,576,578	\$7,001,408	\$(3,575,170)
ERIE	\$8,146,193	\$5,392,559	\$(2,753,634)
FAIRFIELD	\$10,899,419	\$7,215,120	\$(3,684,299)
FAYETTE	\$2,512,390	\$1,663,134	\$(849,256)
FRANKLIN	\$161,410,170	\$106,849,160	\$(54,561,010)
FULTON	\$4,319,872	\$2,859,638	\$(1,460,234)
GALLIA	\$2,102,945	\$1,392,093	\$(710,852)
GEAUGA	\$5,972,455	\$3,953,603	\$(2,018,851)
GREENE	\$17,720,640	\$11,730,584	\$(5,990,056)
GUERNSEY	\$3,251,765	\$2,152,580	\$(1,099,185)
HAMILTON	\$111,596,234	\$73,873,683	\$(37,722,550)
HANCOCK	\$8,534,825	\$5,649,823	\$(2,885,002)
HARDIN	\$2,647,981	\$1,752,891	\$(895,089)
HARRISON	\$1,228,629	\$813,319	\$(415,310)
HENRY	\$2,714,769	\$1,797,103	\$(917,665)
HIGHLAND	\$3,015,638	\$1,996,271	\$(1,019,368)
HOCKING	\$1,906,003	\$1,261,723	\$(644,281)
HOLMES	\$2,092,385	\$1,385,102	\$(707,283)
HURON	\$5,905,088	\$3,909,008	\$(1,996,080)
JACKSON	\$2,517,223	\$1,666,333	\$(850,890)
JEFFERSON	\$8,473,121	\$5,608,976	\$(2,864,144)
KNOX	\$4,347,512	\$2,877,935	\$(1,469,577)

LAKE	\$36,929,802	\$24,446,529	\$(12,483,274)
LAWRENCE	\$4,112,932	\$2,722,649	\$(1,390,282)
LICKING	\$14,365,977	\$9,509,888	\$(4,856,089)
LOGAN	\$3,958,294	\$2,620,283	\$(1,338,010)
LORAIN	\$35,252,983	\$23,336,520	\$(11,916,463)
LUCAS	\$53,548,519	\$35,447,669	\$(18,100,850)
MADISON	\$3,148,708	\$2,084,360	\$(1,064,349)
MAHONING	\$21,881,818	\$14,485,171	\$(7,396,647)
MARION	\$5,791,503	\$3,833,818	\$(1,957,685)
MEDINA	\$14,901,219	\$9,864,204	\$(5,037,016)
MEIGS	\$1,419,210	\$939,479	\$(479,732)
MERCER	\$4,064,503	\$2,690,591	\$(1,373,912)
MIAMI	\$11,198,974	\$7,413,418	\$(3,785,557)
MONROE	\$910,579	\$602,779	\$(307,800)
MONTGOMERY	\$68,057,972	\$45,052,534	\$(23,005,438)
MORGAN	\$914,768	\$605,551	\$(309,216)
MORROW	\$1,676,367	\$1,109,709	\$(566,657)
MUSKINGUM	\$6,667,929	\$4,413,988	\$(2,253,941)
NOBLE	\$830,591	\$549,829	\$(280,762)
OTTAWA	\$3,645,880	\$2,413,474	\$(1,232,406)
PAULDING	\$1,475,859	\$976,978	\$(498,880)
PERRY	\$2,038,484	\$1,349,421	\$(689,063)
PICKAWAY	\$4,006,623	\$2,652,276	\$(1,354,347)
PIKE	\$1,695,655	\$1,122,477	\$(573,177)
PORTAGE	\$13,637,760	\$9,027,828	\$(4,609,932)
PREBLE	\$3,305,780	\$2,188,337	\$(1,117,443)
PUTNAM	\$3,175,943	\$2,102,388	\$(1,073,555)
RICHLAND	\$13,311,414	\$8,811,796	\$(4,499,619)
ROSS	\$6,218,635	\$4,116,568	\$(2,102,067)
SANDUSKY	\$6,253,477	\$4,139,632	\$(2,113,845)
SCIOTO	\$5,553,836	\$3,676,489	\$(1,877,347)
SENECA	\$5,963,467	\$3,947,654	\$(2,015,814)
SHELBY	\$5,232,170	\$3,463,555	\$(1,768,615)
STARK	\$34,070,151	\$22,553,517	\$(11,516,634)
SUMMIT	\$74,359,607	\$49,224,045	\$(25,135,562)
TRUMBULL	\$19,847,640	\$13,138,600	\$(6,709,040)
TUSCARAWAS	\$9,403,298	\$6,224,728	\$(3,178,569)
UNION	\$3,355,763	\$2,221,424	\$(1,134,339)
VAN WERT	\$2,865,273	\$1,896,733	\$(968,540)
VINTON	\$737,072	\$487,922	\$(249,150)
WARREN	\$14,852,664	\$9,832,061	\$(5,020,603)
WASHINGTON	\$5,120,234	\$3,389,457	\$(1,730,778)
WAYNE	\$10,766,737	\$7,127,288	\$(3,639,449)
WILLIAMS	\$4,218,981	\$2,792,851	\$(1,426,130)
WOOD	\$12,295,948	\$8,139,584	\$(4,156,363)
WYANDOT	\$2,273,297	\$1,504,861	\$(768,436)

Source: Policy Matters Ohio, based on information from the Ohio Department of Taxation and Executive Budget Proposal for SFY 2012-13

