



TESTIMONY BEFORE THE SENATE FINANCE COMMITTEE

**KENT SCARRETT
EXECUTIVE DIRECTOR
OHIO MUNICIPAL LEAGUE**

**HB 166
FY 2020-'21
State Operating Budget Bill**

May 23, 2019

Chair Dolan, Vice Chair Burke, Ranking Member Sykes and members of the Senate Finance Committee, thank you for the opportunity to testify as an interested party on Substitute HB 166, the executive State Operating Budget proposal.

My name is Kent Scarrett and I am the executive director of the Ohio Municipal League. The League advocates on behalf of municipalities across Ohio, from large urban metropolises to small rural villages. Of the 937 municipalities throughout the state, 751 are members of the Ohio Municipal League.

Ohio's municipalities are home to 8.5 million citizens and 80% of all businesses in the state. Ohio's cities and villages are the "economic engines" of the state, the driving force behind Ohio's economy, the home to business incubators hosting entrepreneurs and providing the testing grounds for technology and innovation of the future. Municipalities also play a critical role in transportation infrastructure throughout the state. Municipalities maintain over 70,000 lane miles and 2,500 bridges and have an annual count of over 100 million vehicle miles traveled. The most well-traveled portion of this municipal system, about 21,000 lane miles of local connectors and arterials and highways, carry over a quarter of all vehicle miles traveled in Ohio.

Although there are pockets of great prosperity and financial stability for some municipalities across the state, the majority of our cities and villages are challenged with vexing problems that have grown in intensity and compounded by dwindling revenues. The burdens of our local communities have been exasperated by the multiple cuts to several areas of support from the state including the cut to the LGF by over half in 2011 and no meaningful reinvestment since; the elimination of Ohio's Estate tax in 2011 that deprived municipalities of nearly \$250 million annually in needed revenue; the accelerated phase-out of the Tangible Personal Property tax (TPP); and changes to the municipal income tax which generates 70% of a municipality's general revenue fund, all leaving many municipalities struggling to staff safety personnel such as police and fire, repair failing and dangerous infrastructure and deliver other basic services Ohio citizens deserve. To invest in Ohio, we must first invest in where the vast majority of Ohioans live and work and that is Ohio's municipalities.

One of the top priorities of the League and our members when it comes to the budget is the restoration of the Local Government Fund. We appreciate the amount of interest members of the legislature have shown in conversations we have had about the need for more funding to the Local Government Fund, how this reinvestment will ease the considerable financial challenges felt in our municipal budgets across

the state and how this renewed support will help rebuild the fractured partnership between state and its local partners, but the current substitute bill provides no lift up towards reaching these goals.

The League appreciates the administration's increase and the retention of LGF funding increase by 9.1% in FY 20 and a 1.8% increase in FY 21, but we believe a greater investment made in our communities is warranted. Each of you have heard the pleas from your local municipal leaders as they share with you what it means to operate with \$1.4 billion less each year in state assistance but still being expected to absorb all of the existing and new fiscal challenges that face cities and villages everyday as they continue to work to create jobs and safe places for people to work and live.

Municipal budgets have also been unfairly targeted in previous budgets by having the municipal direct distribution portion of the LGF, which has been in place since 1972 and is earmarked to go directly to municipalities with an income tax, raided and over \$110 million through the biennium shifted away from cities and villages as intended and instead used to fund townships or state training and drug programs. The League asks that the Senate restore this LGF funding back to the municipalities, which are the intended recipients.

Ohio's municipalities are the face of Ohio, especially to new industries and economic development. Too many of Ohio's cities and villages have been weathering significant financial storms for almost a decade, leaving too many battered and bruised.

Through a reinvestment in the Local Government Fund and a return to municipal specific LGF funding, we believe municipalities across the state will have less need to ask their citizens for an increase in their local income tax, less need to adjust credits, less need to put off or cancel needed investments in infrastructure both above and below ground, and fewer challenges in delivering services provided by our first responders.

We have also been talking at great length about our opposition to language being added to the budget bill that would impact ORC 718 and the municipal income tax revenues collected and distributed through the new state centralized collection of the municipal net profit tax. The language has been the subject of several meetings with Tax Commissioner McClain, his staff and several municipal tax administrators. We are grateful for the opportunities we have had to meet and discuss concerns our tax administrators have with the state distribution practices of estimated payments and collection authorities being sought by the state for overpayments, that the budget seeks to codify. The meetings have been beneficial for both sides and if given a chance to continue, we believe compromise positions can be established to develop a set of best practices on how future distributions can be made to benefit the taxpayer and taxing entities.

As you have heard from previous testimony, we are asking that the language be removed from the budget and introduced as stand-alone legislation so that the changes being sought by the Department of Taxation can be vetted more thoroughly giving legislators and practitioners a better understanding of the consequences of proposed changes to state law. Providing a more measured approach via stand-alone legislation to changes in tax law will also allow for administrative difficulties to be identified and resolved before the ORC is amended and potential lawsuits ensue.

