

Testimony to the House Tax Reform Legislative Study Committee

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Good morning, Chairman Scherer, Ranking Member Letson and members of the committee. My name is Wendy Patton and I am senior project director of Policy Matters Ohio, a nonpartisan, nonprofit research institute with the mission of creating a more prosperous, equitable, sustainable and inclusive Ohio. Thank you for the opportunity to testify today regarding local government financing.

State support for local governments has declined, and it is having a real impact. According to numbers distributed by the Kasich administration and described to you at this committee's hearing in Batavia on August 21, state support for local governments – separate from school funding – is down by nearly \$1 billion or 10 percent between the two-year period covered by the FY10-11 biennial budget and the two years of the current FY14-15 budget.¹ This is without adjustment for inflation (Figure 1, appendix). This reduction is meaningful, resulting in cutbacks to services and in local government employment.

Ohio's state government has historically provided flexible aid to localities through property tax relief and revenue sharing. In our analysis, we consider the estate tax, enacted in 1893, divided between state and local government and eliminated in the last state budget. We look at the Local Government Fund, cut in half in the last state budget, created with the sales tax in the Depression and shared among the counties to help provide locally targeted relief. We look at tax reimbursements, promised when the state did away with certain local taxes during the past decade, mostly eliminated in the last budget. We look at the property tax rollback, created when the income tax was established in the 1970s and eliminated in House Bill 59 for new and replacement levies. In our studies, we also look at casino revenues, not because they are discretionary state aid (they are not, they are constitutionally mandated for distribution to specific entities and for specific uses) but because there is a distribution, and many local officials hoped this distribution of casino revenues would replace what they are losing. They have not.²

The administration's list of revenue sources and program funding suggests that the cuts in the Local Government Fund, local tax reimbursement, the property tax rollback and the estate tax are insignificant in the larger context of overall local and school district revenue that exceeds \$50 billion a year. However, that total vastly overstates the amount of revenue that is available for general-purpose local government services, in particular.

¹ Specifically, the Office of Budget and Management calculates that funding for 40 line items it includes in state support to local governments will decline from \$9.64 billion in FY10-11 to \$8.65 billion in FY14-15 (this includes \$25 million in federal stimulus dollars in FY11).

² Zach Schiller, "No Windfall," Policy Matters Ohio, October 2012 at policymattersohio.org/casino-taxes-oct2012.

Here is one example of how the OBM analysis of August 21 overstates the amount of revenue that is available for local government general purposes. The chart on page one of the Fact Sheet and on page nine of the testimony includes \$13 billion in FY2014 in a category called “Other Local Revenue.”³ This includes payments for the operation of water and sewer systems, which are used for those specific purposes. A community cannot make up for a loss in tax reimbursements with its sewer fees. Nor do airport landing fees or money paid by students for school lunches – both amounts that are included in the Census data the administration used for its estimates – do much to bolster municipal general funds. While some of the \$13 billion is available for municipal budgets, billions of it is not, while in other instances, it’s unclear (see further information about the Census data in the appendix).

The administration’s numbers indicate that local tax revenues available to local governments amount to about \$12 billion in FY2014.⁴ (This does not include taxes that go to schools.) Much of the \$4.3 billion in state support of local governments cited by the administration is for specific programs or purposes.⁵ For instance, the federal funds provided by the U.S. Department of Labor under the Workforce Investment Act and passed through the state to counties and non-profits for job training must be used to deliver the services required by state and federal law. These funds can’t be used to keep police on the beat, recreation centers open, or snow plowed.

Here are some real-life examples of cuts to local government: Local Government Funds and tax reimbursements accounted for 23 percent of the General Revenue Fund of the Village of Jackson Center in 2010. The approximately \$30,000 annual loss reduces the aid to 15 percent; the village has not been able to consistently maintain the capital improvements fund.⁶ Lima’s Local Government Funds dropped from \$1.6 million in 2010 to \$850,000 today, from 6 percent to 3 percent of the GRF: the city workforce has been reduced through attrition.⁷ The fire department of Franklin County’s Madison Township saw tax reimbursements that accounted for 18 to 19 percent of their budget drop greatly. They have eliminated four positions, so there are fewer fire inspections, less staff training, and fewer in a company on any given day.⁸ The city of Whitehall in Franklin County saw Local Government Funds drop from 6 percent of their budget to 3 percent; an income tax increase sustained operations but plans for a recreation center were put on ice.⁹ Sources of flexible state funding have dropped from about 8 percent of the budget to less than 4 percent in Bucyrus: four first responders have been laid off and just one sheriff, alone, is responsible for the safety of the 12,000 residents during night shift.¹⁰ In Mansfield, pools have been closed, city workers are mowing parks on comp time, and only half the streetlights are on in some neighborhoods.¹¹ Cincinnati, which received more than \$10 million annually in estate tax revenue,¹² has implemented a controversial plan to privatize parking.¹³ These effects are

³ Office of Budget and Management, “Fact Sheet: Funding Ohio Communities” and “Funding Ohio Communities,” testimony of Controlling Board President Randy Cole, Office of Budget and Management, to the Ohio House of Representatives Tax Reform Legislative Study Committee, August 21, 2013.

