FRANKLIN COUNTY BUDGET ECONOMIC ADVISORY PANEL

MINUTES

March 8, 2013

PANEL MEMBERS PRESENT:

Ty Marsh, Chair; Bill LaFayette; Frederick Ransier; Martyn Redgrave; Timothy Robinson

ABSENT: Pierre Bigby; Karen Morrison; William Shkurti; Bea Wolper

OTHERS PRESENT: Commissioner Paula Brooks; County Administrator Don Brown; Deputy County Administrators Ken Wilson and Erik Janas; Jim Schimmer, Director of Economic Development and Planning; OMB Staff, Zak Talarek, Heidi Hallas Warren, and Justin Nahvi

GUESTS: Brad Cole, County Commissioners Association of Ohio, Managing Director; Hanna Greer-Brown; Michael Salvadore; Shannon Cross; Michael Hartley; Josh Jarman

Materials in the order distributed:

- **Minutes from February 22, 2013 Panel Meeting**, 17 pages.
- **County Commissioners Association of Ohio (CCAO) Handbook, Chapter 18, County Permissive Sales and Use Tax**, 40 pages.
- **Total State and Local Sales Tax Rates, By County, Effective January 2013** (map) and **ODT State and Permissive Sales Tax Rates, By County, January 2013** (data table), 2 pages.
- **State and Permissive Sales Tax Rates, [Urban Counties and Counties Surrounding Franklin], January 2013** (bar chart), 1 page.
- **CCAO Statement on Governor's Proposal to Broaden Sales Tax Base in Conjunction with a State Imposed Reduction of County Sales Tax Rates**, 11 pages.
- **ODT Tax Reform: Local Sales Tax Proposal**, 4 pages.
- **2013 Unfunded Mandates and Core Services in Franklin County**, prepared by Franklin County Office of Management and Budget, 5 pages.
- **Top General Fund Budget Drivers 2013 Approved Budget**, prepared by Franklin County Office of Management and Budget (pie chart), 1 page.
- **Resolution No. 0928-08, Resolution Approving Fiscal Sustainability Principles for the 2009 Budget Year**, 3 pages.
- **Resolution No. 793-05, Resolution to Adopt Debt Management Policies for the County of Franklin, Ohio**, 1 page.
- **Debt Management Policies**, September, 2005, 3 pages.
- **General Fund Expenditures: Expenditures by Agency**, prepared by Franklin County Office of Management and Budget (pie chart), 1 page.
- **Operating Budget (HB 153) – Estimated Impact on Franklin County**, prepared by Franklin County Office of Management and Budget (pie chart), 1 page.

Chair Ty Marsh convened the meeting at 2:03pm.

Mr. Marsh stated this is the second meeting of the Panel. He asked those present to introduce themselves. He reviewed the meeting schedule and format.

Ms. Cross called the roll.

Mr. Marsh stated the purpose of this week's meeting is to delve into the proposed state budget, which has much bearing and ramifications. We will start with an overview of the County Permissive Sales and Use Tax. Mr. Marsh turns to Mr. Brown, the Deputy Administrators, and OMB staff.

Mr. Brown stated that as he, the Deputy Administrators, and OMB staff present the overview, the Panelist can refer to the materials provided. He stated Sales Tax is the County's primary revenue driver. He reviews, in order, what is found in the packet. *Chapter 18* is an overview providing history and analysis of permissive tax. Next is a table providing a comparison of rates statewide. The counties' permissive, or "Piggy Back" tax is additive. It adds to the base of the Sales Tax rate, currently set at 5.5%. In Franklin County it is 5.5%, plus ¾ of 1 cent, which is the county's "Piggy Back" rate. Additionally, in Franklin, and other metro counties, the transit authorities (in Franklin County it is COTA) also have a "Piggy Back" tax in place. So if you look at the *ODT State and Permissive Sales Tax Rates* table, look at Franklin, you'll see the county's operating rate of 0.75% (¾ of 1 cent), plus COTA's "Piggy Back" tax of 0.5%, which when added to the state's base rate of 5.5%, arrives at 6.75% rate. Rates can be compared county by county on the *State and Local Sales Tax Rates, By County, Effective January 2013* map, which reports the total blended rate. Alternatively, the "Piggy Back" rate alone can be compared county by county using the table. Finally, you can do a comparison of counties' operating permissive tax alone, exclusive of transit authorities, exclusive of the state (on the table it is the County Tax Rate column). As stated, Franklin County's operating permissive tax is 0.75%. Let's compare it first to our surrounding counties, the collar counties, and then to the other urban counties. Let's do the other urban counties first. Cuyahoga's operating rate is 1.25%, Hamilton is 1 cent (1.00%), Montgomery is 1.00%, Lake is 1.00%, Lorain is 0.75%, Lucas is 1.25%, Summit 0.5%, Stark 0.5%, Mahoning 1.00%. Franklin County's rate, in comparison with the other urban counties is in the middle of the pack. Not lowest at 0.5%, and it certainly not at the cap of 1.50% and it is not at the top of the current, (actual) rates. The top current rates are Cuyahoga at 1.25% and Lucas at 1.25%. The statutory cap is 1.5 cent (1.50%). Finally the current law allows the rate to be adjusted in quarter cent (0.25%) increments. The option is go from ¼ of a cent, to ½ a cent, to ¾ of a cent, to a full cent, to 1 ¼ cents, to 1 ½ cents (1.50%).

Mr. Redgrave asked for clarification in terms of transit authorities. Why are some collecting through a Sales Tax rate and most not? What is the logic of who gets to do that and why, and why don't others do it?
Mr. Brown turned to Brad Cole as an expert on Sales Tax matters statewide.

Mr. Cole stated there are 8 transit authorities in the state that utilize the Sales Tax as an optional fundraising mechanism. Their rates vary from 0.25% to 1.00%. Transit authorities also have a cap of 1.50%, and increases are also allowed at 0.25% increments, just like counties. The transit tax has to be approved by the voters. A county's Commissioners have a total of 4 different options for enacting a Sales Tax; for a transit authority there is only one option – to put it before the voters. Some revenue comes from the fare box. Federal funds may also be available. It is a local choice as to whether or not to put a transit tax on the ballot for approval. Mr. Brown added that perhaps other counties have tried, but failed to secure approval.

Mr. Robinson asked if it is true that no other county tax funds transit authorities. Mr. Brown, Commissioner Brooks and Mr. Wilson stated that is correct. Mr. Wilson elaborated there is no mandate provided, therefore there is a wide range in levels of service between metropolitan systems and an urban systems. Commissioner Brooks stated Franklin County does not supplement transit authorities.

Mr. Marsh stated Hamilton County has a completely different model for funding its transit system. Mr. Cole stated they don't use a Sales Tax. Mr. Marsh asked if they use a property tax. Mr. Brown stated they have a special property tax levy. It funds the system in Cincinnati. Mr. Brown stated the transit tax is not a requirement, it is a permissive tax.

Mr. Brown explained, the history in Franklin County is that a rate was initially set at 0.5%, first levied in July 1985, by the Board of Commissioners. The levy is one of two methods that can be used to authorize a rate. There are three variations on the Commissioners' approval of a rate. The alternate method is placing it on the ballot and securing voter approval. To go back to the three variations of the Commissioners' theme:

- The Commissioners may pass it as an emergency measure. Requiring a unanimous vote of the three-member Board. Notice is filed with the state Tax Commissioner. It will go into effect the first day of the next quarter. It is not subject to referendum. It is subject to initiative. The difference is the number of voter signatures that would be required to put it on the ballot. It is a higher threshold for an initiative than for a referendum – more voter signatures are required. If an initiative were mounted, it would be placed on the ballot at the next general election, which could be 12 months or more out. If the voters approve it, the tax remains in place. If the voters vote to overturn the tax, it ends; but what had been collected is kept by the county for general operating purposes.
- The Commissioners may pass a tax rate change as regular measure. This requires a majority vote of the three-member Board. Notice is filed with the state Tax Commissioner. The tax begins the first day of the following quarter. Then a clock starts running, during which time a referendum petition could be filed with the Board of Elections. The tax does not go into effect during that referendum window. The tax is not levied until the referendum outcome is known. If the referendum fails, the tax goes into effect the first day of the next quarter following the close of the referendum period.
- The Commissioners may place a tax rate change on the ballot, at the next general election, without a petition being circulated.

Tax rate can be levied – increased, or reduced – in ¼ cent increments. In 1985, The Franklin County Board first established rate of ½ of one cent. In 2005, the Board increased the rate by ¼ cent, on a permanent measure, and that is what it is today at ¾ of a cent (0.75%). The 2005 Board also approved a temporary ¼ cent increase to restock cash reserves. That temporary rate sunsetted on 12/31/2007. The remaining capacity is the current 0.75% or ¾ of one cent. We are currently at half of the authorized capacity of the permissive tax. By comparison, 48, or half, of the Ohio counties are at the max of the permissive "Piggy Back" tax; excluding the state base rate, excluding any transit authority rate.

Mr. Robinson asked what mechanism the 2005 rate was approved under. Mr. Brown stated it was approved under the regular resolution method – approved by a majority vote of the Board. There was no referendum filed. It went into effect the first day of the quarter following the expiration of the referendum period.

Commissioner Brooks added it was a two-one vote. It happened after a great deal of deliberation, almost a full two days of hearings. Mr. Robinson asked if both the regular, permanent increase and the temporary increase were in same measure. Mr. Brown stated they were, and the sunset provision was also in the same measure. The Commissioners made a promise, and kept the promise, of the sunsetting.

Mr. Brown stated you may be wondering why a new tax rate goes into effect the first day of a following quarter, or the quarter following a referendum period. It is to give the Tax Commissioner time to notify retailers and merchants, so they can reset their registers. The law provides that the cost of resetting is charged to the County. The cost is based on how many registers the store has. Mr. Cole stated it is. If it is one register, the County pays the actual costs. If there are multiple registers, it is $50/register not to exceed the number of registers. Mr. Wilson stated the vendors submit requests to the county. Mr. Brown stated that as he recalls, in 2005, the merchants recovered their costs for resetting their registers, and that was $75,000-$80,000 in aggregate.

The ¾ of one cent is half of the rate ceiling under current law; it yields 146 million dollars. That is the estimate of what it expected to yield this year in Franklin County. Let's call it 150 million dollars, because our general operating budget is 300 million dollars. So it is approximately half of the County's general operating fund revenue. It is the single largest driver on the revenue side of the County's operating budget.
Mr. Cole and Mr. Brown concurred it is the number one revenue source for every county in the state (constituting close to half, or at least half, of their revenue funds). Mr. Brown stated Sales Tax is dominant and it has grown as other major revenue drivers have flat lined or declined.

