



Budget Issues Review: Local Impacts

The Basics

After four years of deep funding cuts – estimated at over \$1.5 billion over four years – Ohio's local communities see little relief in Governor Kasich's proposed 2016-2017 budget.

Highlights: The two-year budget includes sweeping changes to the state's tax code, some of which would affect community services supported by sales tax levies and would create new funds for local communities impacted by fracking. The budget also reduces – and in many cases eliminates – reimbursements from the state to communities for revenue lost after state tax reform.

Bottom Line: The potential net gain for local communities – approximately \$120 million per year – does not come close to making up for \$418 million in local funding lost each year thanks to earlier Kasich budgets.¹ Nearly all the additional funding in the budget proposal relies on a tax reform package that appears unlikely to be retained in the bill that ultimately emerges from the legislature. For example, without the expansion of the sales tax to additional services, local governments would see their revenue increase from the budget all but eliminated.

By the Numbers

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| \$1.5 billion | Estimated loss of state funding over four years |
| \$82 million | Annual cut in tax reimbursements to local communities in the budget's 2 nd year. |
| \$46 million | Share of \$230 million in new severance tax going to fracking-affected communities. |
| \$35 million | Annual increase in Local Government Fund distributions from reallocation of tax revenue to the state general fund. |
| \$121 million | Annual increase in local tax collections due to sales tax base broadening. |
| \$1 million | Annual increase in general fund support for local transit service. |

Significant Policy Changes

Local Government Fund Increases. Revenue shared with local communities through the Local Government and Public Library Funds will increase after being cut in half in the first Kasich budget. While the share of the state budget that is shared remains unchanged, a proposal to change where certain taxes are deposited will provide a modest boost of around 5% each year.

Tax Reimbursements Decline. Reimbursements for tax revenue lost when state lawmakers eliminated local revenue sources in the last two decades will be reduced or eliminated. State funding for fire, 911, health departments and other local services funded through a property tax – which have already seen as much as 12% of their resources disappear in previous state cuts – will be eliminated, with some programs cut by 50% to 100% in the first year. Reimbursements are projected to decline from \$132 million to \$40 million by 2017.

¹ Policy Matters Ohio. *Hard times at city halls: Localities struggle with damaged tax base, state cuts.* January, 2015. <http://www.policymattersohio.org/hard-times-jan2015>



More Sales Tax Revenue. The budget proposes expanding the state sales tax to services including parking, cable television subscriptions, travel, public relations and lobbying, which is estimated could result in \$121 million in additional revenue to counties and transit agencies that levy a sales tax by 2017.

Higher Sales Tax Rates. Counties and transit agencies could have a harder time raising tax rates in the wake of a proposed increase in the state sales tax. The budget proposes to raise the base tax rate from 5.75 to 6.25 percent. If enacted, the base sales tax rate statewide would be a penny higher than it was in 2013. Local levies are added to this base, making the effective rate much higher in some communities, and may make voters less likely to adopt further increases for essential local services.

Assistance with Impacts of Fracking. Local communities impacted by fracking activities will receive 20% of new revenue collected from a proposed new severance tax on the state's oil and natural gas resources, while 80% will help fund a statewide income tax cut that favors top income earners. Half of this revenue is awarded to counties for local use and distribution to political subdivisions, while the remainder is split evenly between an infrastructure grant fund and an endowment which cannot be spent before 2025. Approximately \$46 million of \$230 million in tax collections will be set aside in the budget's second year for the three funds.

Transit Funding Remains Inadequate. The budget increases funding for public transit by just \$1 million, bringing the amount the state provides to 61 regional transit agencies to \$8.3 million from \$7.3 million per year. This is down dramatically from the \$42 million the state allocated in 2000. A recent study commissioned by ODOT recommended that the state increase its spending to \$180 million per year by 2025 to keep up with anticipated demand.