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ISSUE BRIEF

A Thousand Blows: State Budget Slashes Funding for a Broad Swath of Local Government Services

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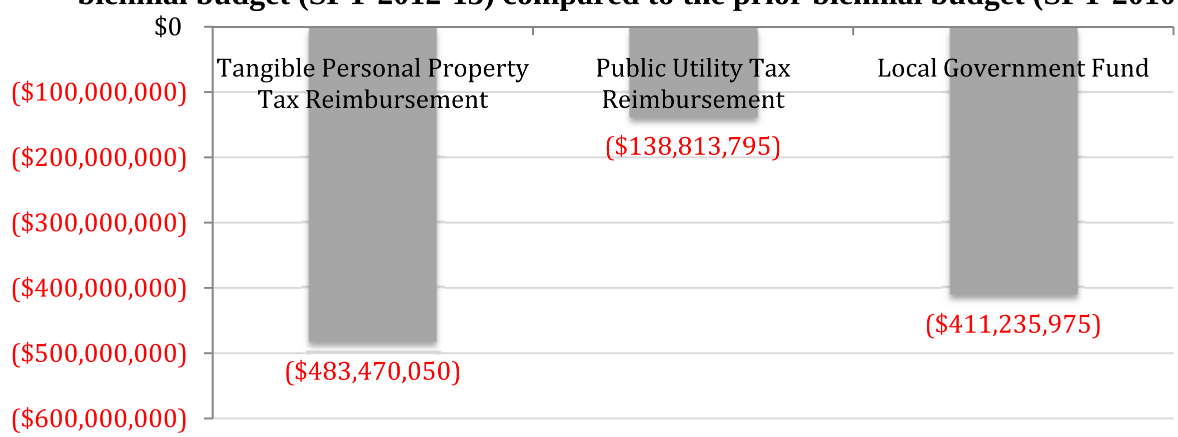
08/31/2011

Funding for local governments is cut by more than a billion dollars in the current two-year budget compared to the prior biennium. The impact will ripple through counties, cities, villages, townships, parks, port authorities, police and fire funds, and health and human service levies. Counties, communities and local agencies will have to cut necessities that impact quality of life. At the same time, cuts to jobs will depress the economy and cause more job loss. In this issue brief, Policy Matters Ohio examines how state budget cuts hurt a broad swath of local public services that support and protect us. The Appendix contains county-by-county and some municipal data and details on how these cuts will reduce support for senior and children's services, mental health, developmental disabilities, and other services.[1] Types of cuts to communities are illustrated in charts and tables.

Although House Bill 153, the biennial budget bill, contains many cuts to local services, the primary losses are in the Local Government Fund, a revenue sharing program which is cut in half by the end of the biennium, and in tax reimbursements promised to local government as local taxes were eliminated, which for many jurisdictions and levies are abruptly ended. Two types of local tax reimbursements are affected: Public Utility Tangible Property taxes (PUTP) and tangible personal property taxes (TPP). Figure 1 illustrates the magnitude of these cuts.

Figure 1: Reduction in state funding for local government in four primary areas in the current biennial budget (SFY 2012-13) compared to the prior biennial budget (SFY 2010-11)



Source: Policy Matters Ohio, based on Ohio Legislative Service Commission, Budget in Detail (as enacted with 2011 actual expenditures).

[1] Tables in the Appendix and the body of this brief are based on spreadsheets from the Ohio Department of Taxation's website. However, review as part of the "verification process" is encouraged and communities may ask for changes to calculations through June 30, 2013. Therefore, there is likely to be some change over time in the published numbers.

The Local Government Fund is a revenue-sharing program established in 1935 to help counties assist the needy during the last great financial crisis - the Depression. The state's gain of $411.2 million from the deep cut to the Local Government Fund is a significant loss to Ohio's cities and villages, townships and counties, as these funds were flexible and could be used to address specific local needs – cemetery maintenance in townships, emergency response in some counties, and so forth.

The loss of tangible personal property tax reimbursements promised in the 2005 tax overhaul and during the deregulation of electricity and natural gas distribution will impact local governments of all kinds. It will also affect as well as a host of special districts and levies supporting health and human services, as well as lighting, water and sewer, open space and conservation, parks, ports and more.

- When the tangible personal property (TPP) tax was eliminated in 2005, local governments were to receive 30 percent of the newly established Commercial Activity Tax through 2010 with payments phased out gradually through 2019. The state significantly accelerated the phase-out in House Bill 153.
- The Public Utility Tangible Property (PUTP) taxes were reduced as part of electric power generation deregulation and natural gas deregulation in 1999 and 2000, respectively. To replace the loss of these tax revenues, 31.3 percent of the natural gas distribution tax ("MCF") revenues and 11.6 percent of Kilowatt-Hour tax ("KWH") revenues were directed to local government tax reimbursement. HB 153 eliminates the use of the MCF tax revenues for reimbursement entirely, and reduces KWH tax revenue funding for reimbursement by three quarters in 2012, leaving a residual in place through 2031.