Mr. Brown explained: Real estate taxes have essentially flat lined, with a slight shrinking at approximately 6%. This is due to the increase in foreclosures and the crash of the residential and commercial markets, beginning in 2008-2009. State shared revenues, which include tax reimbursements and the Local Government Fund, were reduced in the last state budget biennium by a policy change. The state shared revenues shrank by 10.1 million dollars. That is the impact on Franklin County General Fund. It shrunk by 40 million dollars, in terms of all operating funds of the County. Investment earnings have declined because Federal Reserve policies have held interest rates in check. The County's investment portfolio does not produce what it produced five years ago or three, or even two or one year ago. Five to six years ago, the portfolio was producing 40 million plus dollars, this year it expected to produce around 8 million dollars. That is function not of declining balances, but because of a different interest rate money market environment. Fees of Office are growing slightly, but the total amount of money generated is not nearly as significant as Sales Tax. Real estate transfer and recorder fees are growing slightly, 2% to 3%, showing a recovery of commercial and residential markets – it's a tax on the sale of property. It does not yield nearly as much, and is not growing at the same rate as Sales Tax. He encouraged panel members to read the Chapter 18 document in the packet.

Mr. Brown pointed out the bar chart, *State and Permissive Sales Tax Rates, [Urban Counties and Counties Surrounding Franklin], January 2013*, it shows how the counties in the chart stack up against each other in terms of total rate – includes the State (Base) Rate, County Rate, Transit Rate.

Mr. Wilson added in regards to the Sales Tax statutory authority given to counties under current law, counties can pass a Sales Tax to support General Fund operations of the county, operations of the courts, operations of the Sheriff's Office, and to support special purposes services. Many counties also approve passing a Sales Tax, and earmark the proceeds for a capital project or for the operation of the common pleas court within their counties (general division, and domestic and juvenile courts), as well as convention facilities.

Mr. Marsh asked if those uses outlined by Mr. Wilson apply to the matters under the charge of the Panel. Mr. Brown states no, the rate/tax is for just general operating in Franklin County. None of it was approved for a special purpose.

Mr. Brown introduces Brad Cole, CCAO Managing Director. He referred the members of the Panel to following materials in the packet: *CCAO Statement on Governor's Proposal to Broaden Sales Tax Base in Conjunction with a State Imposed Reduction of County Sales Tax Rates* (an impact report of HB 59), and *ODT Tax Reform: Local Sales Tax Proposal.*

Mr. Cole followed the agenda and started with Base Broadening & Rate Reductions. HB 59, proposes another stint of tax reform, constituting major tax reform for the State of Ohio. In 2005, another state budget involved reform; it eliminated the Tangible Personal Property Tax and created the Commercial Activities Tax. HB 59 proposes a reduction in state income taxes, as in 2005. In 2005 a 21% reduction was spread out over 5 years. This budget, HB 59, proposes to reduce the state income tax for personal filers by 20% over 3 years: 7.5% in the first year, 7.5% in the second year, and 5% in the third. There would also be a significant reduction for businesses that file their taxes as pass through filers, filing through personal income tax. It would, for the first $750,000 of income, cut it in half by $375,000 deduction.

In order to pay for these initiatives (they would obviously drastically reduce state revenues) the budget proposes a base broadening. This is a broadening of the base for all entities that pay state and local Sales Taxes, which includes the “Piggy Back” taxes of counties and transit authorities.

The base broadening would go something as follows:

- The State Ohio the Sales Tax is 5.5% currently; the “Piggy Back” Sales Taxes are added on top of that. Under the new reforms, the State Sales Tax would go from 5.5% to 5.0%. A half percent reduction.
- All of the counties would have their “Piggy Back” rates adjusted, individually, based on percentage of services anticipated to be collected within each county.
- The base broadening would expand the Sales Tax base by roughly 30%. There would be a 30% increase in revenue by applying Sales Tax to attorneys’ fees, accounting fees, and a long list of other services.
- Therefore, in addition to reducing the State Sales Tax rate, there would be a reduction in local Sales Tax rates. This would be based on an individual calculation, for every single jurisdiction, of how much the State Department of Taxation anticipates that the Sales Tax revenues would grow for the jurisdiction.

Mr. Marsh asked if this proposition had the goal of being revenue neutral. Mr. Cole replied it is intended to provide personal income tax relief, as the State would couch it. It is intended to be revenue neutral to the State. The provisions assigned to the counties are intended to provide some revenue growth for the counties. Any additional revenue the State is deriving from it would go back either as personal income tax cuts, or other types of refunding.

Mr. Cole continued each county would have a specified rate. The new Sales Tax rates would go into effect September, 2013. All Ohio counties and the transit authorities would have their “Piggy Back” rates recalculated, once, effective September 1, 2013. They would have an initial rate, included in the State’s proposed budget. The new rates are found on page 8 of *CCAO Statement on Governor’s Proposal to Broaden Sales Tax Base in Conjunction with a State Imposed Reduction of County Sales Tax Rates.* It shows the Current Local Rate, and the Proposed Local Rate. The State makes these calculations. [If the budget is approved,] all local rate changes will be managed by the State for three years. No rate increases or reductions will be allowed to be made at the local level for three years from July 1, 2013 through June 30, 2016. No rate changes whatsoever. The State’s reason is that they would have great difficulty trying to make sure that the amount of revenue going back to each county would be consistent with their targets. They claim they would have difficulty calibrating the rates and the amount of money that should be distributed to each county, in each month. [In summation], no rate changes for three years, rates sent initially on September 1, 2013.

