County Commissioners Association of Ohio

Serving Ohio Counties Since 1880

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MEMO

TO: ALL MEMBERS OF THE HOUSE FINANCE APPROPRIATIONS COMMITTEE

FROM: LARRY LONG, EXECUTIVE DIRECTOR

SUBJECT: COMMENTS ON SUB. H. B. 59—THE STATE BIENNIAL BUDGET

Thank you, Chairman Amstutz and members of the committee, for the opportunity to provide testimony on behalf of the County Commissioners Association of Ohio (CCAO). There are a number of issues of importance to county government in the Substitute version of the budget. We look forward to continuing to working with the House, the Senate, and the Administration as the budget process continues.

Today I will limit my comments to four primary topics because of time constraints. As you know, counties, as agents and partners with the state in the delivery of services, are impacted in a variety of ways by the state budget. While time will not permit a discussion of all of the issues in the bill that impact counties, we have included at the end of the testimony a summary of other issues of importance to counties, and we would be pleased to respond to questions on any of these issues by the committee or by any individual member later.

SALES TAX BASE BROADENING, REDUCTION IN COUNTY RATES, AND MORITORIUM

CCAO has supported the broadening of the sales tax base for a number of years and hopes that, in the future, a more selective broadening of the sales tax base can be considered and enacted. One reason CCAO has supported the expansion of the sales tax base is the fact that 48 counties have enacted the maximum 1.5% rate currently authorized under state law. The permissive sales and use tax is the single largest source of revenue for virtually every county's general revenue fund. CCAO has for a number of years requested the General Assembly increase the current 1.5% cap. Since the legislature has not chosen to give counties additional flexibility to raise revenue by increasing the current cap, the only other way to generate this revenue is to expand the base.

Our primary concern with the Governor's proposal was that county permissive tax rates would have been reduced and a three year moratorium would have been imposed on counties. CCAO believes that such actions are not appropriate, and this proposal changed the traditional relationship between counties and the state—that of enabling counties to enact taxes, to set limits and to establish procedures for enactment of permissive taxes--not the reduction of currently enacted tax rates, some of which have been approved by local voters. CCAO appreciates that these provisions of the Governor's proposal were also victims of the rejection of the sales tax base expansion proposal.

RESTORATION OF LOCAL GOVERNMENT FUND CUTS ENACTED IN LAST STATE BUDGET

The last state budget cut funding to the Local Government Fund (LGF) by 50% over the biennium. While counties understood they needed to accept some of the cuts that were necessary in order to balance the $8 Billion hole in the last state budget, the 50% cut to the LGF was clearly disproportionate to what was an overall 17% state budget hole to be filled.

While CCAO appreciates the Governor's proposal to place the LGF funding back to a "percentage of tax receipts formula", the proposal also includes a reduction of the percentage of tax receipts allocated to the LGF from 3.68% to 1.69%. We believe this new percentage incorporates the 50% cut enacted during the last budget into the new permanent law formula.

CCAO believes now is the time to restore **some** of the disproportionate funding cuts enacted during the budget crisis of two years ago. Clearly the economy is coming back, the rainy day fund has been replenished, and revenues will be used for income tax reductions. Therefore, we ask that the percentage of tax receipts allocated to the LGF be increased from 1.69% to 2.52%. 2.52% reflects a 17% reduction in the LGF and results in a restoration of the disproportionate cuts sustained during the last biennium. We calculated this percentage with the assistance of the County Auditors Association of Ohio, and believe that 2.52% appropriately restores the disproportionate funding reduction. This would result in an increase of approximately $177 Million in FY 14 and $184 Million in FY 15, or approximately $361 Million during the biennium.

CCAO also appreciates the Administration's proposal to continue the small county "hold harmless." This will benefit 23 of our smallest counties. However, it should be noted that this "hold harmless" is not separately funded as it was in the last state budget. As a result, the small county "hold harmless" is funded out of revenues allocated under the new formula and comes off the top of LGF funding. The small county "hold harmless" is thus funded at the expense of the other 65 counties. CCAO urges the Committee to provide an additional appropriation to fund the small county “hold harmless” separately. We estimate the cost to the state to be between $5 and $6 million per year.