Counties, municipalities and townships are hurt by the state seizing of these tax reimbursements. Special districts with local tax levies, such as mental health and developmental disabilities, children's services, health and human services, seniors' services, parks and others face significant losses.

In addition to the cuts described here, House Bill 153 also eliminated the estate tax, a tax on the wealthiest of Ohio's estates, which impacts fewer than eight percent of all estates. Most of this revenue source (80 percent) goes to local communities. In 2010, it provided $230 million to local governments in Ohio. So, in the long term, the likelihood that local governments can recover from the drastic cuts of the current budget bill is reduced by additional cuts looming in the next biennium.

The following sections examine cuts in the Local Government Fund and in tax reimbursements with illustration of impact by type of governmental function. The appendix contains tables with detailed data illustrating impact on counties, cities and services.

Local Government

The Local Government Fund ("LGF"), a key source of revenue for cities, villages and townships, provides flexible resources upon which local governments depend. Based in the past on a percentage of major state revenue sources, the Local Government Fund provided stable funding to ensure localities could carry out necessary services. In House Bill 153 the link with state revenue sources is severed and a fixed allocation is provided. The Local Government Fund is cut by 25 percent in State Fiscal Year (SFY) 2012 and by 50 percent in SFY 2013. Funds appropriated for the LGF in the current budget are $411.2 million less than in the prior budget.[2]

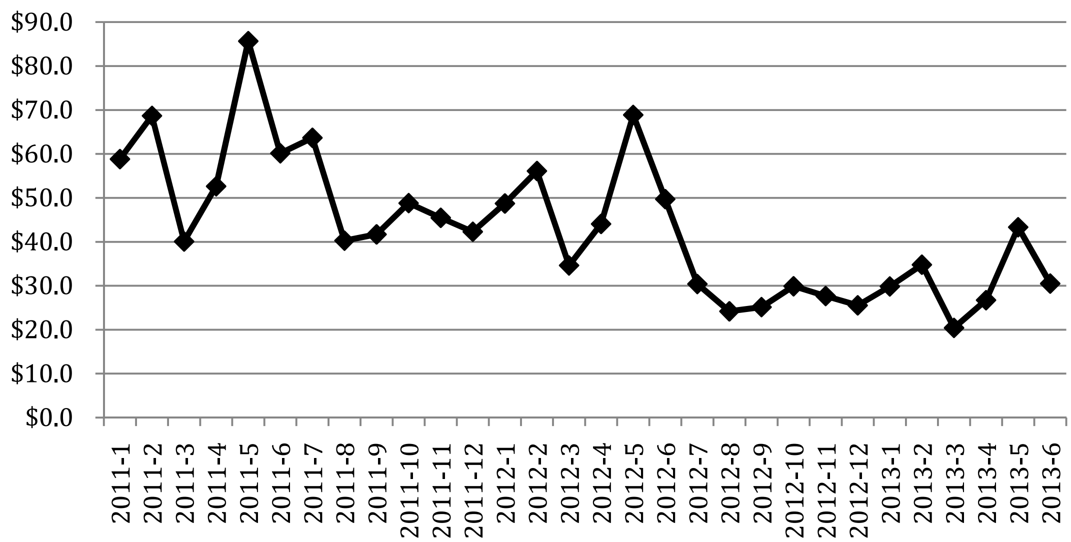
Figure 2 illustrates the decline in funding to local governments' monthly distributions in the current biennium compared to the prior biennium. The $60 million monthly distribution to local governments

[2] A $50 million fund is established to help localities merge services to save money in the coming biennium.

across the state in July 2009 is cut in half by June of 2013, illustrating the effect and timing of the 50% cut in this important local government funding source.

Revenues from casino gambling are expected late in this biennium, and a share is to be given to local governments. However, this proposed source is narrow – based on a sole source – and unproven. This is neither an even nor advantageous exchange.

Figure 2: Monthly distribution of LGF, prior biennium compared to current biennium
(*millions of dollars; not adjusted for inflation***)**



Source: Policy Matters Ohio, based on Ohio Department of Taxation, "Changes to the Local Government Fund, as enacted by FY12-13 state operating budget," July 15, 2011 at "Schedule of Monthly LGF Distributions "(p.4)

Counties, municipalities (cities and villages) and townships receive Local Government Funds; some park systems and some public assistance systems receive revenue from this source as well. Counties receive an allotment from the state referred to as the 'County Local Undivided Fund.' Counties keep some of this allotment and distribute the rest to communities or special districts in the county. Municipalities with a municipal income tax receive their own stream of Local Government Funds directly. Municipal distributions are small relative to distributions from County Undivided Funds, which make up the largest distribution of the Local Government Fund. In 2009, the last year that sub-county distribution data is available on the Ohio Department of Taxation website, County Undivided Funds were allocated on average as follows: 36 percent went to counties, 9 percent to townships, 48 percent to cities, 5 percent to villages and about 2 percent to parks.