Mr. Cole continued there would be a State guaranteed amount of revenue distributed to the jurisdictions from December, 2013, when money from the new rates begin to flow (there is a 90 day lag between the establishment of any rate and the distribution of the dollars to the localities). From December 1, 2013 through June 30, 2015 (19 months) you would have State managed rates. For the first year, from December, 2013 through December, 2014, there would be a guaranteed 10% increase in distribution to the counties and transit authorities. This is a floor, not a ceiling, of at least 10% growth for a twelve month period.

Then from December, 2014 through June 2015, counties are guaranteed a floor of an additional 5%, for another 7 months – a total of 19 months. Keep in mind they are guessing for September 2013 how much revenue you should be receiving based on base broadening, they are trying to roll back county rates by between 10% and 20% so the “counties don’t receive a windfall.” In January 2015, the State will use lessons learned from one year’s worth of experience, and they would recalibrate again. The new rates would be announced in February 2015, the rate adjustment would go into effect in April 2015. Counties would start to receive revenues in July 2015. The final year, from July 2015 through June 2016, the amount of revenue you receive would be based on your local tax base. The State would stop managing it, but it would be based on what the State set.

This is an important point, your rates vary by ¼ percent (0.25%) increments now, the State would be adjusting the rates in amounts of five-hundredths of a percent – so it would be 0.05% adjustments. The final year, Franklin County would float, based on the rate the State had set, related to the tax base, you would go up or down. In 2016, the State makes a final calibration. The State basically, overall, goes through the rate setting process three times. They plan to do it this way because, each time they do it, they get a better sense of exactly how they are doing. Are they hitting the 10% growth target? Was it too little? Too much? If they get it wrong in your favor (set your rate to get the 10% growth, but you see 12% growth), the County gets to keep the difference. If they are wrong and it works against you (as in, they set the rate to get 10% growth, but you actually get only 7% growth), they make up the difference. The State is anticipated to experience 6.5% growth in State FY 2014, based on the current Sales Tax base.

Mr. Brown stated Franklin County saw year over year growth for the same month; January 2012 compared to January 2013, the yield was 8.5%. This happened under the current law. Without an expansion of the base to tax of services, Franklin County saw 8.5% growth; this past month January, 2013.

Mr. Cole stated the State would also do a look back. The base year is December, 2012 through November, 2013. That is the base they look at to determine how to set the county rates. The look back covers a two year time period. For high growth counties that are exceeding 10% growth, you'll get the better/higher of the two rates (10% or higher). If over that two-year time period you achieved 12%, you would get 12% rate of growth floor. They would calculate both ways, a one year time period and a two year time period. In whichever scenario you did better, and get the preferred rate. Again, if the state miscalculates in your favor, you keep the difference. Finally, in 2016, the State sets the rate for the third and final time. By July 1, 2016, the State would (presumably, under this bill) remove their hands from it all together. And counties would be free to increase or decrease rates as they see fit.

Mr. Marsh noted the State has the goal of this being revenue neutral for the State. He asked what is the State's goal for local government, and if there is one. Mr. Cole replied what he believes to be true is it is the Department of Taxation's view and goal is to provide counties with some reason to along with this, because there would be revenue growth. Mr. Cole quotes the "Counties and Transit Authorities" section of the *ODT Tax Reform* document; "the distribution allows local governments to cope with – and actually benefit from – this policy." He stated there are some drawbacks to this approach as well. There is a certain inability to control your fate at the local level; at least for that three year time period.

Mr. Cole continued, the rate reductions will vary based on the amount or percentage the State believes your local Sales Tax's base, including the new services tax base (the expanded base), will grow as a result of the reforms. For counties that currently have a lot of services, based on current Sales Tax collections, the reduction is going to be greater in their rate. For counties that do not have as a robust mixture of potential Sales Tax base, the reduction is going to be smaller. The percentage changes in rates vary from 10% up to 36%. In terms of actual number, the rate reduction varies from 0.10 up to 0.45, depending upon the county. Franklin County is 0.33 (found on page 8 of *CCAO Statement*…), from ¾ % (0.75) to ½ % (0.50). This is the County Rate alone.

Mr. Redgrave stated that one of the fundamental premises of HB 59 is the expansion of the Sales Tax base. He asked how is the State able to estimate that with any degree of accuracy based upon the rulemaking that's been promulgated so far. Mr. Cole stated the State works hard at trying come up with estimates. They have skilled people working on the calculations. The three rate settings, the fact they do this three times, is as they would say, an "over abundance of caution" on their part in order to hit their targets. They acknowledge that the first round of rate setting will not be right for every county. Indeed, they will have to make up the difference, to the extent they undershoot, the 10% threshold target. They will have to have a pot of money at the state level to make up the difference.

Mr. LaFayette asked the Administrators how this 10% growth compares with what Franklin County lost from the state sharing before. Mr. Wilson clarified that Mr. LaFayette is referring to the Local Government Fund reductions. Mr. Brown stated the Ohio Department of Taxation's estimated impact of the Sales Tax reform measure says the County would be guaranteed at minimum 10% growth. Mr. LaFayette stated that would be approximately 15 million dollars. Mr. Brown stated we have organic growth of 8.5% without a Sales Tax expansion. Mr. Brown argued that the additive value lies in the difference.