We are convinced that a more measured approach to state changes in municipal tax policy will have a greater chance of producing win-win scenarios for the state and our cities and that such technical tax language impacting municipal revenues does a disservice to taxpayers and policymakers alike when it is included in a budget bill that must be passed in little over a month.

On behalf of Ohio's first responders and the citizens and businesses they serve every day, we are grateful for the funding for the Multi-Agency Radio Communications system or MARCS. The substitute bill

allocates \$2 million over the biennium for the program's local government fee offset. The League appreciates the reinstatement of the local fee offset for MARCs, but the \$2 million is only a partial reinvestment from previous funding levels. Previous state support, and the amount municipalities need, is for at least \$4 million in funding over the biennium. The continued state funding of this critical resource will allow many of Ohio's local first responders to remain in the MARCs program, and the benefits of having Ohio's safety forces able to communicate among one another will continue. The League seeks full funding for this mission critical capability.

Another area of concern of ours is the language in the budget to discontinue the Motion Picture Tax Credit. The current language would repeal the refundable tax credit for motion picture production expenditures, meaning no new credits would be authorized after FY 2019, but credits certified before FY 2020 could continue to be claimed. From Cleveland to Newark to Chillicothe to Cincinnati, Toledo to Athens, the motion picture industry has discovered the benefits and beauty of Ohio. We believe support for the expansion of this industry should be nurtured and not trimmed.

The League also requests that the initial allocation of \$900 million to the H2Ohio Fund as introduced in the Governor's original proposal be restored. Water quality issues impact municipalities both large and small across Ohio, and many municipalities lack the financial resources to ensure they comply with important water quality standards. The initial funds allocated in the Governor's proposal would help local governments across the state deliver this basic service to Ohioans and their families.

Our members are keenly aware of the importance of investing in affordable housing is an important part of building a strong, stable community. Decreasing homelessness and housing insecurity also decreases expenditures on public systems such as Medicaid, substance abuse services, courts and jails while simultaneously creating jobs and bolstering the economy. That is why the League is supporting the Coalition of Homelessness and Housing in Ohio in their request for \$20 million over the biennium to invest in the Ohio Housing Trust Fund, a flexible state funding sources supporting affordable housing and homeless assistance across the state.

There are three final provisions that harm municipalities, and we request they be removed from the budget. The first prohibits local tax levies from appearing on August special election ballots, which would impede cities and villages from passing emergency levies to ensure they can continue providing services to their communities. The second requires local government to pass individual resolutions for each property tax contest, unnecessarily burdening local legislative bodies with bureaucratic red tape. The third exempts unimproved land subdivided for residential development from increased property taxes for up to 5 years, depriving local governments of the revenues they would otherwise earn while potentially shifting the tax burden to neighboring land parcels. These provisions would stymie cities and villages rather than strengthening them, and we respectfully request their removal.

I am happy to be before you today to briefly share the list of additional budget items that the League supports.

- **Opportunity Zones.** The League supports two provisions regarding Opportunity Zones; one of which incentivizes investment in struggling communities via income tax credits for businesses that invest in Opportunity Zones as defined by the federal Tax Cuts and Jobs Act of 2017; the second conforms Ohio law to include the Opportunity Zones established in the same Act for economically-distressed communities to attract businesses that will invest in revitalizing local communities.
- **Tax Increment Financing (TIFS).** The substitute bill allows local governments to extend TIFS to an additional 30 years for large, high-impact developments. We believe this is an important

tool in the toolbox for economic development opportunities across the state and appreciate the recognition of such by this body.

- **Local Crisis Services.** These services have rightly been prioritized with funds related to combatting substance use disorders with General Revenue Funds (GRF) rather than diverting funds from the LGF.
- **Local Government Audit Support.** The League appreciates the assistance through the new General Revenue Fund (GRF) line item of \$13 million each fiscal year to support the Auditor of State's costs of auditing local governments.
- **Bureau of Criminal Investigation (BCI) Lab Testing.** We support the allocation of \$21 million over the biennium for BCI lab tests, defraying the cost that would otherwise be passed to municipalities.
- **Unpaid Garbage Fees.** We appreciate the addition of this amendment, which authorizes all municipalities providing for garbage collection, not just municipalities within charter counties, to have unpaid garbage fees charged as a lien against real property.
- **Hotel Intermediaries: Sales and Lodging Taxes.** The League supports this amendment, which requires hotel intermediaries to collect and remit local lodging taxes.

In closing, we appreciate the work that was put into the recently-passed Transportation Budget by this committee and the entire Senate and for the administration and legislature's commitment to our communities through this vehicle to produce more revenue locally for our streets and bridges. There is a lot more that needs to be done, both above and below ground when talking about infrastructure issues in Ohio and in our municipalities. The challenges are considerable for the majority of our members and we look forward to working with you to rebuild the partnership between our municipalities and the state.

I thank you for your time and I would be happy to answer any questions you may have.