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TO: **MEMBERS OF HOUSE WAYS AND MEANS SUBCOMMITTEE**

FROM: **LARRY L. LONG, EXECUTIVE DIRECTOR**

SUBJECT: **TESTIMONY ON THE LOCAL GOVERNMENT FUND (AS PART OF HB 59, THE BIENNIAL APPROPRIATIONS BILL)**

Mr. Chairman and Members of the House Ways and Means Subcommittee, CCAO welcomes the opportunity to testify on the Local Government Fund as part of the State Budget.

First, let me say that CCAO is pleased that there are no additional cuts proposed to the Local Government Fund in the FY 2014 - 2015 executive budget compared to the current state operating Budget.

CCAO also appreciates the fact that consistent with the provisions of the current state budget the LGF is proposed to go back on a "percentage of tax receipts" formula where local governments may experience growth in LGF revenues based on growth in state general revenue fund receipts over time.

The concept is if the state prospers and the state's tax base grows, local governments will share in that growth and prosperity along with the state. Likewise, when the economy is sluggish, local governments, like the state, will experience less revenue that reflects economic conditions

While CCAO appreciates no additional cuts to LGF and placing the LGF back on a formula, CCAO believes that the 50% cut to the LGF and the accelerated phase out of Tangible Personal Property (TPP) and Public Utility Personal Property Taxes (PUPT) included within the current budget was clearly disproportionate to the overall state budget problem the state faced in 2011.

According to OBM, the state faced a $7.7 Billion budget shortfall for the last biennium. This represented 17% of the state budget. According to OBM figures released two years ago at the time the current state Budget was introduced, 29% of the cuts necessary to make up for the $7.7 billion shortfall came from "redirection of state revenue" away from local governments, the largest single component of the state's budget balancing plan.

From the perspective of CCAO a good deal of the revenue to balance the current state budget was done on the backs of local governments. CCAO urges restoration of a portion of the cuts imposed during the current state budget. CCAO notes because of an improving economy the state now boasts a growing budget surplus and a healthy rainy day fund. For many local governments it is still raining and these local governments need some of the lost LGF money from the previous biennium to stabilize current budgets and restore service cuts.

The Executive Budget projects revenue growth in the LGF of 4.5% in FY 2014 and 3.5% in FY 2015. The Executive Budget as presented in the blue book provides the following information relative to actual LGF distributions in CY 2010 - 2012, estimated distributions in 2013, and the anticipated growth utilizing the estimated percentage of 1.69 % of state general revenue fund receipts.

Actual (in Millions)			Estimated (in Millions)	Recommended (in Millions)	
2010	2011	2012	2013	2014	2015
641.8	694.4	594.5	348.0	363.0	376.4

As recently as 2008 when the General Assembly finally put the LGF back on a percentage of tax receipts formula after 7 years of funding freezes and cuts, the legislature provided that local governments would receive 3.68 % of state general revenue fund receipts.

It is telling now that the state estimates after the 50% local government fund cut during the current biennium that local governments will receive an estimated 1.69 % of state general revenue fund receipts, about 46% of the revenue sharing percentage established in 2008.

To put this in dollar terms, according to Department of Taxation data, in 2008 local governments received $757.5 million from the LGF, in 2013 local governments are estimated to receive $348 million from the LGF, about 46 % of what the state distributed to local governments five years earlier.

CCAO supports the provision of HB 59 that provides for the continuation of hold harmless payments to the undivided local government funds of 23 mostly small counties. Affected counties are the following: Adams, Brown, Carroll, Fayette, Gallia, Hardin, Harrison, Henry, Highland, Hocking, Holmes, Jackson, Meigs, Monroe, Morgan, Morrow, Noble, Paulding, Perry, Pike, Van Wert, Vinton, and Wyandot.

The hold harmless provision provides that each county undivided local government fund is guaranteed the lesser of their FY 2011 distribution or $750,000. Based on the current budget, CCAO believes that this provision will cost the state approximately $5 Million dollars.

CCAO, however, recommends that this amount be separately appropriated so as not to come at the expense of the modest growth provided by the proposed budget for the 65 counties that are not subject to the hold harmless provision.

Finally, CCAO opposes any attempt to restructure statutory or alternative formulas for the distribution of LGF dollars at the local level. Legislation was introduced last session (SB 364) which would generally cap LGF distributions to the county at 30% of the amount distributed by the state to each county undivided LGF. This would reduce LGF distributions to the county general fund in 77 of the 88 counties.

The majority of Ohio counties (84 of 88) use an alternative formula for the distribution of LGF dollars within each county. Both the statutory and alternative formulas provide counties with a guarantee of between 30 % and 60 % of the county undivided LGF to be distributed to the county depending upon the percentage of the population of the county residing within incorporated areas. The percentage shares are as follows:

- If the municipal population is less than 41% - maximum county share is 60%

- If the municipal population is 41% - 80% - maximum county share is 50%

- If the municipal population is 81% or larger – maximum county share is 30%.

CCAO appreciates the opportunity to testify on the LGF provisions of HB 59. I would be happy to attempt to answer questions from the committee at this time.