Mr. Brown explained the impact of the reduction local government funds and state support in the last biennium, which appears to be permanent, was 10 million dollars. Mr. Brown stated he believes Franklin County would still see a loss relative to our position 4 years ago. Mr. Wilson stated he thinks the policy changes in the current budget that we are operating under, would offset the perceived gain here, in HB 59. Not only was the Local Government Fund reduced, we also suffered from the policy that immediately phased out what would remain under the Tangible Personal Property Tax. This was nearly 4 million dollars. And the other reductions to agencies which we support, we lost money; a total of 41 million dollars. Mr. Wilson stated in the aggregate, the policies in the last state budget, not even dealing with HB 59, we don't come out ahead. Mr. LaFayette added we are way behind.

Mr. Janas added over the last eight or ten years, there have been changes in Local Government Fund policy (freezing of the growth). Where originally Local Government Fund revenue to local government was tied to growth of receipts of taxes at the state level; the State froze us early in the last decade. What was lost in the last biennium is on top of changes to the Local Government Fund that were made over the last decade. These have caused us continuing bleeding of Local Government Fund revenues. Mr. Brown stated we believe, in pulling it all together, we are further behind now than we were four years ago.

Mr. Ransier sought further clarification regarding the 10% guarantee; he asked if it is a set off related to the 8% organic growth the County has seen recently. Mr. Cole gave the example that if during the base year period (November 2012 through December 2013), if the State sees that your growth is higher than the guaranteed 10% the State will set, a county could have that 12% rate assigned to them by the State. If the state sees that your organic rate of growth was 8%, they will set your new rate at10% - the State, in this case is giving the county a 2% increase in its rate of growth.

Mr. Janas summarized that Franklin County has seen an organic growth of revenue collection from "Piggy Back" tax of approximately 8%. If the State gets rid of the "Piggy Back" tax and sets the rate of Sales Tax revenue that Franklin County can receive, it would be a 2% increase. The guarantee of 10% is not really that much more than what we might have seen under our policy. Mr. Brown stated the additive value is the difference, which he believes is approximately 2.8 million dollars.

Mr. Janas stated that if, due to base broadening, the County sees more than 10% growth, the State will reset the County's rate lower at the second reset, to reflect keeping the County's increase in line with what the State thinks we should get.

Mr. Ransier asked for assistance in trending this out.

- Ransier: 8% what year was that?
- Brown: 2013 over 2012, year to year growth rate for January was 8%
- Ransier: How has it been trending the last 3-4 years?
- Brown: 6.5% to 8% over the last 3 years.
- Marsh: Again we are just talking about the Sales Tax.

Mr. Brown stated a tax on the sale of services, which is estimated to grow the tax base by 33%, will not produce 33% growth for the County. It will add only 2.8 million dollars it appears, based on these estimates. [The 2% difference between the organic 8.5% and the 10% State target.]

Commissioner Brooks left, she thanked the Panel. She stated let's always remember we are a growing county. That means more people in our courts, more people (unfortunately) in the jails. Our costs are going up. Mr. Janas adds this budget seems to disproportionately, adversely impact growing counties like ours. Because for other counties, whose rates are not growing, this may seem like a good deal, or those at the 1.5% ["Piggy Back" tax] ceiling, this might be the only way they get more Sales Tax revenue. For Franklin County, this is a different issue.

Mr. Brown stated there are a couple of anomalies in the proposal [HB 59]. The impact on replacement/renewal levies is one. Mr. Cole explained one of the unanswered questions, an issue of some concern, is what happens to counties that had Sales Tax levies in place that are going to come off during the three year moratorium on rate change. What we are hearing from the State is, in essence, they will freeze the Sales Tax rate at the base rate, whatever it was, prior to these rate changes occurring. There will be [in effect] a reduction, for example your effective Sales Tax rate was 1%, and it was going to go down by ½ % (0.5%) in the middle of this process, they will continue to use the old rate. With the reductions they are applying there is not going to be a further reduction, they are just going to freeze the whole thing in place for the duration.

Mr. Janas stated it does not affect Franklin County, but it will affect COTA. Mr. Brown stated that COTA did not have a permanent Sales Tax levy; it had a 10 year levy. It expires during the three year moratorium. Mr. Redgrave asked if that is the 0.25% rate is the levied rate. Mr. Brown stated it's the base that would expire. The 0.25% remains in place. This base rate is also ¼ of one cent (0.25%).

Mr. Cole continued that the CCAO had been working with some counties where they have rates that would decline this year. This leaves Commissioners uncertain about how to move forward on tax policy. These counties are also uncertain about how the observed rate in the base-setting time period will affect their rate formulation. The State would treat the situation as though the rates were frozen in place at the higher level, and make reductions from there. The local action that would ordinarily be required is being overridden. The State is going to take the State managed rates and make their adjustments, but local action is being discouraged in this instance.

Mr. Cole stated that another issue is related to counties that have issued debt backed up by the Sales Tax. There is a statutory prohibition, in State law, which prohibits a county Board of Commissioners from lowering a Sales Tax rate if they have outstanding debt tied to the Sales Tax (O.R.C. Chapter 133). In effect, however, the State would be doing this – lowering rates – an action under existing law that Commissioners are prohibited from doing. The State argues that because they are guaranteeing rate increases you would, under no set of circumstances, receive less than what you were supposed to generate from the Sales Tax at the time the debt was issued.

Mr. Ransier asked if Bond Counsel would agree with that argument. Mr. Cole stated the CCAO is reaching out to Bond Council to try to get some sense as to the legal appropriateness of this.

Mr. Marsh asked if this debt scenario is applicable to Franklin County. Mr. Brown stated it is applicable only in the sense that it takes away an option that the County might have in the future. The County has not levied or issued debt with a Sales Tax pledge or backing. HB 59 takes that option away from the County. Mr. Ransier stated that if he were Bond Counsel, seeing the State has done this once, he'd be looking out the future wondering if they would do it again. Mr. Cole stated the CCAO makes that same point in its *CCAO Statement on Governor's Proposal…* paper. Mr. Janas referred the Panel to page 4 of that document. In addition to the consequences of the debt factor, what is to keep them from doing rate reductions for other types of taxes? Perhaps on the Real Estate Transfer Tax or other types of tax which counties can authorize?

Mr. Cole summarized one of the two major issues touched upon is the moratorium – a three year prohibition on any rate change. He reiterates that the magnitude of revenue losses for counties, across the State, over the past five years, has been substantial.

General Funds across the State have experience very significant revenue declines due to all the things Mr. Brown mentioned earlier:

At State level (affecting counties)

- 50% cut to Local Government Funds.
- Tangible Personal Property Taxes, to a great degree, were phased out with the last State budget.
- The Kilowatt Hour Tax (a utility property tax) reform in 2000-2001, related to natural gas and electric generating utilities, has been quickly phased out.

At Local level (in the counties themselves)

- Major loss of investment income, most counties this between 80% and 90% revenue loss.
- Real Property tax declines (affects of Great Recession). Mr. Wilson explains that fortunate counties lost 5% due to having some commercial growth that offset the decline in residential growth.
- Fee income during the Great Recession was off. Real Estate Transfer Fees are starting to trend up now, but they did not do very well 4 to 5 years ago. We kind of got into a hole, and are now starting to come out.

Mr. Cole continued, one of the challenges is counties that have lost 15% or 20% of their General Fund revenue might want to look at Sales Tax, now, because of revenue losses they have experienced. Under the moratorium, they would not be able to access that authority for a three year time period. That is problematic for any jurisdiction that finds itself in that situation.

Mr. Janas added another layer; the political element. We are at the very beginning of the policy process regarding the State budget. This is the Governor's proposal as introduced. It is very possible that the budget as a whole, and pieces of the budget related to tax reform, may look very different by the time the House gets done with it. That could impact things in any number of ways. Representatives of those various service industries, who heretofore have not been subject to the Sales Tax, will work the halls of the legislature to try and get themselves out of the base broadening. We don't know what it's going to look like in even a month from now.

Mr. Marsh asked a hypothetical: Let's say there is expansion of the Sales Tax to 10 different entities. The General Assembly cuts that to 4. Does that change throw off the whole structure in the proposed budget? Mr. Cole stated it does. Every string is connected. The Administration's goal is completely contingent on generating the additional Sales Tax revenue. If you take enough of the new base out, the formulas and resulting numbers proposed would not work.

Mr. Cole clarified there is a 15% target for seven months from December 2014 to June 2015, there is another 5% increase on top of the initial 10%.

Mr. Ransier stated there is also the Severance Tax issue, affecting the Income Tax. Mr. Cole stated the Severance Tax issue is not resolved. It is the same proposal from last year; it would generate 500 million dollars a year, after several years, because the oil and gas industry is still growing. The Oil and Gas Association and a number of other business groups are vigorously opposing it. Things are all tightly wound together, and pulling on any of the strings, to any great degree, would unravel the whole thing.

Mr. Janas asked Mr. Cole to highlight any other changes in HB 59 that are relevant to counties.

Mr. Redgrave asked Mr. Cole to summarize what the CCAO position paper is saying.

Mr. Cole provided a summation:

- CCAO supports base broadening. The classic tax policy mantra is, in general, it is considered to be good public policy to broaden the base and lower the rates. The goal would be to create a tax structure that would generate more robust growth for the state and localities overtime.
- CCAO does not support the moratorium. There are counties that have been hit very hard in the past five years. Distributions through the Local Government Fund have gone down. In 2000-2001 it was approximately 850 million dollars, in the first year of this biennium they are approximately 350 million dollars. There were freezes for six-and-a-half years. There were cuts based on the 2001 recession. State revenues collapsed in 2009; 100 million dollars in Local Government Funds lost due to the Great Recession.
- CCAO does not support the rate reductions. It sets an unsettling precedent; local officials make determinations, and then the is State rolling back the local rate base.

Mr. Marsh asked if in future analysis and statements CCAO can differentiate between larger, urban counties versus rural counties. It seems the impact of the HB 59 varies related to size and makeup of the county. Mr. Cole answered CCAO could cluster counties based on percentage rate of reduction. The State seems to believe those counties with the greatest amount of reduction have the greatest potential for growth. The two counties on the list in the CCAO position paper with the greatest rate reduction are Cuyahoga and Delaware. Mr. Redgrave noted Hamilton and Warren are also on the list; all the big counties. Mr. Cole stated that Franklin County is up in the high reduction range. Some rural counties will experience outsized growth due to the oil and gas boom.