Figure 3 shows the decline in the County Local Undivided Fund in urban counties. Figure 4 illustrates the step-down in counties with smaller cities. Figure 5 shows rural counties, seven of which are not cut and 24 of which face mitigated cuts because of a floor.[3] Figure 3 and 4 simply demonstrate the 50 percent cut, although on different scales of funding. Figure 5 highlights mitigation of loss in 23 of Ohio's 88 counties by a floor that keeps them from falling below $750,000.

[3] Harrison, Meigs, Monroe, Morgan, Noble, Paulding and Vinton counties will see no reduction. In LGF in the county undivided fund. A list of counties seeing less than a 50 percent reduction in 2013, with the individual amount of LGF (county undivided fund) they will retain as a percent of funding in 2013, include: Adams, (90.9%). Brown (62.4%), Carroll, 86.4%), Fayette (61%), Gallia (72.3%), Hardin (58.1%), Henry (56.7%), Highland (51.4%), Hocking (79.4%), Holmes (72.6%), Jackson (60.9%), Morrow (89.9%), Perry (74.5%), Pike(88.9 %), Van Wert (53.9%), Wyandot (67.1%).

Figure 3: LGF: Local undivided fund distribution in urban counties, in half-year increments

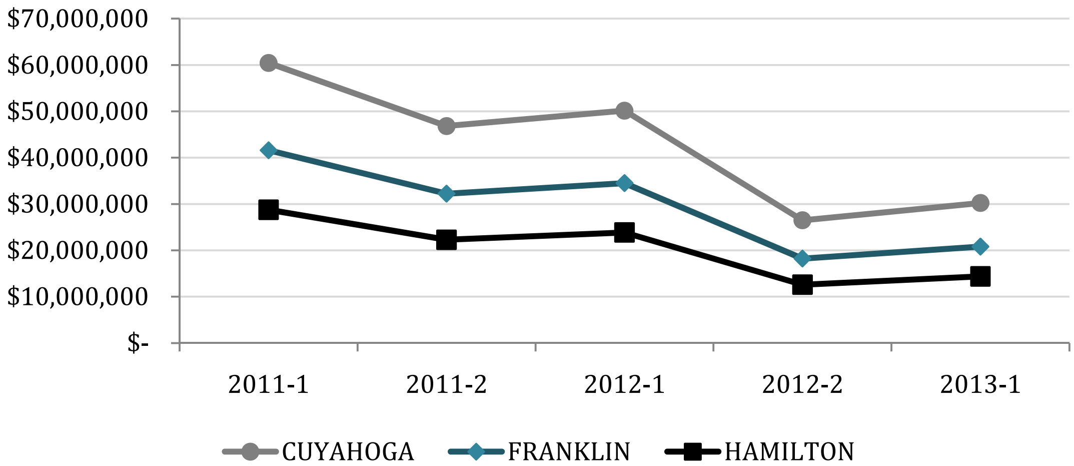


Figure 4: LGF: Local undivided fund distribution, counties with small cities, half-year increments

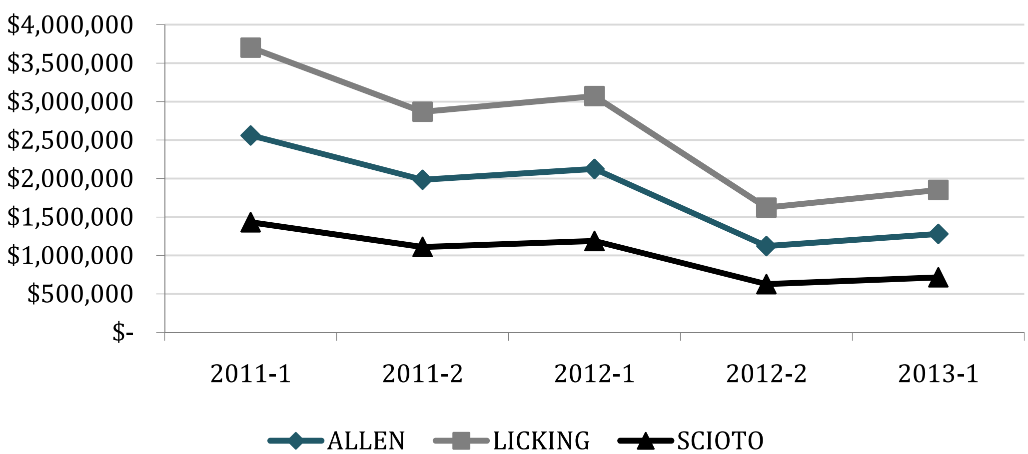
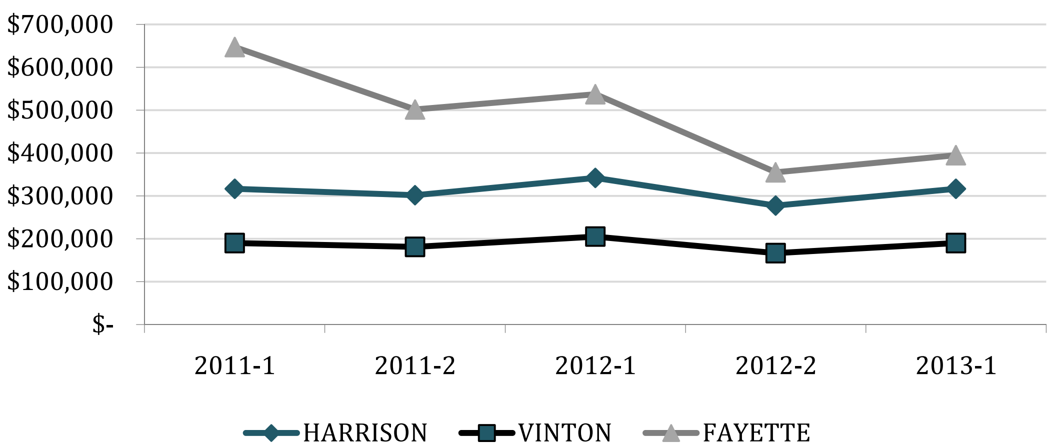


