OHIO LEGISLATIVE SERVICE COMMISSION

www.lsc.ohio.gov

Office of Research and Drafting

Legislative Budget Office

H.B. 631

133rd General Assembly

Bill Analysis

Version: As Introduced

Primary Sponsors: Reps. Rogers and Hambley

Chris Kelleher, Research Analyst

SUMMARY

- Authorizes the creation of regional economic development alliances, which are empowered to coordinate economic development activities, share services, and engage in cost-efficiency measures among alliance members.
- Authorizes such alliances to be formed by municipal corporations located in or around a "central" county, which is a charter county with a population of at least 400,000.
- Requires the alliance to designate a governing body.
- Allows an alliance to create a revenue gain-sharing program.
- Outlines a default formula, generally based upon each alliance member's income tax-raising capacity and population, for determining the amount some members would contribute and the amount members would receive under such a program.
- Allows an alliance to adopt alternative provisions with respect to a revenue gain-sharing program, with metrics or procedures that differ from the default formula.

DETAILED ANALYSIS

Regional economic development alliances

The bill authorizes the creation of regional economic development alliances, through which municipal corporations can coordinate economic development activities, share services, and engage in cost-efficiency measures. A key aspect of such an alliance is the ability to create a revenue gain-sharing program. Under such a program, alliance members will contribute to, or receive money from, the alliance's pooled resources, and use the money to advance the alliance's purposes.

Alliance formation

A regional economic development alliance may be formed by ten or more municipalities located in a single "region."

A region is formed around a "central" county, which is defined as a charter county that has a population of at least 400,000 when the alliance is created. Currently, only Cuyahoga and Summit counties – the two charter counties in Ohio – qualify as central counties. Generally, a "region" will include the central county and all of the counties adjacent to that county. Since Cuyahoga and Summit counties share a boundary, that "region" would include both of those counties and all of the counties adjacent to those counties.[1]

Only one alliance may be created in a particular region.

Alliance membership

Membership of an alliance consists of the ten or more municipalities that sign the creation agreement, as well as any municipalities located in the region that join the alliance within two years after the agreement is signed. In addition, a municipality located in the region that wishes to join after that two-year period, or a municipality located in a county that is adjacent to the region, may join the alliance, but only with the approval of a majority of the existing members.

A municipality can withdraw from an alliance only with the approval of two-thirds of the other members. Also, a municipality cannot be a member of more than one alliance.[2]

Powers

Under the bill, a regional economic development alliance is technically a type of existing organization known as a "regional council of governments (RCOG)." Current law authorizes political subdivisions (not just municipalities) to create an RCOG. Among other powers, an RCOG is authorized to (a) promote cooperative arrangements among its members, (b) contract with its members and other public and private entities to address problems common to its members, and (c) plan for and perform other functions to deal with problems of mutual concern. A political subdivision can contract with an RCOG to provide a service to or receive a service, or to authorize the RCOG to perform any function or render any service on its behalf.[3]

[1] R.C. 5755.01(A) and (B) and 5755.02(A). The bill also contemplates a situation in which two central counties share a boundary with a common county. In that case, the "region" would consist of either (a) both of the central counties and all of the counties adjacent to those counties or (b) one central county and its adjacent counties. If a county is adjacent to both central counties, the municipalities in that county can choose which region to join.

[2] R.C. 5755.02(B).

[3] R.C. Chapter 167.

In addition to these powers, the bill allows the governing body of a regional economic development alliance to develop any programs or engage in any functions not otherwise prohibited by law. The bill specifically authorizes programs that would:

1. Increase the region's competitiveness for employment and other economic development opportunities while decreasing competition among political subdivisions regarding the location of those opportunities.
2. Promote the sharing of services among members and other political subdivisions in the region.
3. Promote cooperation in planning activities, development of infrastructure, purchases of goods and services, and other measures that encourage cost-efficiency.
4. Provide grants, loans, or other support to members that develop or participate in such programs.[4]

Like a traditional RCOG, a regional economic development alliance does not have any taxing authority, so must be funded primarily through member-contributed funds. To that end, the bill requires alliance members to make annual contributions, and permits the creation of a revenue gain-sharing program, discussed in further detail below.