Mr. Janas stated another difference between urban and rural counties tends to be the percentage of those counties at their maximum “Piggy Back” tax rate – seems many of the counties at the max 1.5% are rural counties. They would not have the capacity to grow on their own without measures like those proposed in HB 59. Whereas, for those of us which have lower rates, and still have capacity, it is a different issue.

Mr. Cole stated an important concern is the question of what rates will look like three years from now. CCAO learned yesterday (March 7, 2013) that the State will take the county with the smallest overall percentage reduction and that will become the rate cap for all counties – as opposed to each county having its own cap based on being at the 1.5% max or not. What that means is those counties currently maxed out will obtain some additional growth in there cap. For example, if they are maxed out at 1.5% now, and one county is rolled back at 1.35%, and that county (which was at 1.5%) is rolled back to 1.20%, the new rate would be 1.35%. For some counties this would be a positive thing, giving them some place to go.

Mr. Marsh asked Mr. Cole with four months to go before the budget is approved, what is his sense of where it is headed. Mr. Cole stated there are a huge number of interested parties impacted by this proposal, including those that already pay Sales Tax but have vendors that will be taxed for the first time; likely passing the cost of the tax onto them. An example is automobile dealers. There is wide spread opposition to this budget. This is more expansive that what Governor Taft proposed, and the Taft proposal did not get approved. History may be a prologue on this.

Mr. Janas asked if there were other issues the Panel should be aware of outside of the Sales Tax issue. Mr. Cole stated, on a positive note the rate of reimbursement for Public Defender indigent defense is being increased from, he believes, 35% to 40%. Anything that gets us close to the goal of 50% reimbursement for Public Defender costs it good. CCAO is appreciative to have that provision in the proposed budget. Mr. Janas stated for Franklin County, if that provision were to hold, it would be an extra, approximately, 1 million dollars. To offer perspective when thinking about the Sales Tax issue, it’s something, but not a lot. Mr. Cole stated the CCAO worked to get the increase to 40% in the bill. This is not General Fund money from the State, it is fee money.

Mr. Cole also shared that another provision in the budget, endorsed by the CCAO, is an expansion of Medicaid. The Governor's Office reached out to stakeholders, including CCAO, to discuss this provision prior to writing it into the bill. Even if Medicaid expansion does not happen, there will be major changes in the system.

Mr. Cole stated in regards to the Local Government Fund, there are two positives:

- There are no more cuts. At least not at this time.
- The State is putting it on a percentage of tax receipts approach; which is beneficial. CCAO endorsed this in 2008 under Governor Strickland. There was a joint study between the House and the Senate, they recommended this approach. It was done in 2008, but we didn't have much luck due to the Great Recession. 100 million dollars were lost in the first year (2009) due to the bad economy.

Mr. Robinson asked if there has been a quantification of these pieces over time for Franklin County, and for the collective counties. Mr. Brown stated there is a partial report in the packet. He stated there is more information in the packet that there is not time to go over.

Mr. Marsh asked Mr. Cole what advice, given the Panel's charge, he has for them. Mr. Cole stated he has no specific advice at this time.

Mr. Wilson and Mr. Brown reviewed the remaining items in the packet:

- **2013 Unfunded Mandates and Core Services in Franklin County**. Description of the mandates. Unfunded Mandates in General Fund are 15.7 million dollars. Another category in General Fund is called Core Services, they are 198 million dollars. Add those together, that is the total amount of mandated spending – mandated by either Ohio Constitution, or by Ohio laws/statutes, or by bond covenants (we've issued debt and pledged ourselves to repay it). The total is approximately 215 million dollars of General Fund spending; out of a budget of 300 million. Roughly 70% of all of the General Fund dollars we expend is tied to mandates. This is illustrated in the pie chart (the next document in the packet).

- **Top General Fund Budget Drivers 2013 Approved Budget** (pie chart). Mr. Brown stated, if General Fund Core Services (68% of current year budget) are met, and the Unfunded Mandates (the State telling the County it must deliver certain services without any State support – 5% of current budget), add them together 73% of Franklin County's spending is mandated. The other categories:
    - Building and Grounds – heat, light, utilities, maintenance of County facilities
    - Other Elected Officials not in the mandated area
    - Grants
    - Miscellaneous

  These four categories are the so-called discretionary services. The level of spending in these areas may be cut or increased by the Commissioners. Even though they are "discretionary" they may have a high return on investment. There may be an excellent reason for spending on them. An example is Experience Columbus – County is investing <u>1.5 million dollars</u> in travel tourism, which <u>yields approximately 7 billion dollars</u> in return. Another example in this discretionary category are the expenses the County Auditor and Treasurer incur <u>to bill and collect taxes</u>. It makes sense to bill and collect taxes, but it is not mandated spending. There are business practices and policies which the County is investing in, or paying for, which are discretionary, and which more than pay for themselves. There is some room for efficiencies, shared services, and operational improvements within the so-called discretionary section. The mandated section, if the Board of Commissioners fails to meet them, the Court can compel the County to meet those expenditures.

  Mr. Wilson stated the following items in the packet were requested during the last meeting.