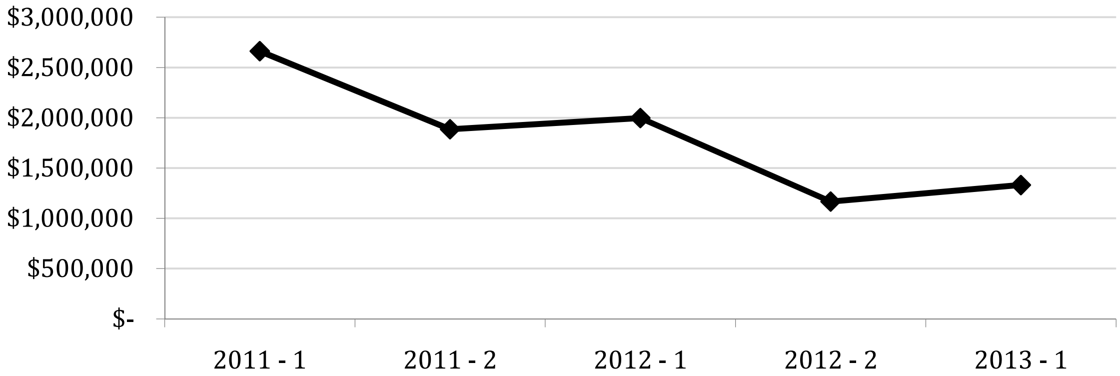
Figure 5: LGF: Local Undivided Fund distribution in rural counties, half-year increments



Source: Policy Matters Ohio based on Ohio Department of Taxation, "Distributions from Local Government Fund to each county undivided local government fund, reflecting changes made by FY12-13 state operating budget (Am. Sub. House Bill 153), 7/15/2011.

Figure 6 illustrates the same step-down in allocations in LGF provided directly to municipalities with an income tax.

Figure 6: Loss in municipal local government funds in semi-annual increments, 2010 – 2013 (first half) for Cleveland



Source: Policy Matters Ohio based on Ohio Department of Taxation, "Distributions made directly from the Local Government to qualifying municipalities, reflecting changes enacted by FY12-13 state operating budget (Am. Sub. House Bill 153)", 8/15/2011.

Tables A1 and A2 in the Appendix illustrate the reduction in Local Government Funds in Franklin County and its communities (illustrative of an urban county) and Erie County and its communities (illustrative of a more rural county). Most jurisdictions in Ohio will see a cut in Local Government Funds as well as from a host of other sources – loss of tax reimbursements from the state, plunging property values,[4] layoffs in the private economy,[5] as well as other state cuts to specific state services delivered at the local level.[6] Each jurisdiction will have a different strategy for dealing with the shortfalls. Cleveland, for example, laid off 466 positions, including 81 police cadets and 50 fire department personnel and more recently provided specific data on playgrounds that will lose staffing, reduction in trash collections, elimination of police patrols and other very specific service cuts directly affecting daily life in the city. [7] A $50 annual property tax credit now given to elderly and disabled Dayton homeowners would be eliminated as part of Dayton's effort to balance the city budget.[8] Lancaster is discussing an income tax hike, a property tax hike, and 30 layoffs to deal with a $1.25 million dollar deficit in the current year and a $2.5 million deficit next year.[9] Canton may raise its sales tax.[10] On July 29, Akron issued layoff notices to 21 employees as part of dealing with a $12 million deficit in the current year.[11] In Cincinnati, 44 police officers face layoff as the City grapples with a $33.6 million budget shortfall.[12] In Lima, street repairs will be eliminated for a year and one of two firehouses will be closed. This year state budget cuts impact local services in a way that will be felt by residents in all communities.