Alliance agreement

An agreement creating an alliance must provide for the following:

1. The creation of a governing board and the election of board officers.
2. Selection of member representatives. Each member's representative must be appointed by the member's chief executive officer, with the approval of the legislative authority of the member.
3. The adoption of bylaws governing the operation of the alliance.
4. The establishment of necessary funds and accounts.
5. Procedures for approving the admittance of new members and the withdrawal of existing members.
6. Provisions related to the alliance's revenue gain-sharing program.[5]

Within ten days after the agreement is signed, the member with the greatest population must certify a copy to the Secretary of State and to the county auditor and treasurer of each county in which the members have territory. The governing board must provide a similar

[4] R.C. 5755.02(B)(3) and 5755.03.

[5] R.C. 5755.01(H) and 5755.02(C).

notification each time a new municipal corporation is admitted as a member after the date of the agreement, and each time a member withdraws.[6]

Unless otherwise specified in the agreement, members can amend most provisions of the agreement by a majority vote, and can amend the provisions related to the alliance's revenue gain-sharing program only with the approval of three-fourths of the members.[7]

Annual contribution

Each member is required to make an annual monetary contribution to the alliance. Some members will be required to contribute amounts through the alliance's revenue gain-sharing program. If a member will receive money under that program, the member must still make a nominal contribution of either $50, if the member is a village, or $100 if the member is a city. (The alliance agreement can specify different nominal amounts.)

Annual contributions can be used for the alliance's administrative expenses or to fund any of its programs.[8]

Revenue gain-sharing program

The bill allows an alliance to create a revenue gain-sharing program. The bill outlines a default formula for (a) the amount, if any, a member must contribute to the program and (b) the amount, if any, a member will receive from the program. These amounts are redetermined annually, so members that contribute to the program one year may receive money under the program the next year, or vice versa.

Generally, members with an income tax base that has grown faster than inflation would contribute to the program. Members whose income tax base has not grown faster than inflation would receive money under the program. (Inflation is measured by the Consumer Price Index or CPI.) The average taxable income of a member's taxpayers and the member's population both impact the amount a member receives.

Member contributions

Throughout the life of the program, some members will be required to contribute to the revenue gain-sharing program. Generally, if a member's income tax base grows faster than the CPI in a particular year, the member will contribute money to the revenue gain-sharing program that year. If the member's income tax base does not grow faster than the CPI, no contribution is required that year.

The following steps are used to determine each member's contribution, if any:

[6] R.C. 5755.02(D).

[7] R.C. 5755.02(E).

[8] R.C. 5755.02(G).

1. Determine each member's current **income tax base** (generally, the total amount of income subject to the member's income tax) and an **historical average income tax base**. The latter is the member's average income tax base over a period of three, four, or five years, as specified in the alliance agreement.[9]
2. Calculate an **inflation factor**. (Generally, this is the current CPI, divided by the average CPI over the same period specified in the agreement for determining a member's historical income tax base).[10]
3. Determine each member's **inflation-adjusted income tax base**, which is the member's **historical average income tax base** multiplied by the **inflation factor**.
4. If a member's current **income tax base** is greater than the member's **inflation-adjusted income tax base** (i.e., if the member's tax base has grown faster than inflation), the member would contribute an amount to the revenue gain-sharing program pool. If not, the member does not contribute to the revenue gain-sharing program.[11]

Member allocations

Although not all members are required to contribute to the revenue gain-sharing program in a particular year, each member will receive an allocation of the program funds every year.

Under the bill's formula, a member will receive a greater allocation of program funds if (a) the member's income tax base is relatively low compared to its population or (b) the member has a relatively large population. The following outlines the key components of the formula, with an example:

1. **Average taxable income**. Consider four cities, in which the average taxable incomes (the member's current income tax base divided by its population) are: (A) $20,000, (B) $50,000, (C) $50,000, and (D) $100,000.
2. **Population**. In those four cities, the populations are: (A) 20,000, (B) 30,000, (C) 80,000, and (D) 80,000.

---

[9] Members must agree, in the alliance agreement, on a method for determining the members' income tax base. The agreement may, but is not required to, address situations in which a member shares income tax revenue with a school district or receives tax revenue from a joint economic development district or zone (JEDD or JEDZ). The bill also allows the agreement to provide for "other adjustments." R.C. 5755.02(C)(5).

