STATEHOUSE REPORT

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Property and Income Tax Reforms Included in House Bill 1

Among the bills introduced into the House this week was House Bill 1 (Representative Adam Mathews). As its bill number suggests, it is a top priority for the majority caucus and is intended to be a stepping stone to the elimination of the state income tax. House Bill 1 makes a number of changes to property taxes and the state income tax. CCAO is concerned about the impact of the bill on Ohio's property tax system, and we are engaging with the bill's sponsors and interested parties to understand its full impact.

The bill makes small changes to the state's income tax brackets for Tax Year 2022, then in Tax Year 2023 and thereafter eliminates all but one bracket. Under the bill, beginning in Tax Year 2023, Ohioans will pay no income tax on their first $26,050 of income and then pay the sum of $360.69 plus 2.75% of their taxable income above $26,050.

House Bill 1 also makes several changes to Ohio's property tax system. First, the bill eliminates the Class 1 (Residential and Agricultural) 10% property tax rollback and changes the owner-occupied 2.5% credit to a flat $125 per year. The state currently reimburses taxing districts for both of these credits. This rollback was put in place when Ohio first instituted an income tax. The rollback was modified in 2013 so that it would not apply to new or replacement levies. It is expected that these changes will reduce state expenditures by approximately $1.2 billion per year.

Second, the bill modifies the homestead credit that is available to homeowners who are disabled or age 65 and over and have incomes lower than the statutory threshold. The bill indexes the current $25,000 valuation exemption for inflation, and creates an enhanced valuation exemption of $50,000 for individuals who have owned their homes for at least 20 years.

Third, the bill changes the statewide valuation assessment rate from 35% to 31.5% for the first tax year the bill is effective and then lowers the assessment rate for inflation in subsequent years. The assessment rate is capped at 31.5%. This change is intended to reduce or eliminate the financial impact on property owners of eliminating the residential credit.

The temporary law language in the bill states that it is the intent of the General Assembly to appropriate funds in fiscal years 2024 and 2025 to local governments impacted by these changes. There are no specifics on the amount of assistance or whether this aid will continue beyond the biennium.

The bill was referred to the House Ways and Means Committee. The Legislative Service Commission has not yet produced an analysis or fiscal note for the bill. CCAO is working with the County Auditors Association of Ohio (CAAO) to understand the full impact of this far reaching and complicated proposal.

Stay tuned as tax reform is expected to be a priority item in the state budget and much discussion is anticipated over the coming months. CCAO's legislative agenda hallmarks are revenue stability as well as removal of unfunded mandates along with building stronger counties for a stronger Ohio. This will be the perspective we continue to use in reviewing proposals and fostering positive relationships with our state partners.

For further information on HB 1, contact CCAO Senior Policy Analyst Jon Honeck at 614-220-7982 or at jhoneck@ccao.org.

Force account amendments offered for consideration in Transportation Budget

Ohio law allows a county engineer to use county employees and equipment for certain small construction projects and repairs to roads and bridges. This authority is limited to road projects costing less than $30,000/mile and bridge projects that cost less than $100,000. These "force account" limits have scarcely been adjusted in the past 20 years. (Read the testimony CCAO offered to the House Finance Committee here).

In response to the advocacy of county commissioners and engineers on this issue, three House members – Representatives Klopfenstein, Peterson, and Manchester -- have agreed to sponsor several amendments to the transportation budget (House Bill 23, Rep. Edwards). The first amendment continues the current framework of using monetary thresholds to define force account authority. This amendment raises the thresholds to $115,000/mile for roads and $300,000 for bridges and adds an annual inflation adjustment.

The second amendment uses a "scope of work" concept based on physical parameters instead of monetary limits to define force account authority. This amendment specifies that the scope of work parameters for projects that may be conducted by a county without using a contractor are:

1. Replace, widen, or rehabilitate (partially or fully) any bridge that measures up to 80 feet from the face of abutment to the opposite face of abutment;
2. Regular maintenance and repair of any size bridge (including bearings, beams, and deck replacement;
3. Full-width paving operations up to 400 feet in a centerline mile;
4. Pavement widening operations up to 1,800 square yards per lane mile, excluding center and turn lanes; and
5. Chip sealing up to 15,000 square yards of material per layer of material per centerline mile.

Both amendments will be offered to House leadership for consideration. *CCAO members are asked to contact their House Members to discuss the need for force account reform and express support for these amendments.*

Transportation Budget benefits from federal funds

The Ohio House Finance Committee continued its hearings this week on the state transportation budget for FY 2024-2025. The Ohio Department of Transportation (ODOT) budget for FY 2024 reflects a large increase in federal funds due to the Infrastructure Investment and Jobs Act (IIJA) for the Interstate Highway 71/75 Brent Spence Bridge Corridor project and other transportation-related projects. The appropriation for the Brent Space project is $1.9 billion for FY 2024. Other federal highway construction funds increase by approximately $1.0 billion over the biennium compared to the current year.