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[4] Robert Vitale and Bill Bush, "Franklin County Property Values Sink," August 22, 2011 at http://www.dispatch.com/content/stories/local/2011/08/21/county-property-values-sink.html

[5] Randy Tucker, "New Round of Layoffs Threaten Economic Growth," Dayton Daily News, August 3, 2011 at http://www.daytondailynews.com/news/dayton-news/new-round-of-layoffs-threaten-economic-growth-1221346.html

[6] Katherine Folkerth, "Child Support Agency Expects Cuts", Akron Beacon Journal , April 14, 2011 at http://www.akron.com/akron-ohio-community-news.asp?aID=12173

[7] City of Cleveland, Mayor Frank G. Jackson, "State Imposes Budget Deficit on City of Cleveland: Impacts on service delivery and staffing," Prepared August 11, 2011

[8] John Nolan, "Many area programs to see cuts in effort to balance budget," Dayton Daily News, August 4, 2011.

[9] Rick Rouan, "Lancaster expects to make layoffs by October," Lancaster Eagle Gazette, August 9, 2010.

[10] CantonRep.com, at http://www.cantonrep.com/news/x2103898732/On-Friday-Stark-becomes-only-Ohio-county-without-a-sales-tax

[11] Stephanie Warsmith, "Akron issues 21 layoff notices, announces other cuts," Akron Beacon Journal, July 29, 2011 (Ohio.com, http://www.ohio.com/news/akron-issues-21-layoff-notices-announces-other-cuts-1.153411)

[12] Cincinnati Herald at http://www.thecincinnatiherald.com/news/2011-08-06/Front_Page/Dohoney_proposes_police_layoffs_to_stay_within_bud.html, August 6, 2011.

Tax Reimbursements: Tangible Personal Property and Public Utility Taxes

The State has reimbursed local governments, special districts and schools for tax law changes made over the past dozen years. In 1999, with electric power generation deregulation, and in 2000, with natural gas deregulation, the state reduced the Public Utility Tangible Property ("PUTP)" tax and earmarked part of the Kilowatt-Hour tax ("KWH") and all of the natural gas distribution tax ("MCF") to recompense local governments and schools. The budget bill of 2005 (House Bill 66) included a comprehensive overhaul of Ohio's tax system that eliminated local governments' Tangible Personal Property ("TPP") tax and earmarked replacements from a new tax source, the Commercial Activity Tax ("CAT"). House Bill 153 took much of the money earmarked for tax reimbursement for the TPP tax and the PUTP tax and directed it instead to the State General Revenue Fund. For a local government that got less than two percent of revenues from TPP or PUTP tax reimbursement, the entire amount is eliminated in the first year of the new biennial budget (the second half of calendar year 2011 – this fall). For a place with greater than two percent reliance on either of these tax reimbursements, the reduction in the first year is an amount equal to two percent of the calculated total resources for the jurisdiction. This 'two percent' reduction takes place in all subsequent years, as well.

The blow to special districts and human service levies add a layer of hard-to-detect cuts to state budget cuts (Table 1; see Appendix for county-by-county impact). The cuts to local governments may not be perceived as a blow to health and human services, but as illustrated in Table 1, the loss of tangible property tax reimbursements to just county health services alone (not including the impact on municipal levies and special districts) is a significant cut to local service capacity.

Table 1: A selection of cuts to counties resulting from loss of tax reimbursements in HB 153

Service Area	$$$ Loss
County Mental Health	($92,,676,248)
County Health Levies	$(21,902,609)
County Senior Services	$(8,427,477)
County Children's Services	$(28,808,915)
TOTAL	**$(151,815,249)**

Source: Policy Matters Ohio, from Ohio Department of Taxation, http://tax.ohio.gov/channels/government/phase_out.stm; Note: these figures include both TPP and PUTP tax replacements.

Tangible Personal Property Tax Reimbursements

According to the Ohio Legislative Service Commission, in the current biennium local government will get $483.47 million less than in the prior biennium due to loss of reimbursement for the TPP. Under prior law, 30 percent of revenues from Commercial Activity Tax were to reimburse taxing jurisdictions for lost revenue, with a phase-out of reimbursements gradually between 2012 and 2019. House Bill 153 accelerates the phase-out by about 25 percent in the first year and almost 40 percent in the second year. As Table 2 shows, instead of getting about a quarter of commercial activity tax (CAT) revenues in 2012, local government will get 18 percent; instead of about 20 percent in 2013, local governments will get 12 percent. While a few local governments will enjoy a lengthened phase-out, the great majority are losers: For example, 71 percent of *all* municipalities (cities and villages) will lose *all* of their fixed rate TPP reimbursements for current expenses after the November 2011 payment. By the end of the biennium, reimbursements in this category will have declined by $67 million statewide, a reduction of 98.1 percent. But there are other categories of the TPP reimbursement for municipalities. TPP reimbursements for non-current expenses are reduced by 75 percent. Inside millage debt reimbursements continue at the 2010 levels through calendar year 2017 as long as the levy is not reallocated to another purpose.

