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A formula for fertilizer or disaster ?

Balancing the
State's Budget on
YOUR Backs

OHIO'S
LOCAL
GOVERNMENT
FUNDS

and the

'06/'07 Biennial Budget

The Coalition Members

County Commissioners' Association of Ohio

Ohio Municipal League

Ohio Township Association

Ohio Library Council

Ohio Parks and Recreation Association

The Goal

- In the State of Ohio's FY 2006/2007 biennial budget process:
 - Assure no further cuts occur to the 3 funds
 - Return to the permanent law funding formula

Setting the Stage...

The State's Fiscal Picture

- Temporary sales tax expires
 - Yielding about **1.25 Billion** 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

Setting the Stage...

Tax Expenditure Limitation

- Proposed as Constitutional Amendment sponsored by Citizens for Tax Reform & Joint Legislative Resolutions
- Restricts state spending growth to the prior year's level plus an increase for inflation and population adjustments
 - Spending "cap" can be exceeded only if:
 - legislation passed by 3/5 vote of the Legislature
 - Approved by the governor
 - Receives a majority vote at a statewide election
- Prohibits "unfunded mandates"
- 7.25% of state revenues to the Local Government Fund
- Vote required for local governments' spending/tax increase
 - Increase spending beyond inflation and population adjustments
 - Levy a new tax or increase the rate of an existing tax

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%

Proposed Budget – Tax Reform

- ***Property Tax***
 - Business Tangible Personal Property
 - Machinery & Equipment
 - Assessment rate 12.5% in '06 and none in '07
 - New purchases not taxed
 - Inventory [phasing out at 2%/year / no replacement]
 - Maintain 21% rate for '06/ and '07 [instead of 19% / 17%]
 - 21%/07 - 14%/08 – 7%/09 – gone/2010
 - Furniture, fixtures, and “all other” stay taxable [25%]
 - REIMBURSEMENT to local governments
 - Held harmless through FY 2011
 - Phased out from FY 2012 through FY 2018

Proposed Budget – Tax Reform

- Personal Income Tax
 - Cut rates 21% over 5 years
 - Revenue lost: '06 – \$ 325 M / '07 – \$690 M
 - \$2 Billion in reduced collections by 2010
- Corporate Franchise Tax
 - Phased out over 5 years
 - Replaced with a “Commercial Activity Tax” CAT
 - Gross proceeds from sales - .26% rate
 - \$1.5 Billion in collections in 2010
- Sales tax – no base expansion

Proposed Budget - Tax Reform

- Property tax rollbacks reimbursement REMAINS
 - Real property [10% - 907M] – but Commercial/Industrial removed
 - Owner occupied [2.5% - 128M]
 - Homestead Exemption / Senior citizen reduction [65M]
 - About \$308 Million in 2002 [28% of total collections]
- Compared to HB 58 125th GA - last draft provisions
 - Tangible personal property tax eliminated
 - local governments NOT reimbursed for lost revenue unless supporting debt issuance
 - About \$463 Million in 2003 [28% of total collections]
 - Corporate franchise tax LGF's percentages rolled back
 - To reflect BAT calculation's "neutrality"
 - Sales tax base expansion
 - County sales tax extended to expansion
 - LGF's contributions increase from expansion

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 LGFs in Jeopardy...

What's At Stake?

- The services that:
 - Only local governments provide
 - *Keep our residents safe and secure in their homes and in their 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

- **Local Government Fund** [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

- **Local Government Revenue Assistance Fund**
 - 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

- **Library & Local Government Support Fund**
 - 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:
 - Speed-up of elimination of the personal property tax on business inventory
 - 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 = \$ 394 Million

And now...The Proposed Cuts... by the numbers

- **20% for Counties and Cities**
 - "It's more like a 2% cut to a city's budget."
Taft Spokesman Orest Holubec
 - Or 2+% for counties
- **10% for Villages and Townships**
 - "Would equate to a 2.3% cut" OBM Director Tom Johnson
- **5% for Libraries**
 - Due to their exclusive reliance on LGF

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 \$ 458.4 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
- For the Biennium \$ 700 Million

In Summary...

- The Good:
 - Cuts not effective until Jan 1, 2006
 - Reimbursement for Property Tax Rollbacks
 - Business TPP elimination - Held harmless 5 yrs
- The Bad:
 - What "statutory formula"?
 - EPA solid waste disposal fee increases
 - \$1.75/ton for taking EPA off GRF
 - \$1.00/ton for DNR Recycling & Litter Prevention
 - Indigent Defense reimbursement cut 1.2 Million
 - No Sales Tax base broadening
- The REALLY UGLY - Local Governments share disproportionately in the cuts