

# Local Government Funds

## What are Local Government Funds & Why Were They Established?

### *Essential Funding for Local Governments, Park Districts & Libraries*

- Executive Budget (HB 66) freezes local government funds through 2005 & beginning January 2006 cuts counties, cities & parks by 20%; cuts villages & townships by 10%; and cuts libraries by 5%.
- Governor's cuts equal \$267 million from a freeze of the funds and \$682 million from the statutory formula for the funds.
- Local government funds reduce reliance on local property taxes.
- Local government funds provide moneys so that local governments have a revenue source to at least partially pay for many mandates imposed by the General Assembly.
- Local government funds provide a revenue-sharing mechanism by which local governments, libraries & parks share in the cumulative wealth of the state.
- A study committee is needed to examine the future funding sources of local government funds and to help provide stability & predictability as well as a revenue stream that grows with time.

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.

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 were high. In the 1930's the Ohio Constitution was amended to reduce unvoted property tax millage, and the state's first sales tax was passed.

The **Local Government Fund (LGF)** was established at the same time. One of the purposes of the sales tax was to "support local government activities." The LGF initially received about 40% of the sales tax, beginning the "revenue sharing" principle between state and local governments.

Later, the dealers in intangibles tax became another source of funding, along with the income tax, the corporation franchise tax, the public utility tax, and the kilowatt hour tax.

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 to replace revenue that libraries received from the state imposed, locally collected intangible property tax. This change was made when the legislature made the decision to include intangible property in the personal income tax.

The revenue sharing principle is the foundation of the three local government funds. The **LGF** and **LGRAF**, combined, are to receive 4.8% of the state income, sales, public utility excise and corporate franchise tax as well as 3.024% of the kilowatt hour tax. The **LLGSF** receives a share of only state income tax; it is at the rate of 5.7% of the state collections.

However, the statutory formula will have been frozen and cut for 3 bienniums, if HB 66's provisions are enacted.



# What Do Local Government Funds Provide?

The Local Government Fund and the Local Government Revenue Assistance Fund are critical revenue sources for general purpose local governments. These funds are used to pay for essential public safety, the courts, homeland security, and first responder initiatives. In some counties they are used to fund critical public health and human service programs that

protect children and the elderly. The local government funds are also vital for the provision of many basic day-to-day governmental services that residents not only need but expect, and many of which are mandated by state law.

Park districts also receive a portion of these moneys to help maintain parks and provide programs. Local government funds

make up from nearly 5% to 100% of park districts' budgets.

Public libraries serve over 8 million patrons; more than 70% of Ohioans are registered borrowers at public libraries. The LLGSF provides about 80% of revenue to public libraries. 176 out of 251 library districts receive no revenue other than the LLGSF.

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## What the Executive Budget Cuts Mean . . .

The Governor's Executive Budget (HB 66) freezes local government funds through 2005 & beginning January 2006 cuts counties, cities & parks by 20%; cuts villages & townships by 10%; and cuts libraries by 5%.

The Administration predicts the cuts to the three local government funds will cost local governments **\$267 million** when compared to the funds having been frozen at the prior biennium's allocations, and **\$682 million** when compared to what the funds would have provided if they were on the statutory formula.

**Current distribution of local government funds in 2005 are estimated to be at pre-2000 funding levels.** This is comparable with nearly two-thirds of the state agencies, which are said to be at or around the 2000 funding level.

**With the Executive Budget cuts, the local government funds, as a whole, would be at pre-1998 funding levels in 2007.** Funding for the individual line items of the LGF & LGRAF, which go to parks and local governments, would be at pre-1996 and pre-1997 funding levels, respectively. The proposed level

of cuts to local government funds do not appear to be sustained by other state agencies in this budget.

Local governments, libraries and parks seek to strengthen the local/state partnership, and seek ways to restore local government funding in 2006 & 2007. In addition, it is recommended that a study committee be established to examine the future funding sources for local government funds and to help provide stability & predictability, as well as a revenue stream that grows with time.

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## Local Governments Aid in Economic Development

While some say that the hallmark of this state budget is to get Ohio back on track economically by focusing on how we as a state can create new jobs, retain existing jobs, and attract new businesses through constrained spending and tax reform, every job created and

every new business established locates in a county and a municipality or township. These businesses also look to local governments to provide needed services such as infrastructure, law enforcement & criminal justice administration, fire protection, emergency medical ser-

vices, parks, libraries, and other services when they make decisions about locating and staying or leaving. The cuts to the local government funds are counterproductive to some of the broad economic development goals that are the foundation of much of this budget.