Table 2: Distribution of Commercial Activity Tax: prior law and current law established in House Bill 153

Prior law	GRF	School District TPP replacement	Local Government TPP replacement
2011	0.0%	70.0%	30.0%
2012	5.3%	70.0%	24.7%
2013	10.6%	70.0%	19.4%
2014	14.1%	70.0%	15.9%
2015	17.6%	70.0%	12.4%
2016	21.1%	70.0%	8.9%
2017	24.6%	70.0%	5.4%
2018	28.1%	70.0%	1.9%
2019 & thereafter	30.0%	70.0%	0.0%
Current law			
2012	25.0%	57.0%	18.0%
2013	50.0%	38.0%	12.0%
2014	72.6%	20.8%	7.6%
2015	83.9%	13.4%	2.7%
2016	88.6%	9.8%	1.6%
2017	90.7%	8.0%	1.3%
2018	92.3%	6.7%	1.0%
2019	97.0%	3.0%	0.0%
2020	98.0%	2.0%	0.0%
2021 & thereafter	100.0%	0.0%	0.0%

Source: Ohio Department of Taxation,
http://tax.ohio.gov/channels/other/documents/Tangible%20Property%20Tax%20Reimbursement%20and%20Electric%20and%20Gas%20Deregulation%20Reimbursement%20v1.11.pdf

By Calendar Year ("CY") 2013 (compared to CY 2010):[13]

- 92 percent of municipalities will have lost all of their TPP reimbursements for current expenses;
- 74 percent of townships will have lost all TPP reimbursements;
- 43 percent of 250 fixed rate levies for special districts, ranging from fire and police through libraries, port authorities, parks and mental health, will have lost all TPP reimbursements and 77 percent will have lost 50 percent or more of their TPP reimbursements, representing a reduction of $42 million in annual funding from 2010 levels.

In places where health and human services are funded through local property tax levies, loss of TPP reimbursements will be experienced as shortfalls in local agency budgets. For example, 15 percent of county mental health/developmental disability (MH/DD) levies will lose all TPP tax reimbursements by the end of the biennium. Statewide MH/DD local levies will see a decline of two-thirds (66 percent) in TPP reimbursements when compared to CY 2010, a loss of $78.9

[13] Local government budgets on a calendar year ("CY") basis, so the data on anticipated revenue distribution of the tax replacements provided by the Ohio Department of Taxation are given on a calendar year basis.

million. (See appendix for county-by-county impact). This is on top of other cuts to health and human services in the budget, and follows a decade of cuts.[14]

Seventeen percent of county health levies that received TPP reimbursements will lose all such payments by the end of the biennium. This represents a loss of $18 million statewide in annual funding by CY 2013 compared to CY 2010, a reduction of more than two thirds. In some instances, the impact of these cuts hit the state's urban counties disproportionately. For example, Cuyahoga County's TPP reimbursements for a health levy will be reduced by $14.7 million in CY 2013 compared to CY 2010, an 82 percent loss. Statewide, the loss is $18.6 million, but almost 80 percent of that reduction impacts Cuyahoga County alone.

Thirteen percent of county children's services levies lose all TPP reimbursements by 2013. There is a loss of $24 million statewide in annual funding from this source to local children's services levies by CY2013, a reduction of about two thirds. This is on top of cutbacks to the Child Support Enforcement function at the state level and loss of federal incentive funds that local agencies in Ohio did well in obtaining.

Twenty-six percent of county seniors' levies will lose all TPP reimbursements. Statewide, annual funding levels to reimburse these levies are $7.1 million less in CY 2013 compared to CY 2010, a reduction of almost three quarters.

Public Utility Tax Reimbursements

Changes in the law that reduced public utility tangible property (PUTP) taxes as part of electric power generation deregulation and natural gas deregulation were made in 1999 and 2000, respectively. The kilowatt-hour (KWH) tax and natural gas distribution (MCF) tax under prior law were earmarked in part or whole for the reimbursement of schools and local governments. Under prior law, all of the MCF tax revenues were dedicated to reimbursement, with 31.3 percent of revenues going to the local government replacement; part of the KWH tax went to the GRF and the balance to reimbursement, with 11.6 percent earmarked for the local government replacement. HB 153 eliminates the use of the MCF tax for reimbursement entirely, and reduces KWH funding for reimbursement by three quarters in 2012, while leaving a miniscule residual in place through 2031 (Table 4). For the vast majority of local governments, KWH reimbursement is eliminated immediately. For example, 96.3 percent of townships lose all of their PUTP funding in 2011. Out of 928 municipalities with PUTP reimbursements for current expense levies, 920 lose all of their funding in 2011. By 2013 annual funding is reduced by 89 percent, a cut of $7.7 million statewide. As with the TPP reimbursements, non-current expense levies are reduced by 75 percent and PUTP tax reimbursement for inside millage debt or charter debt levies is continued at the 2010 levels through calendar year 2016 as long as the levy is not reallocated to another purpose. Other impacts include:

- 240 out of 249 special districts lose all PUTP funding immediately.
- 32 out of 38 county children's services levies lose their PUTP funding after this biennium; 96 percent of all funding is eliminated
- 47 out of 49 county senior services levies lose their PUTP funding in 2011.
- 27 out of 29 county health levies lose their PUTP funding in 2011;
- 73 of 82 county mental health levies lose their PUTP funding in 2011.

The dollar amounts of the PUTP tax reimbursements are small compared to losses in the TPP reimbursements, but they add to the overall cuts at the local level.

[14] Bill DeWitt, "Social Service Officials Hoping to Hold the Line on Service Cuts," The Athens News, June 17, 2011 at http://www.athensnews.com/ohio/article-34238-social-service-officials-hoping-to-hold-line-on-state-budget-cuts.html

Table 4: Distribution of MCF and KWH taxes, current law and prior law

Prior law	General Revenue Fund (State)	School District Utility Property Tax Replacement Fund	Local government Utility Property Tax Replacement Fund
2011	63.0%	25.4%	11.6%
2012 & thereafter	63.0%	25.4%	11.6%
Current law			
2012	88.0%	9.0%	3.0%
2013	89.0%	8.0%	3.0%
2014-2020	90.0%	8.0%	2.0%
2021-2030	93.0%	6.0%	1.0%
202112 & thereafter	100%	0%	100%

Source: Ohio Department of Taxation, http://tax.ohio.gov/channels/other/documents/Tangible%20Property%20Tax%20Reimbursement%20and%20Electric%20and%20Gas%20Deregulation%20Reimbursement%20v1.11.pdf