⁴ Office of Budget and Management, Testimony of Randy Cole, Op.Cit., p.4

⁵ Office of Budget and Management, “Fact Sheet: Funding Ohio Communities,” Op. Cit., p.3

⁶ Bev Wren, Village of Jackson Center, telephone conversation of September 4, 2013.

⁷ Steve Cleaves, Finance Director, City of Lima, e-mail dated August 27, 2013.

⁸ Chief Bates of Madison Township Fire Department, telephone conversation of September 6, 2013.

⁹ Mayor Kim Maggard of Whitehall, telephone conversation of September 6, 2013.

¹⁰ Garnet Love, Council President, City of Bucyrus, telephone conversation of August 28, 2013.

¹¹ Julie Carr Smyth, “Ohio Cities, schools in crossfire of budget debate,” *News-Herald*, August 17, 2013.

¹² See Ohio Department of Taxation, Estate Tax: Distributions to All Governmental Units for Settlement Periods During Calendar Year 2010, available at <http://1.usa.gov/18QBpQT>.

representative of impacts described in a survey of local finances conducted by the Ohio Municipal League.¹⁴

While our primary focus is general purpose government – counties, cities, villages and townships – the tax reimbursements, the property tax rollback and other forms of property tax relief also impact certain special purpose government functions in many communities where residents have chosen to supplement state funding with local property tax millage. This practice is so widespread that Ohio’s configuration of funding for some services is unique among the states. For example, in 2010 the state provided a smaller share of funding for services for the developmentally disabled than any other state, and local government provided a larger share than in any other state.¹⁵ State government in Ohio also provided a smaller share of children’s welfare financing than any other state. The average share provided by a state in the nation (43 percent) is provided by local government in Ohio (44 percent) and vice versa: the national average for local share (11 percent) is about what the state provides in Ohio (10 percent).¹⁶ This is why cuts in flexible funds, which impact local levies of some health and human services as well as the operating funds of counties, townships and municipalities, have had a harsh fiscal impact (Figure 2 in the appendix illustrates loss of tax reimbursements on local children’s services levies).

Recessions have a whiplash effect on local government: they are among the first to be impacted, as needs rise and income and sales tax revenues fall, and they are the last to recover, as the property tax recovers slowly, with the reappraisal cycle. Local government employment in Ohio started falling during the recession, and that trend has not been reversed. We have lost more than 47,000 local government jobs since late 2008. This loss of public employment not only means a decline in public services, but a loss of purchasing power and a negative for Ohio’s economy.

Thankfully, Ohio local government revenue is growing after a period during and right after the recession when taxes and other local sources of funds stagnated. However, the modest 3.5 percent increase in revenue from all sources that the Kasich administration shows between FY11 and FY14 will not even cover the increase in inflation, much less make up for the recessionary years when local revenue fell even further behind the general rise in costs.

It is the loss of general-purpose monies like the Local Government Fund, which support basic services and allow municipalities flexibility to meet the needs of their own communities, that is causing problems. The impact of such losses is not hurting every community equally; some have been less affected. But those suffering from plant closings or the effects of federal sequestration are particularly impacted. As communities struggle to recover, the loss of aid slows their ability to restore services people need. The administration’s own numbers show that state support for local governments has declined. This is affecting the quality of life in communities across the state. This policy should be reversed.

¹³ Amanda Lee Meyers, “Court OK”s Cincinnati’s Plan to Privatize Parking,” *The Columbus Dispatch* at www.dispatch.com/content/stories/local/2013/06/12/cincinnati-parking-privatization.html.

¹⁴ Ohio Municipality Fiscal Survey, Ohio Municipal League, at <http://bit.ly/181xOgp>.

