

OHIO'S
LOCAL
GOVERNMENT
FUNDS

and the

'06/'07 Biennial Budget
May 2005

The Budget Process Objective

Assure no further cuts occur to the LGFs

Establish a stable, reliable formula for revenue sharing funding between the State of Ohio and it's local government partners within the context of tax reform

Setting the Stage...

The State's Fiscal Picture

Temporary sales tax expires

Yielding about per FY

FY 04/05 Biennial Budget – GRF \$49 Billion

expenses grew by 8% over 02/03 [GF 10.1%]

Medicaid “pac-man” [40% of the FY 04/05 growth]

Human services including Medicaid [30%]

Primary and secondary education [34%]

Higher education [17%]

Setting the stage... "Structural Deficit"

Defined: "the funding of ongoing expenditures with one-time money"

Estimate is 3.8 Billion Dollars for FY 06/07

One-time revenue components of FY 04/05

Temporary sales tax	2.5 B
Federal Medicaid Fiscal Relief	771 M
Tobacco Trust Fund Money	234 M
Freeze of Local Government Funds	297 M

Proposed Budget - Spending

\$51.4 Billion in GRF over the Biennium

Lowest rate of GRF increase in 40 years

FY 2006 - \$25.4 Billion – 1.1%

FY 2007 - \$26.0 Billion – 2.3%

Many agencies spending less than in 2000

Reduces or holds flat 36 of 68 state agencies

Growth drivers curtailed

Medicaid - \$577 Million increase after cuts to save \$832
\$8.1 Billion / 38% of all state spending [40%]

Education

K-12 – FY '06 \$9.37 Billion/2% - FY '07 \$9.61 Billion/2.5%

Higher Ed – FY '06 \$2.47 Billion/1% - FY '07 \$2.52 Billion/2%

Tax Reform Issues

Business Tangible Personal Property

Machinery & Equipment - gone in 2007

Inventory – gone/2010

Furniture, fixtures – gone immediately
\$21.4 billion valuation

Costing local governments \$306 million in revenue

Reducing the property tax base by 9.8%

REIMBURSEMENT to local governments

Held harmless through FY 2011

Phased out from FY 2012 through FY 2018

NO full or permanent replacement revenue formula

Tax Reform Issues

Cut rates 21% over 5 years

Revenue lost: '06 – \$ 325 M / '07 – – \$690 M

\$2 Billion in reduced collections by 2010

Phased out over 5 years

Replaced with a “Commercial Activity Tax” CAT

Gross proceeds from sales - .26% rate

Up to \$1.5 Billion in collections by 2010

No base expansion to provide additional for counties

The Local Government Funds

The LGFs in Jeopardy... *What's At Stake?*

Essential everyday local services:

- Police/sheriff patrol & response
- Fire and EMS response
- Homeland security
- Sanitation, recycling, and yard waste services
- Libraries
- Criminal justice/public safety
- Parks and recreation programming
- Winter road/street snow removal

The Local Government Funds

Keep our residents safe and secure in their homes and in their communities

Enhance the quality of life & develop an infrastructure that attract economic development to Ohio's communities

LGFs Contributions to Local Government's Revenues

Libraries – only source of funding for 176
of Ohio's 251 library districts

Counties – up to 15% of the general fund

Municipalities – average 10% to 25%

Townships – in many over 50%

Park districts - significant

A History of Partnership

Local Government Fund created in 1934

Responding to the Constitutional Amendment of 1933 limiting unvoted property tax to 10 instead of 15 mills [“inside millage”]

In HB 134 – creating Ohio’s first sales tax

Stated purpose for the tax was to “support local government activities”

40% of the 3% sales tax went to the LGF

The Funds Today

[1934]

4.2% of the following state taxes

Personal income tax

Sales & use tax

Corporation franchise tax

Public Utility tax

Kilowatt hour tax – 2.646%

Replace revenue lost due to electric deregulation

Dealers in intangibles tax – 62.5%

Distributed by situs to the counties

The Funds Today

1989 [HB 71 – FY88/FY89 biennial budget]

Provide additional support to local governments

Provide different distribution formula from the LGF

.6% of the following state taxes [was to go to .7%]

Personal income tax

Sales & use tax

Corporation franchise tax

Public Utility tax

Kilowatt hour tax – .378%

Replace revenue lost due to electric deregulation

The Funds Today

Created in 1985 [HBs 291 & 146]

Replace revenue lost from repeal of the intangible property tax

5.7% of the personal income tax [originally 6.3%]

Major support for Ohio's 251 library districts

176 rely completely on the LLGSF

Undermining the "Partnership"

Contribution to the LGF from the major tax sources reduced from 4.6% to 4.2%

"Temporarily" done in 1991

Reduced permanently in 1995

Contribution to the LGRAF from the major tax sources was to increase to .7%

Contribution to the LLGSF from the personal income tax reduced from 6.3% to 5.7%

Undermining the "Partnership"

No "credit" for revenues from:

1 cent temporary sales tax increase
Kilowatt hour tax for FY 04/05

Reclassification of taxpayers of the dealers
in intangibles tax [HB 405]

If dealer owned/affiliated with a financial
institution or insurance company – all to state

Undermining the "Partnership"

The FY 02/03 "freezes"

Originally at the FY 2001 annual level
for both years

Lesser of "freeze" or statutory formula
40 Million additional "correction"

The FY 04/05 "freeze"

Fixed monthly distributions for both years at
the amount received in FY 03

Undermining the “Partnership”

The Business Tax Phase-outs:

Further speed-up of elimination of the personal property tax on business inventory – now it’s completely eliminated in 2007

Phase-out of reimbursement for \$10,000 exemption on business tangible personal property

Resources Reduced... over the last 2 Bienniums

Revenue "lost" to Local Governments:

LGFs "freeze" = \$ 340 Million

Business Taxes phase-outs = \$ 54 Million

Inventory Personal Property

Tangible Personal Property Exemption

TOTAL =

But, State Revenues UP...
over the last 2 Bienniums

in the GRF were:
\$ 15.7 Billion in 2001
\$ 18.7 Billion in 2005

That's a

Revenues distributed to the were:
\$ 1.295 Billion in 2001
\$ 1.215 Billion in 2005
That's a

The "Appropriations"

Local Government Fund

From \$ 662.2 Million '03/'05 to \$ 538.7 Million '07
At \$ 568.6 Million in 1997

Local Government Revenue Assistance Fund

From \$ 94.6 Million '03/'05 to \$ 77.4 Million '07
At \$ 81.3 Million in 1997

Library and Local Government Support Fund

From \$ 453.4 Million '05 to \$ 430.5 Million '07
At \$ 448 Million in 1999

The State's "Savings"

Fiscal Year 2006

At the "freeze" level = \$ 180 Million

With the additional cuts = \$ 103 Million

ON THE FORMULA \$ 283 Million

Fiscal Year 2007

At the "freeze" level = \$ 235 Million

With the additional cuts = \$ 164 Million

ON THE FORMULA \$ 399 Million

Funding LGFs at the 2000 Levels

Local Government Fund

\$684.6 Million in 2000

Or... \$145.9 Million more than proposed for 2007

Local Government Revenue Assistance Fund

\$477.5 Million in 2000

Or... \$20.4 Million more than proposed for 2007

Library and Local Government Support Fund

\$477.5 Million in 2000

Or... \$47.0 Million more than proposed for 2007

Conclusion...

The history and tradition of the state's partnership with its local governments through the distribution of Local Government Funding is in Jeopardy

The tax reform proposed either reduces or eliminates the state's major tax sources that are elements of the funding formula. Practically the question to ask is:

