



TESTIMONY BEFORE THE HOUSE FINANCE COMMITTEE

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

May 7, 2019

Chair Oelslager, Vice Chair Scherer, Ranking Member Cera and members of the House Finance Committee, thank you for the opportunity to testify as an interested party on 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 House's 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 House 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 thank the House for providing 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.

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

- **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.
- **H2Ohio Fund.** The substitute bill creates an advisory group of governor and legislative appointees to develop a spending plan for that program, in addition to the existing allocation of \$900 million to address water quality issues.
- **Local Crisis Services.** The House rightly has prioritized these services with funds related to combatting substance use disorders with General Revenue Funds (GRF) rather than diverting funds from the LGF.
- **Opportunity Zones.** The League supports the language which conforms Ohio law to include the Opportunity Zones established in the Tax Cuts and Jobs Act of 2017 for economically-distressed communities. This will be a big player in attracting businesses to our communities that play such an important role in efforts to revitalize challenged parts of the state.
- **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.

In closing, we appreciate the work that was put into the recently-passed Transportation Budget by this committee and the entire House of Representatives 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.