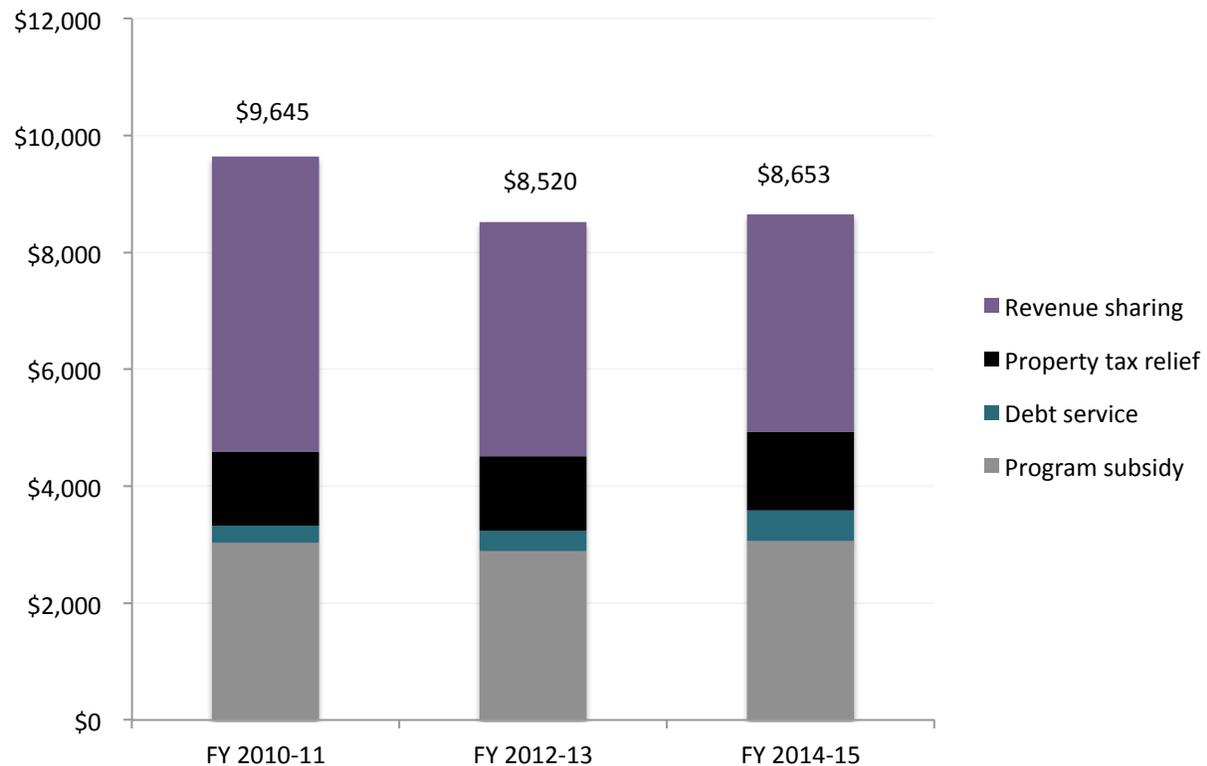
¹⁵ University of Colorado, State of the States in Developmental Disabilities, “State profiles for I/DD during fiscal years 1977-2011 at www.stateofthestates.org/index.php/intellectualdevelopmental-disabilities/state-profiles.

¹⁶ Public Children’s Services Association of Ohio, “PCSAO and Child Welfare Financing,” June 2013 at [www.pcsao.org/Presentations/2013/Child Welfare OH Financing Execs 6 13.pdf](http://www.pcsao.org/Presentations/2013/Child%20Welfare%20OH%20Financing%20Execs%206%2013.pdf).

Appendix

Figure 1

State funding for local governments has declined over all state programs, services and funding sources since fiscal years 2010-11
(millions of dollars, not adjusted for inflation)



Source: Policy Matters Ohio, based on data from “Fact Sheet: Funding Ohio Communities,” Ohio Office of Budget and Management, August 2013, presented to the Tax Reform Committee, August 21, 2013; this does not include estate tax and casino tax revenues, which would result in some additional loss to local government in FY 2014-15 compared to FY 2010-11.

Census Bureau: “Other Local Revenues”

The administration classifies 26 percent of school and local government revenue as “Other Local Revenue,” based on Census Bureau statistics (see *State & Local Government Finance*, at <http://www.census.gov/govs/local/>). This revenue amounted to about \$12.5 billion in Fiscal Year 2011, according to the Census. The Office of Management and Budget used the Census categories of “Charges and miscellaneous general revenue” and “Utility revenue,” used the FY2010 data available when it was doing its research, applied an annual adjustment factor of 1.27 percent a year and then capped it at the FY2013 amount of \$13.17 billion, to be conservative. Among other things, the Census data include:

- Tuition at community colleges;
- Landing fees paid at airports;
- Money paid by students for school lunches;
- Sewerage and solid waste management charges (worth \$1.9 billion and \$253 million, respectively, in Fiscal Year 2011);

- Patient charges at public hospitals (\$1.3 billion);
- Water, electric and gas revenue at government-owned utilities. Thus, if Cleveland Public Power gains or loses a customer to the Cleveland Electric Illuminating Co., that affects the revenue total;
- Fares collected by transit agencies;
- “Other charges” worth \$1.8 billion and “other revenue” amounting to \$1.5 billion.

The full listing of categories is available on the Census web site. It also includes revenue from interest, parks and parking, for instance. Some of this money is available to local governments for general purposes, but it’s clear that billions of dollars each year are not. It is simply not clear how other categories covering significant amounts of revenue fit into municipal budgets. No doubt all of the revenue shown is “local government revenue,” in the sense that a public entity is receiving it. But many of these dollars have little relevance to the impact of the cuts in the Local Government Fund and other reductions in flexible state support.

