



OHIO LEGISLATIVE SERVICE COMMISSION

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Fiscal Note & Local Impact Statement

Bill: S.B. 17 of the 132nd G.A.

Status: As Introduced

Sponsor: Sen. Tavares

Local Impact Statement Procedure Required: No

Subject: Increase Local Government Fund allocation to 3.68% of GRF tax revenue

State & Local Fiscal Highlights

- The state GRF would have sustained a revenue loss of an estimated \$458 million in FY 2018 if the bill had been in effect throughout the year, and would lose \$472 million in FY 2019.
- Revenue to the Local Government Fund (LGF, Fund 7069) would have risen by \$430 million in FY 2018, and would rise \$445 million in FY 2019, all of which would be distributed through county undivided local government funds (CULGFs) to municipal corporations, townships, and special districts, and retained by counties.
- Revenue to the Targeting Addiction Assistance Fund (Fund 5TZ0) would have risen by \$28 million in FY 2018, and would rise \$27 million in FY 2019.

Detailed Fiscal Analysis

The bill would increase the monthly allocation of GRF tax revenue to the LGF from 1.66% to 3.68%. This change, if it had been in place throughout FY 2018, would have increased distributions through the LGF by an estimated \$458 million in FY 2018, and would increase LGF distributions by \$472 million in FY 2019. Both of these changes are 122% increases. The disposition of the additional revenue would be determined by the interaction of permanent law and of provisions of H.B. 49 of the 132nd General Assembly, the main operating budget act, affecting FY 2018 and FY 2019.

Description of LGF

The Department of Taxation historically has distributed state money through the LGF to counties and municipal corporations according to a statutory formula that has changed over time and according to temporary law provisions. LGF distributions to counties go to 88 county undivided local government funds (CULGFs). Counties in turn further distribute the portion of the LGF money that they receive to other units of local government, including municipal corporations, townships, and special districts (mostly parks), and retain part for county use. County budget commissions decide how to distribute the LGF money within their counties. The Department also has distributed LGF money directly to municipal corporations that imposed an income tax.

Generally, the distributions of available LGF money by the Department are proportionate to amounts received in the past. Exceptions are that (1) no county can receive less than the smaller of \$750,000 per year or the amount received in FY 2013, and (2) direct distributions from the Department to municipal corporations are capped at the amounts received in calendar year 2007. Direct distributions fell after 2007 so this cap did not constrain the amounts distributed.

Starting in FY 2018, distribution of \$1 million per month to townships and small villages (population under 1,000) is made part of codified law by H.B. 49. This amount is subtracted from the share that would otherwise be paid directly to municipal corporations by the Department, and is distributed through CULGFs. In FY 2018 and FY 2019, the remaining amount that would otherwise be paid directly to municipal corporations is redirected under a temporary law provision of H.B. 49 to a newly created fund, Fund 5TZ0.¹

Statewide, the Department has historically distributed about 92% of GRF money to CULGFs, with the remaining 8% distributed directly to municipal corporations and to the programs identified in the previous paragraph.

GRF tax revenues – monthly calculations

Each month, the amount of tax revenues available for use by the GRF is calculated by subtracting from total GRF tax revenues² the amounts transferred to the LGF and the Public Library Fund (PLF, Fund 7065). The LGF and PLF distributions are each calculated in codified law as 1.66% of total GRF tax revenues in the previous month. In FY 2018 and FY 2019, the amount transferred to the PLF is figured as 1.68% of the previous month's total GRF tax revenues under a temporary law provision of H.B. 49.

Derivation of estimates

Based on LSC's estimates provided to the Conference Committee on H.B. 49 of the 132nd General Assembly in June, GRF tax revenues in FY 2018 are projected at \$22,665 million.³ This estimate is before subtraction of LGF and PLF distributions, and

¹ The \$1 million per month distribution to townships and small villages was previously made in FY 2016-FY 2017, as specified in temporary law in H.B. 64 of the 131st General Assembly. Also in temporary law, \$5 million in FY 2016 and \$10 million in FY 2017 was taken from direct distributions to municipal corporations and redirected to the Law Enforcement Assistance Fund (Fund 5L50).

² GRF tax revenues include the following state taxes: sales and use, personal income, cigarette, kilowatt-hour excise, insurance (domestic and foreign), financial institutions, public utility excise, natural gas distribution (MCF), alcoholic beverage, liquor gallonage, and petroleum activity, plus 85% of the commercial activity tax. In addition, GRF taxes that were phased out but that continue to yield small amounts of revenue or give rise to refunds include the corporate franchise, dealers in intangibles (business and property), and estate taxes. The amount transferred to the LGF is debited against personal income tax revenues for accounting purposes. Half of the amount transferred to the PLF is debited against nonauto sales and use tax revenues and half against kilowatt-hour excise tax revenues.

³ The Conference Committee forecast was updated in November to incorporate tax changes made by H.B. 49 and by S.B. 8 of the 132nd General Assembly.

1.66% of this amount is \$376 million, estimated LGF distributions under current law. Increasing the LGF share of GRF tax revenues to 3.68% implies LGF distributions of \$834 million, a \$458 million (122%) increase in the amount transferred to the LGF and an equal reduction in the amount retained by the GRF. Actual transfers through November to the LGF have been made based on current law, implying an FY 2018 increase considerably smaller than this.

LSC estimates GRF tax revenues in FY 2019 at \$23,379 million before subtraction of transfers to the LGF and PLF. Estimated current-law LGF distributions, 1.66% of this amount, total \$388 million. Increasing the LGF share to 3.68% implies LGF distributions of \$860 million (also a 122% increase), shifting \$472 million to the LGF from the GRF.

Increasing the portion of the LGF designated for direct distribution to municipal corporations by 122% (or equivalently, holding the CULGF and direct shares at 92% and 8%, respectively) implies direct shares in excess of those in calendar year 2007 by \$9 million in FY 2018 and \$11 million in FY 2019. These amounts would instead go the CULGFs to prevent the direct portion from exceeding the 2007 amount, \$58 million. With these adjustments, the direct share would be \$28 million higher than under current law in FY 2018 and \$27 million higher in FY 2019, all of which would be directed to Fund 5TZ0 in the current biennium under a provision of H.B. 49. That act specifies \$17.65 million of expenditures to be made from Fund 5TZ0 in each year of the biennium. The CULGF share would rise to an estimated \$776 million, a \$430 million (124%) increase in FY 2018 and to \$802 million, a \$445 million (125%) increase in FY 2019. Political subdivisions that would receive these additional CULGF distributions and estimated amounts are shown in the table below, based on shares of the total distributed in calendar year 2015, the latest such report published on the Department's website.

Estimated Additional CULGF Distributions Under the Bill		
	FY 2018	FY 2019
	-----\$ millions-----	
Municipal corporations	\$226	\$234
Townships	\$41	\$43
Special districts	\$5	\$5
Counties	\$158	\$164
Total	\$430	\$445