Finally, CCAO opposes any attempt to restructure the statutory or alternative formulas for the distribution of LGF dollars within each of the 88 counties to the various municipalities, townships, park district(s) and the county. Legislation was introduced last session (SB 364) by Senator Seitz which would practically cap LGF distributions the county general fund at 30% of the amount allocated to political subdivisions within its jurisdiction. Last’s proposal would have generally reduced the county share in 77 of the 88 counties. In Senator Seitz’s revised proposal for this session, we understand that the 23 small counties that benefited from the “hold harmless” provision discussed earlier would not be impacted. While the latest, modified proposal would adversely impact fewer counties than was proposed last year, CCAO still urges the rejection of this change to the formula.

MANDATED SPECIAL REVENUE FUND FOR COUNTY RECORDERS

Substitute Bill 59 includes changes to current law relating to the County Recorders Equipment Fund to make the Fund mandatory, not permissive as is current law.

The effect of this change results in an unfunded mandate on the county general revenue fund in that monies that now go to the county general fund would be diverted to a special fund in the county treasury which could only be used for equipment and operations of the recorder’s office.

This earmarking of county revenue reduces the flexibility county commissioners need to balance the county budget and could result in cuts to other general fund agencies. In addition, the establishment of this mandatory special fund includes language that may allow for special salary increases for employees of the recorder’s office and includes language creating a new legal cause of action where recorders may sue commissioners over disagreements regarding general fund appropriations. Such language should be removed from the bill. We have met with Representatives Blair and Strahorn on this issue and are working to see if a compromise with the Recorders Association is possible.

MEDICAID EXPANSION

After careful study and considerable debate, in January, CCAO took a position to support Medicaid expansion. Our support was conditioned on a general distrust of the federal government not living up to its 90% commitment, and, therefore, we supported a trigger that would clearly allow the state to rescind the expansion if the Feds changed the rules of the game.

Our Board had considerable debate on the pros and cons of expansion, and even though some of our members are opposed to expansion, most voted to support expansion because of the benefits to county and community hospitals, the positive impact on County Behavioral Health Boards, and the projected impact on county sales tax revenues from the managed care sales tax. At this time we have reservations that the proposed alternative will be as effective as Medicaid expansion and will be further reviewing this matter with our members.

Finally, irrespective of the debate over Medicaid expansion, the counties will need, and we ask that, more funding to be appropriated to county Job and Family Service Departments in order to adequately administer the new case management system that will be replacing CRIS-E.

GENERAL CONSIDERATIONS REGARDING THE SUBSTITUTE BILL

HB 59, as introduced, provides for reimbursement to the counties for 40% of their expenses incurred for indigent defense. While CCAO appreciates this increase of approximately 5% in reimbursement, we would ask the House to return to and restore funding for reimbursement to 50%.

CCAO believes modernizing Ohio's severance tax on oil and gas along with the provision of a revenue stream to address local impacts from such development should be included in the budget bill.

CCAO concurs in the following amendments contained in the substitute bill:

- Removal of the multi-county levy taxing authority for health departments, as parties.
- Expansion of the definition of nexus to require additional internet retailers to collect and remit Ohio sales tax.
- Expansion of the sales and use tax and lodging tax on hotel intermediaries.
- Additional funding for OSU Extension.
- Ability to place before voters a combined property tax levy for fairgrounds, soil & water conservation, and OSU Extension.

Finally, there are several issues included in the substitute bill that CCAO desires to review in greater detail prior to expressing an opinion on their merits. Those items include:

- Establishment of Local Government Information Exchange Grant Program.
- Funding distribution change for the Local Government Innovation Program.
- Establishment of a property tax exemption for certain fraternal organizations.

- Mandate for deputy registrars to comply with state Financial Transaction Device Requirements.

- Designation of the township member on County Land Reutilization Corporation Board.

- Limited state oversight of certain public employee health care benefits oversight, i.e., best practices implementation. (Included in the as introduced version of HB 59.)

- Funding for military spouse unemployment compensation in certain circumstances.

- The use of revenues from oil and gas drilling on state park land, and when reaching a certain threshold, the direction of these revenues to support the Clean Ohio and Agricultural Easement programs.

- Lowering motor fuel tax on liquefied natural gas to 28 cents per gallon from 44 cents.

- The ability of a township to “loan” TIF revenue to pay for and law enforcement.