

# Local Government Funds

Essential Funding for Ohio's Local Governments & Libraries

## What are Ohio's Local Government Funds?

There are really three local government funds. The **Local Government Fund (LGF)** and the **Local Government Revenue Assistance Fund (LGRAF)** provide revenue to counties, townships, municipalities and park districts. The **Library and Local Government Support Fund (LLGSF)** primarily benefits Ohio's libraries, although small amounts of this revenue also benefit other local governments in some counties.

## Why Were Local Government Funds Established? How Long Have They Been in Existence?

Each of the **Local Government Funds** has its own unique purpose and history.

During the Great Depression local governments experienced grave financial difficulties. Property tax delinquencies and foreclosures were high. In 1933 the Ohio Constitution was amended to reduce the allowable unvoted property tax millage from 15 to 10 mills to address this problem. The state then, in 1934, enacted its first sales tax. The **Local Government Fund (LGF)** was established at the same time and one of the purposes of the sales tax was to "support local government activities." In 1935 the LGF received around 40% of the sales tax, thus beginning the "revenue sharing" principle for LGF's. In 1947 state collected intangibles tax revenue was added as a second source of funding, and the income tax

was added in 1972 along with a portion of the corporate franchise tax. Later the public utility excise tax was included in the base to provide for greater reliability. Finally, the kilowatt hour tax was included in the base to replace revenue lost as a result of electric deregulation.

The **Local Government Revenue Assistance Fund (LGRAF)** was established in 1989. It was established to provide additional support for local governments and to modify the way this state assistance was distributed among counties. The **Local Government Fund** is distributed on the basis of *population and municipal property tax values*. The **Local Government Revenue Assistance Fund** is distributed solely on a *population or per capita basis*.

The **Library and Local Government Support Fund (LLGSF)** was established in 1985. It was established to replace revenue that libraries used to receive from the locally collected intangible property tax, that the General Assembly repealed effective in 1986.

## What Sources of Revenue Comprise the Local Government Funds?

Under current permanent law, and prior to recent actions by the General Assembly and the Governor in "freezing" and cutting the **LGF's**, the following percentages of the state's major taxes are shared with the three **LGF's** as follows:

## How Much Money Are We Talking About in the LGF & LGRAF?

Fund	Personal Income	Pass Through Entity	Sale & Use	Corporate Franchise	Public Utility Excise	KWH
<b>LGF</b>	4.2	4.2	4.2	4.2	4.2	2.646
<b>LGRAF</b>	.6	.6	.6	.6	.6	.378
<b>LLGSF</b>	5.7	5.7	0	0	0	0

	<b>LGF</b>	<b>LGRAF</b>	<b>Total</b>
<b>Cities &amp; Villages</b>	343	48.5	391.5
<b>Counties</b>	232	37	269
<b>Townships</b>	57	11.5	68.5
<b>Park Districts</b>	11	1.5	12.5
<b>Total</b>	643	98.5	741.5

Distributions of LGF and LGRAF in Calendar Year 2000\*  
(In Millions of Dollars)

\*Most recent data available – recent budget freezes mean that amounts for later years would resemble the amounts shown on the table.

### **How Important Are the LGF & LGRAF to Counties, Townships and Municipalities?**

**Counties** – as a whole, would need almost a one-quarter of one percent sales tax increase (0.216%) to replace their LGF and LGRAF distribution.

**Cities & Villages** – as a whole, would need a 12% increase in municipal income taxes to replace their LGF and LGRAF distribution.

**Townships** – as a whole, would need to double the amount of taxes that they collect from personal property to match their distribution from the LGF and LGRAF.

### **How Much Money Are We Talking About in the LLGSF?**

As shown in the table on the other side of this handout, the **LLGSF** receives, under permanent law, **5.7% of state personal income tax collections**. In Calendar Year 2001 this totaled **\$496 Million**.

### **How Important is the LLGSF to Ohio’s Public Libraries?**

**Libraries** would need to levy an average of **2.38 mills** in additional property taxes to replace the **LLGSF**. The **LLGSF** provides about **69% of all library funds** and property taxes provide only 18%. In addition, **176 out of 250 library districts receive no taxes other than through the LLGSF** which provides **87%** of the funds for these libraries. The other 49 library districts receive **59%** of their revenue from the **LLGSF**.

## **THE GENERAL ASSEMBLY SHOULD CONTINUE TO FUND THE LOCAL GOVERNMENT FUNDS UNDER THE CURRENT PERMANENT LAW FORMULA BECAUSE...**

**Local Government Funds** provide a revenue-sharing mechanism by which all local governments and libraries share in the cumulative wealth of the state.

The permanent law “**revenue sharing formulas**” between the state and local jurisdictions are **FAIR**. Revenues trace the economy, just like the State. During good economic times the revenues go **up**. During bad economic times the revenues go **down**.

**Local Government Funds** reduce reliance on local property taxes. Historically they were established to partially **replace revenue** lost as a result of actions by the General Assembly to “**reform the tax system**.”

In the case of **libraries**, the **LLGSF** enabled the State to eliminate an inefficient and unfair tax and to broaden the State income tax base.

In **counties, townships, and municipalities**, the **LGF’s** provide essential funding for **police, sheriffs, fire, EMS** and other vital services. The need to properly fund **HOMELAND SECURITY** has never been greater.

**Local Government Funds** also provide funds so that local governments have a revenue source to at least partially pay for many **UNFUNDED MANDATES** imposed on local governments by the General Assembly.