[10] The bill allows the alliance to use the CPI for the United States (U.S. city average), for the Midwest Region, or for the urban area comprising most of the members, as specified in the agreement. If the current CPI is less than or equal to the historical average, the inflation factor for that year will equal one.

[11] R.C. 5755.04(A), (B), and (C).

3. **A distribution index**, which is the member's population divided by the member's average taxable income. In the example, each member's distribution indexes would be: (A) 1, (B) 0.6, (C) 1.6, and (D) 0.8.
4. **A distribution ratio**, which is a member's distribution index divided by the sum of all members' distribution indexes (4.0). Here, each member's distribution ratio would be: (A) 0.25 (¼), (B) 0.15, (C) 0.4, and (D) 0.2.

The distribution ratio is multiplied by the amount in the alliance's pool of contributions, and the result is the amount allocated to each member. For example, if the amount in the contributions pool is $1 million, City A's allocation is $250,000. (Note that, if City A is also required to contribute to the program, City A will actually receive less than that amount, as explained below.)

Note that City A, which has a low population (9.5% of the alliance total), is still allocated 25% of the contributions pool because of its comparatively low average taxable income. And that City C, which has the same average taxable income as City B, is allocated a higher portion of the contributions pool than City B because of its relatively larger population.

Net member shares

Net contributors

If a member must contribute money to the program (because its income tax base exceeds its inflation-indexed income tax base) in a particular year, the member's net contribution is calculated as follows:

1. Calculate one-fifth of the difference between the member's current **income tax base** and the **inflation-adjusted income tax base**. (However, the alliance agreement can specify a different fraction.)
2. Subtract the amount allocated to the member under the formula.
3. Multiply the difference by the member's current income tax rate. This is the amount the member would contribute to the program, provided that the amount does not exceed 3% of the member's total income tax revenue for that year (or a different amount specified in the agreement). If it does, the contribution is capped at that threshold.

In effect, the contribution of a contributing member equals the amount by which one-fifth of its inflation-indexed income tax revenue growth exceeds the member's allocation under the formula (subject to the 3% cap).

As an example, if City A has a current income tax base of $22 million, and an inflation-adjusted income tax base of $20 million, City A's contribution to the pool would be $400,000 (one-fifth of $2 million.). After subtracting City A's allocation ($250,000), the resulting $150,000

is multiplied by the city's income tax rate (say, 1%) to reach a net contribution of $1,500.[12] (The cap would be $6,600.)

Net recipients

If a member is not required to contribute money to the program (because its income tax base is less than its inflation-indexed income tax base) in a particular year, the member's allocation will equal the allocation calculated for the member, as described above, multiplied by the member's income tax rate.

For example, if City A were not required to contribute to the program, the city's net allocation would be $2,500 ($250,000 x 1%).[13]

Use of program funds

The alliance can use money in the revenue gain-sharing program as follows:

1. To cover the alliance's operating expenses, programs, or activities.
2. To make payments to members who are net recipients under the program. If the amount of the program funds is greater or less than the amount necessary to make those payments, the alliance's fiscal officer must adjust each member's allocation accordingly. Members must use funds for infrastructure improvements, economic development projects, or other purposes authorized in the alliance agreement.
3. To fund an alliance infrastructure fund, an economic development fund, or an economic reserve fund. The latter may be used to distribute money to members that have suffered a significant loss of economic resources, as determined by the governing board.[14]

Program term and administration

The alliance can administer a revenue gain-sharing program itself, or contract with another public or private entity to administer the program.

The term of the program must be specified in the alliance agreement – initially, the program must have a term of between five and 50 years. The bill allows the alliance to renew the term of the program for up to four terms of 25 years each. Members of the alliance can terminate the program at any time with the approval of at least three-fourths of the members.[15]

---

[12] R.C. 5755.04(E).

[13] R.C. 5755.04(D)(7).

[14] R.C. 5755.04(F), (G), and (H).

[15] R.C. 5755.03(B) and (C).

Five-year review

The bill requires that an alliance conduct a review of its operations, and issue a report, five years after its creation. The governing body of the alliance must review the alliance's programs and their effectiveness, while seeking input from each of the alliance's members. The report must be made available to the public and submitted to the Senate President and House Speaker.[16]

HISTORY

Action	Date
Introduced	05-13-20

H0631-I-133/ec

[16] R.C. 5755.02(H).