Counties and other local governments will also benefit from increased federal funds. The County Local Bridge program will receive approximately $30 million more each year, and the County Surface Transportation program will receive approximately $5.0 million more each year. These federal projects require a 20% local match. Metropolitan Planning Organizations and Regional Transportation Planning Organizations will also receive funding increases.

Federal Funds for County-related Government Program Allocations in ODOT Budget, (in millions) HB 23 As Introduced			
Program	FY 2023 Estimated	FY 2024 Appropriation	FY 2025 Appropriation
Metropolitan Planning Organizations	$217.3	$270.3	$275.7
Regional Transportation Planning Orgs.	$1.4	$2.6	$2.6
County Local Bridge	$50.3	$81.4	$79.4
County Surface Transportation	$23.4	$28.6	$28.6

Counties will continue to receive equal distributions from the state motor fuel tax. Motor fuel tax revenues rebounded in FY 2022 as the economy recovered from the pandemic, but receipts are down 3% through the first five months of FY 2023. Given the impact of inflation and economic uncertainty, net motor fuel tax distributions are expected to remain flat at their recent level of $2.4 billion per year. Counties will receive about 14.7%, or roughly $350 million, of this total.

The motor fuel tax also supports other programs that assist counties and other local governments, including the Ohio Public Works Commission's Local Transportation Improvement Program, which provides loans and grants for road and bridge work. Local governments are able to nominate projects through their local OPWC district. Funding for this purpose is estimated to be approximately $60 million per year. Fuel tax revenue is also used for the Ohio Department of Development's Roadwork Development Program, which is flat funded at $15.2 million in each fiscal year. These funds are used for widening, paving, road construction and reconstruction, and right-of-way infrastructure improvements such as sewer or utility lines near economic development sites.

The ODOT budget continues the policy from previous budgets of using flexible federal highway funds for public transportation. The budget provides $33 million per year for this purpose. An additional $37 million per year in state general revenue funds are appropriated each year in the proposed main operating budget. The ODOT budget also includes federal funds from the Federal Transit Administration for both formula and competitive grant programs. Some of these funds will be used for a pilot proposal to create a Regional Transportation Resource Center in Coshocton, Guernsey, Muskingum, and Tuscarawas counties.

Funding in this budget will also create a two-year grant program to help county airports with deferred maintenance needs for facilities and infrastructure. ODOT currently provides about $7.0 million annually for county airport maintenance. Every year, applications for funding far exceed the available funds. The budget provides a one-time infusion of $25 million in general revenue to help local airport operators catch up on critical deferred maintenance.

More information about House Bill 23 is available here.

Legislative Activity

The House held hearings in Finance Committee and the Finance subcommittees concerning the operating budget and the transportation budget.

Two bills of interest to counties received hearings this week, both in Senate Ways and Means:

- Senate Bill 39 (Senator Tim Schaffer): Exempts children's diapers, car seats, strollers, cribs, and baby monitors from the sales and use tax.
    - Proponent testimony from Groundwork Ohio, Bottoms Up Diaper Bank, and Ohio Association of Community Action Agencies.
- Senate Bill 52 (Senator Theresa Gavarone): To exempt sales of United States and Ohio flags from the sales and use tax.
    - Sponsor testimony.

The following bills that may be of interest to counties were introduced:

- House Bill 2 (Representative Alessandro Cutrona and Representative Terrance Upchurch): To declare the intent of the General Assembly to direct state funds to projects across the state for economic growth and community development.
- House Bill 3 (Representative Gail Pavliga and Representative Lauren McNally): To formally state the General Assembly's intention to authorize an affordable housing tax credit.
- House Bill 7 (Representative Andrea White and Representative Latyna Humphrey): To express the General Assembly's intent to support strong foundations for mothers and babies to address maternal and infant mortality and improve health and developmental outcomes.
- House Bill 21 (Representative Dan Troy): Requires presidential primary elections be held on the first Tuesday after the first Monday in May.
    - Senate Bill 55 (Senator Bill DeMora), introduced this week, is the Senate companion bill.
- House Bill 30 (Representative Latyna Humphrey): To require municipal and county correctional facilities and state correctional institutions to provide inmates experiencing a menstrual cycle with an adequate supply of feminine hygiene products.
- House Bill 57 (Representative Thomas Hall and Representative Steve Demetriou): To index the homestead exemption amount to inflation.