

HOUSE BILL 66 “FREEZE” ON LOCAL DISTRIBUTION FUNDS IN FISCAL YEARS 2006 AND 2007

For the fiscal year 2006-2007 biennium¹, Am. Sub. House Bill 66 (126th General Assembly) re-enacts a “freeze” on deposits to and distributions from the state’s three local distribution funds²: the LGF (local government fund), the LGRAf (local government revenue assistance fund), and the LLGSF (library and local government support fund). This memo discusses the HB 66 local distribution fund “freeze” provisions, contained in uncodified section 557.12 of HB 66.

“PERCENTAGE SHARE” FUNDING TEMPORARILY REPLACED BY “FREEZE” FUNDING

Under the Revised Code, each month the LGF, LGRAf, and LLGSF receive a fixed percentage of revenue from certain state taxes (referred to herein as the “percentage share” method), with such amounts distributed in the following month among the corresponding county undivided funds (and to municipalities receiving a direct LGF distribution) based on specific formulas.

In order to keep spending on the local funds roughly in line with the restricted state spending patterns of the FY 2006-2007 budget, a “freeze” has been enacted for fiscal years 2006 and 2007. This is essentially a continuation of the frozen spending levels contained in the last state budget (HB 95)

The new freeze temporarily replaces the percentage share method and holds the local fund revenues at prior-year’s levels.

HOW THE FREEZE WILL WORK

Each month during the August 2005-July 2006 period, each county undivided fund (and each municipality receiving a direct LGF distribution) shall receive the same amount it received in such month during the August 2004-July 2005 period. In addition, during each month of the August 2006-July 2007 period each county undivided fund (and each municipality receiving a direct LGF distribution) shall receive the same amount it received during the August 2005-July 2006 period. For example, Pickaway County’s undivided LGRAf shall receive in September 2005 the same amount it received in September 2004 (\$32,298); in September 2006 it shall receive the same amount it received in September 2004 (\$32,298). A monthly freeze distribution schedule is provided in the chart at the end of this memo.

¹ References to fiscal years are to the state fiscal year, which begins in July and ends in June. (FY 2006 begins in July, 2005 and ends in June, 2006.)

² The HB 66 freeze essentially follows the same concept of the FY 2004-2005 HB 95 freeze, which expires after the July 2005 distribution.

APPORTIONMENT OF LOCAL DISTRIBUTION FUND TO SUBDIVISIONS

A special provision was included in the FY 2006-2007 freeze pertaining to the manner by which monies are to be apportioned (distributed) from each county undivided LGF and undivided LGRAF to subdivisions. The provision is as follows:

"No subdivision shall receive a proportionate share from the county undivided local government fund or county undivided local government revenue assistance fund during the period July 1, 2005 through June 30, 2007, that is less than the proportionate share the subdivision received from that fund during the period July 1, 2004, through June 30, 2005, unless the subdivision consents to receive the lesser proportionate share."

It is assumed that, among those subdivisions in a county that have been receiving a lesser proportionate share in calendar year 2005 compared to calendar year 2004, such subdivisions will not consent to the continued use of the lower CY 2005 share. The same is expected to hold true in cases where the calendar year 2006 and calendar year 2007 apportionment percentages derived under the county's statutory or alternate formula would have yielded a reduction in any subdivision's percentage share. Thus, **it is presumed the percentage shares that were in effect during the July 2004 – June 2005 period will be used for apportioning a county's undivided LGF and LGRAF to subdivisions during the July 2005 – June 2007 period.**

To summarize, from July 2005 through December 2005 and from July 2006 through December 2006, counties are expected to use the subdivision apportionment percentages that were in effect during calendar year 2004. From January 2006 through June 2006 and from January 2007 through June 2007, counties are expected to use the subdivision apportionment percentages that were in effect during January 2005 through June 2005.

The LLGSF is unaffected by this provision, and will be apportioned to libraries and other recipient subdivisions in the manner provided under permanent law.

NOTE: The Department of Taxation has no legal role in enforcing the distributions made from the county undivided funds to subdivisions. The text above is provided for informational purposes only.

RECONCILIATION OF FREEZE FUNDING WITH PERCENTAGE SHARE FUNDING

In June 2006 and June 2007, the Department of Taxation shall calculate the difference between the amount paid to the three funds under the freeze and the amount that would have been paid under the percentage share method during the immediately-preceding measurement period. The June 2006 calculation uses an August 2005-June 2006 distribution measurement period (11 months). The June 2007 calculation uses a July 2006-June 2007 distribution measurement period (12 months). If the amount actually distributed to the local funds during the measurement period is *greater* than what they would have received under the percentage share method, the July distributions are reduced to recover such excess.

We do not expect any reconciliation adjustments to occur in either 2006 or 2007. Although tax reform provisions contained in HB 66 will reduce corporate franchise tax revenues and personal income tax revenues over time, these changes are not nearly large enough to trigger reconciliation adjustments in 2006 or 2007. Only the extremely unlikely event of a *significant* decline in state tax revenue performance would trigger reconciliation adjustments in 2006 or 2007.

LOCAL GOVERNMENT FUNDS STUDY

Uncodified section 503.12 of HB 66 creates a “Local Government and Library Revenue Distribution Task Force”. The Task Force is comprised of ten legislators, as well as one non-voting member appointed from each of the stipulated local government associations (the County Commissioners Association of Ohio, Ohio Municipal League, Ohio Township Association, Ohio Library Council, and Ohio Parks and Recreation Association). The Task Force is to study future funding sources for the funds as well as the distribution formulae of the funds, and is to submit by December 1, 2006 a report to the Governor and General Assembly containing the Task Force recommendations.

(See the next page for the schedule of monthly LGF, LGRAF and LLGSF distributions.)

**Schedule of monthly LGF, LGRAF, and LLGSF^(a) distributions
for calendar years 2005 – 2007,
reflecting the House Bill 95 and House Bill 66 “freeze” provisions**

Note: “Freeze” months are shown in **bold** type

Month	Basis for CY 2005 distributions	Basis for CY 2006 distributions	Basis for CY 2007 distributions
January	Jan. 2004 distribution	Jan. 2005 distribution	Jan. 2006 distribution
February	Feb. 2004 distribution	Feb. 2005 distribution	Feb. 2006 distribution
March	March 2004 distribution	March 2005 distribution	March 2006 distribution
April	April 2004 distribution	April 2005 distribution	April 2006 distribution
May	May 2004 distribution	May 2005 distribution	May 2006 distribution
June	June 2004 distribution	June 2005 distribution	June 2006 distribution
July	July 2004 distribution	July 2005 distribution [July 2006 distribution
August	Aug. 2004 distribution (Old HB 95 “freeze” law ends in Aug. 2005 – new HB 66 “freeze” law begins in Aug. 2005)	Aug. 2005 distribution	HB 66 “freeze” law ends this month – Permanent law currently scheduled to go back into effect
September	Sept. 2004 distribution	Sept. 2005 distribution	Permanent law
October	Oct. 2004 distribution	Oct. 2005 distribution	Permanent law
November	Nov. 2004 distribution	Nov. 2005 distribution	Permanent law
December	Dec. 2004 distribution	Dec. 2005 distribution	Permanent law

NOTE:

During the July-December 2005 and July-December 2006 periods, counties are expected to distribute county undivided LGF and county undivided LGRAF monies to subdivisions based the subdivisions’ proportionate shares of such funds that existed in July-December 2004. During the January-June 2006 and January-June 2007 periods, counties are expected to distribute county undivided LGF and county undivided LGRAF monies to subdivisions based the subdivisions’ proportionate shares of such funds that were used during January-June 2005.