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HOUSE WAYS AND MEANS COMMITTEE

OPPONENT TESTIMONY – HOUSE BILL 1

Glenn Miller
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March 14, 2023

Good afternoon, Chair Roemer, Vice Chair Merrin, Ranking Member Troy, and members of the House Ways and Means Committee. My name is Glenn Miller. I am a Henry County Commissioner in my third term, and President of the County Commissioners Association of Ohio. Thank you for the opportunity to present testimony today on behalf of CCAO. CCAO is opposed to this legislation as it is currently written because it represents a major step backward in the state-county partnership that all of us have worked so hard to improve in recent years. Counties need stable, predictable sources of revenue that grow in step with economy and enable county government to provide services to residents. The property tax provisions of this bill undermine these principles by creating confusion on the part of property owners and needlessly causing revenue losses that impact local services, without any guarantee of long-term revenue replacement. Although some of these effects may be unintended by the sponsors, they are still damaging and should not be allowed to move forward.

House Bill 1 contains two basic concepts: (1) a reduction in the income tax; and (2) an elimination of the 10% residential and agricultural rollback and associated changes to property tax laws. With respect to the income tax, it is not CCAO's role to make recommendations to the state regarding the overall mix of state GRF revenue sources. It must be said, however, that a reduction in state revenue leads directly to reduced distributions from the Local Government Fund (LGF) to counties and other local governments. We are encouraged that the executive budget proposes an increase in the LGF from 1.66% to 1.70%. Our CCAO platform calls for full restoration to 3.68%. We are having productive discussions with members of the House about this issue, which takes on even more importance as income tax cuts are being considered.

Our concern lies squarely with some of the bill's changes to the property tax system, specifically the removal of the 10% rollback and reduction in the assessment percentage. We were surprised to see a bill that eliminates the rollback. The rollback provided $198 million for county services in 2022. The rollback has been part of our tax system since 1971, when it was adopted alongside the income tax. We had assumed that this issue was settled in 2013, when the legislature decided that new levies adopted after September 2013 were not eligible for the rollback, but the credit would continue for existing levies.

Since that time, this GRF line item in the state budget has remained very stable (see Appendix).

Counties have a dual role in the property tax system as both administrators and providers of services supported by this revenue stream. The services provided by county government are some of the most direct interactions many Ohioans have with any level of government, including public safety, administering elections, protecting Ohio's children, building roads, and providing various social services. Ohio's counties serve as branch administrative agencies of the state, with our specific responsibilities outlined in the Revised Code.

Counties receive revenue from both "inside" (unvoted) and "outside" (voted) levies. The average county utilizes 2.5 inside mills. Two counties have temporarily suspended collection of inside millage. Most counties dedicate inside millage to their general fund, but it is also common to see inside mills dedicated to debt service for bonds. Revenue from inside millage is allowed to grow with increases in property valuation, thereby allowing part of our revenue stream to keep up with inflation.

Commissioners serve as the budgeting authority for county government and make appropriations for the general fund, as well as various property tax "levy-funded" agencies that are not part of the general fund, such as children services, senior services, boards of mental health and addiction services, and boards of developmental disabilities. All counties have at least one voted levy. Levies for social services are common, but other purposes may include jails, EMS, 9-1-1, parks and zoos, roads, county homes or hospitals, soil and water, and OSU extension.

Commissioners must adopt a resolution to approve access to the ballot for most voted county levies. The exceptions are certain special districts for public health, libraries, parks, and multi-county mental health and addiction service districts. This is a responsibility that we take very seriously, and we deny requests for ballot access if we feel they are not warranted. After voters approve a levy, the County Budget Commission, comprised of the auditor, prosecutor, and treasurer, has the authority to roll back millage rates if funds are not needed to provide the required level of services.

House Bill 1 will have different implications for inside and outside county levies. For inside levies, the removal of the rollback causes an increase in taxes for the property owner that is offset by the reduction of the assessment rate. This results in a direct loss of revenue to county government.

For outside levies that have been in existence for at least one three-year reappraisal period, the effective millage rate may adjust upward to compensate for the loss of valuation caused by the reduced assessment rate. This upward adjustment is limited by the voted millage. Fixed sum levies will also adjust upward.

The bottom line, as estimated by LSC, is that the bill's attempt to save the state approximately $1.3 billion by eliminating the rollbacks will induce a complicated chain reaction that will further confuse taxpayers and shift tax burdens to the local level:

- $929 million tax increase for Class 1 taxpayers;
- $157 million tax decrease for Class 2 taxpayers;

- $538 million tax in lost tax revenues for local governments and schools (the local government share is $239 million).

The bill's mechanism for continued annual reduction in the assessment rate, tied to the GDP deflator, has the potential to create even more disruption by lowering the property tax base and forcing future levies to use a higher millage rate to yield a certain amount of revenue. We recommend that the entire concept of lowering the assessment percentage, which has been set at 35% since 1972, be set aside.

The bill's stated intention in Section 6 to appropriate funds to address revenue losses to local government in FY 2024 and 2025 is vague and unsatisfactory. With no clarity about how a compensation mechanism might work, and indeed whether it would continue past the biennium, the language recalls some of the tax shifts in recent years that have negatively impacted counties and other local governments. For example, in 2017, the state reacted to a federal administrative decision by ending the Medicaid MCO sales tax, causing a loss of $166 million annually to counties. Counties were provided with a one-time compensation payment based on their reliance on this tax.

In 2011, the Local Government Fund was cut without any compensation mechanism. In 2005, as part of a larger tax reform effort, the state phased out the tangible personal property tax, which provided $1.7 billion to schools and local governments. Compensation payments were initially made through the new commercial activity tax, but these payments dwindled over time.

We hope that House Bill 1 is not another example of broken promises that leave local government to pick up the pieces from a state tax change.

I do want to end on a positive note. CCAO supports improvements to the homestead property tax credit and we believe that raising the amount of the valuation exemption and adjusting it for inflation are long overdue. We are studying the changes proposed in House Bill 1 and suggest that lawmakers might also consider further adjustments to the income level.

CCAO is extremely grateful to the sponsor for the opportunity to have an ongoing dialogue about the bill. We look forward to continuing those discussions with the sponsor and the members of this committee. There is no doubt that Ohio has a complex property tax system, but we must proceed cautiously if we want to change a framework that has been in place for decades. I recommend that the property tax provisions be removed from this bill so they can be considered separately as part of a study committee or similar process that gives time for due consideration.

Thank you for the opportunity to testify today. I would be pleased to answer any questions.

APPENDIX

GRF Line Item 110908 Property Tax Reimbursement – Local Government

Actual Expenditures. Amounts in millions

FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
$637.6	$638.4	$639.3	$639.5	$639.4	$639.4	$638.4

Source: LSC, Catalogue of Budget Line Items. This line item is used to reimburse local governments other than school districts for losses incurred as a result of the 10% and 2.5% rollbacks and the homestead exemption. Types of real property eligible for the 10% rollback include those used for farming, including leasing property for farming; occupying, holding, or leasing property improved with one, two, or three-family dwellings; or holding vacant land that the county auditor determines will be used for this purpose.