- **Resolution No. 0928-08, Resolution Approving Fiscal Sustainability Principles for the 2009 Budget Year**. Use it as a guide along with the forecast regarding budgeting and debt service principles. The County's debt is not to exceed more than 5% of our resources.
- **Resolution No. 793-05, Resolution to Adopt Debt Management Policies for the County of Franklin, Ohio**.
- **Debt Management Policies**.

- **General Fund Expenditures: Expenditures by Agency**. Offers a comparison perspective. Commissioner Agencies separated from Non-Commissioner Agencies and showing totals.

- **Operating Budget (HB 153) – Estimated Impact on Franklin County**. Policy changes in the existing State budget, and the amount of funding reductions that Franklin County faces as a result of that. Mr. Brown stated we often refer to a 41 million dollar revenue loss, which was the impact of budget policy changes in the last State biennium. The 41 million dollar figure is in the far right column [last number at the bottom]. That is the impact per year.

Mr. Ransier posed a hypothetical: I'm the Sheriff, and I have a jail, so I'm coming to the County every year saying I need a 10% increase. How do they operate?

Mr. Brown explained there are several appellate court cases that have upheld that counties are mandated to staff and operate a jail, and serve the courts. Those are probably 65% to 70% of a Sheriff's functions. The other 30% would be patrolling, providing uniform patrol in the townships, providing plain clothes investigative and detective work. Those are discretionary. If push comes to shove, the courts have held that a Board of Commissioners must give the Sheriff enough money to staff and operate a jail, and enough to attend to the courts. They must also give the Sheriff enough money to respond to calls for service. That is the extent of the obligation. Mr. Ransier posited there are not many avenues to adjust these requests, assuming justification for requests is sought by the Board. Mr. Brown stated that is correct. He believes a Sheriff may argue it doesn't make sense to let crime run rampant, or for the streets to be unsafe, so there is a good business case for assuring that there are safe streets and crime is contained. Therefore, even though these other services are discretionary, they are necessary – that would be the argument. A county's dilemma, which has been faced by many counties, is having to tell a Sheriff to furlough deputies, or stop road patrol, or stop plain clothed investigation, because there is not the money for it. Mr. Cole confirms and stated CCAO would defend keeping these types of items funded as discretionary.

Mr. Robinson asked how sentencing guidelines would come into play in a scenario such as the one above. Mr. Cole stated CCAO works to keep the jail populations down for counties, by making sure the State does not use the counties to an excess degree for holding. The State has tried to undertake reform of its own, to try to come up with more community options, so not so many are set to prison. Mr. Brown stated recent reforms have had some impact. Four years ago, the average daily population in jail was 2,200 inmates, today we are probably averaging 1,800. Sentencing reforms, and other reforms, have helped the community rely more on community based sentencing options, rather than incarceration. Mr. Robinson framed the concept relayed by Mr. Brown as having a trickledown effect from the State to the counties.

Mr. Marsh requested a one-page summary on the discretionary issue. Mr. Brown stated at the last meeting it was requested the Administrators identify mandated services. These documents are the attempt to do so. The flip side of mandates is discretionary spending. We will try to detail that just as we have detailed this.

Mr. Marsh requested more detail at next meeting on the mandates.

Mr. Redgrave posited since the services are mandated, but not the cost of the service, the question becomes what does it cost to deliver services (mandated or not).

Mr. Brown responded, a large chunk of the costs are the courts. The courts determine what cost is necessary and reasonable, not the Board of Commissioners. The Board of Elections determines what is necessary and reasonable to conduct elections. The Public Defender determines what is necessary and reasonable to defend indigents. The Prosecutor determines what is necessary and reasonable to conduct its operations. The Board of Commissioners, as a budget authority, has no discretion over what it costs, but rather the service providers do (the largest group of which is the courts); and if challenged, the determination is made by a court. Mr. Wilson stated counties have not been successful in those challenges when the court filed a mandamus and mandated their budget, as counties have when Sheriffs' Offices have tried to go into the court system. Mr. Brown stated the budgetary authority for the County does not have discretion on how much it should cost to run a court, elections board, prosecutor's office, or a public defender program.

Mr. LaFayette stated he thinks the Panel's final report could point out inefficiencies in the system that could be addressed, as was done for the City of Columbus. He wants that consideration to enter into the deliberations of the Panel.

Mr. Redgrave stated there are many scenarios that could be articulated as possible. In trying to examine a budget, further debate is needed to determine what is feasible for the Panel to work on and produce. There is also the timing issue to be mindful of; stop gates to be passed through in the Governor's budget process.
Therefore, it would be helpful if some direction is provided by the Administrators on structure (time line) to increase productivity of the Panel.

Mr. Ransier stated the House will finish with these tax proposals in mid-April. We'll have at least one chamber's opinion, at that will likely be a strong one that dictates the direction of the budget policy. That is one stop gate. The next one would be when the Senate is finished.

Mr. Robinson asked when the Board would like the Panel's recommendations. Mr. Brown stated a report is hoped for by August, so that OMB can begin to develop an operating budget for the coming year, in the fall.

Mr. Redgrave asked that pre-read information be sent at least two business days in advance of the meetings.

Mr. Marsh thanked the team for the materials and presentations.

The meeting was adjourned at 3:36 P.M.
These minutes are a synopsis of the meeting of the Franklin County Budget and Economic Advisory Panel of Friday, March 8, 2013.

Submitted by:

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Shannon Zee Cross
Clerk to the Board of Commissioners