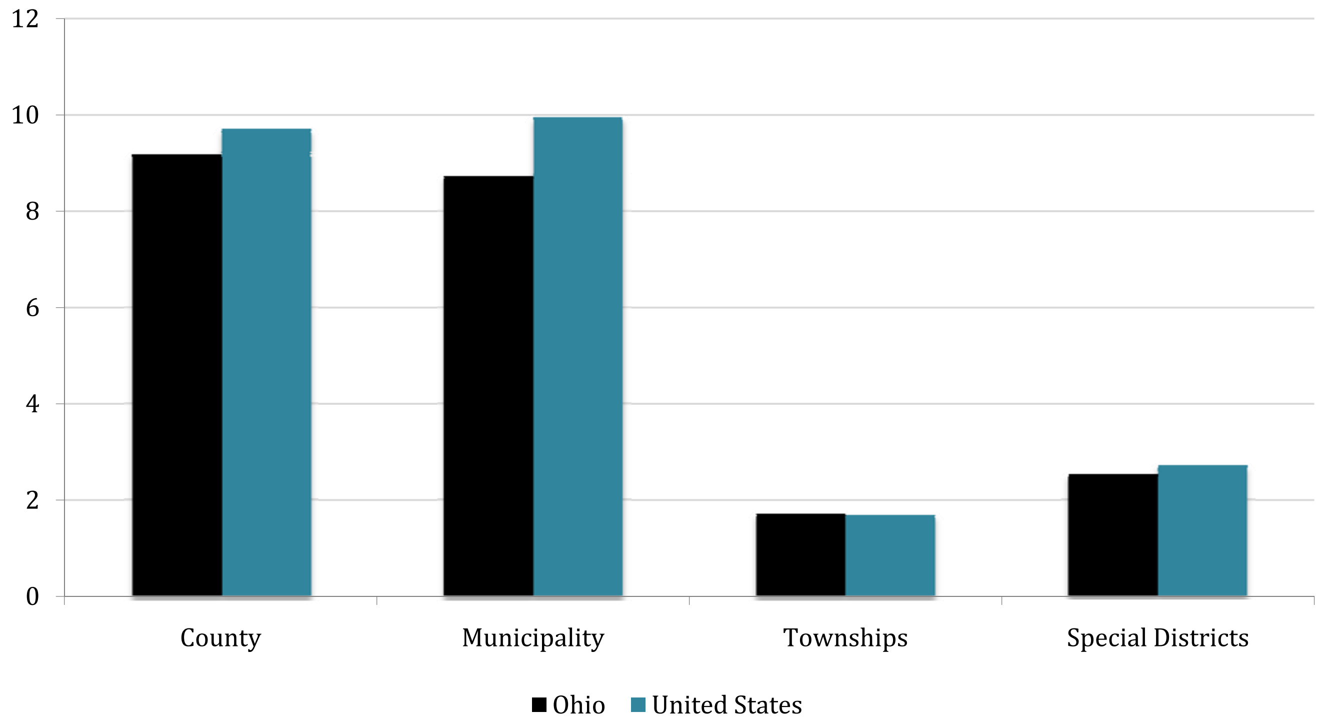
Summary

State budget cuts to local government have been broadly justified with claims of a bloated local government sector in Ohio. However, a comparison with national averages indicates Ohio's local government sector is similar to national averages and in most categories, is slightly lower than the average. Figure 7 illustrates that in terms of employees per 1000 people, Ohio has somewhat lower staffing in counties, municipalities and special districts than typical for the United States as a whole (Figure 7), and in terms of total local government pay per $10,000 in personal income, Ohio's local government profile is slightly lower than the national average in every category (Figure 8).

State budget cuts to health and human services in House Bill 153 are magnified when the cuts to local governments through state seizure of Local Government Funds and tangible personal property tax reimbursements are parsed out into specific service delivery areas.[15] Local budget shortfalls in these areas may be expected to reverberate through criminal justice and public safety services. Elements that impact the quality of life in every community have taken a cut imposed by the State. The impact of House Bill 153 can be fully understood only when the billion-dollar cut to local governments is examined in detail.

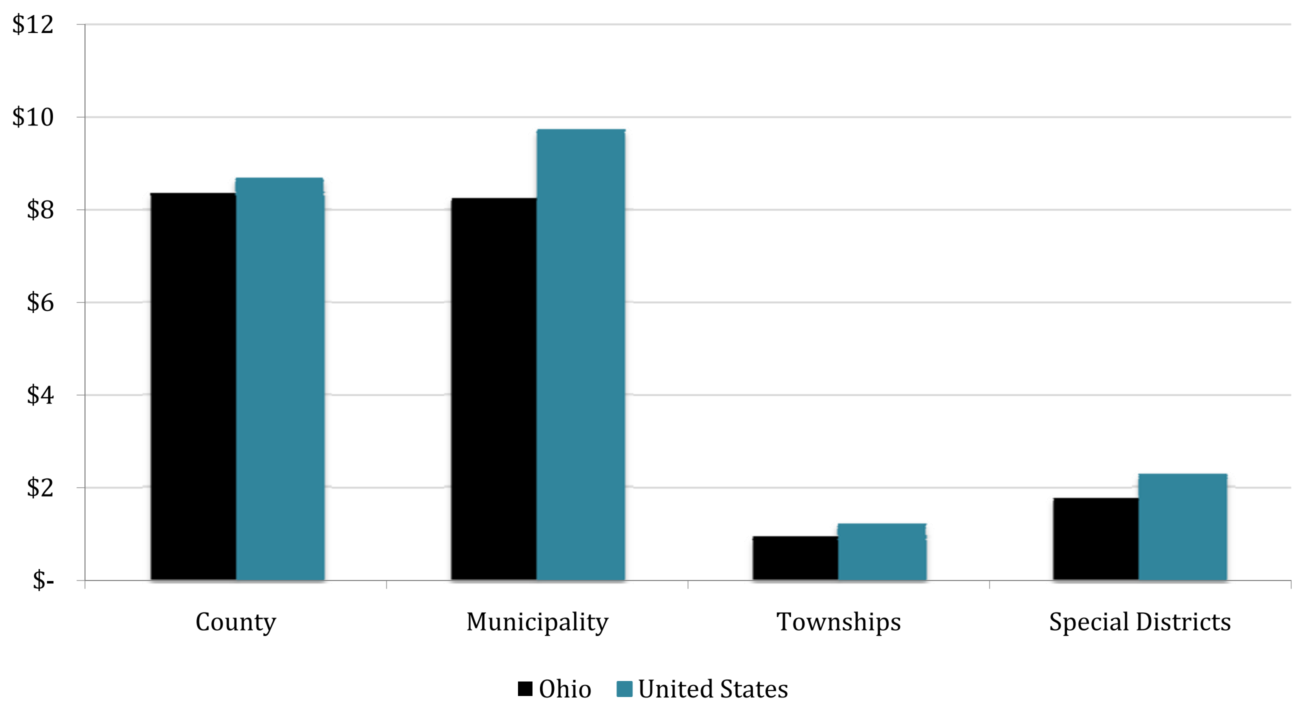
[15] The same situation is true of school districts, which after a decade of improved funding and increase in equity under court order (DeRolf) see progress reversed with HB 153. See Piet vanLier, "Slash, Seize and Privatize: The State Budget's Impact on Education," Policy Matters Ohio, June 23, 3011.

Figure 7: Local public employees per 1000 population, Ohio and the United States, 2007



Source: Policy Matters Ohio, based on United States Census of Governments, 2007

Figure 8: Local public employee total pay per $10,000 in personal income, Ohio and the United States, 2007



Source: Policy Matters Ohio based on the United States Census of Governments data, 2007