



Changes to the Local Government Fund and the Public Library Fund, as enacted by the FY14-15 state operating budget

July 3, 2013

Part A: Introduction

The fiscal year 2014-2015 biennial budget (Am. Sub. H.B. 59, 130th General Assembly), which Governor Kasich signed into law on June 30, 2013, makes a modification to the statutes pertaining to the Local Government Fund (LGF). The LGF modification is discussed in this document, as are previously-scheduled changes in the funding of the LGF and the Public Library Fund (PLF) that take effect in fiscal year 2014.

Because this document only pertains to those elements undergoing change in fiscal year 2014, interested persons may benefit from a more thorough explanation of the structure of the LGF and PLF in separate chapters of the 2012 Department of Taxation Annual Report available at this link:

http://www.tax.ohio.gov/communications/publications/annual_reports/2012_annual_report.aspx

Part B: LGF and PLF background

This is a synopsis of LGF and PLF funding provisions in effect over the last several years, intended to provide some recent historical context. If you are not interested in this history, you may skip this section and go directly to “Part C: LGF and PLF changes taking effect in July 2013”.

“Old” funding law

Under the law in effect before the FY12-13 biennial budget period, in each month the state LGF and state PLF received an amount equal to a designated percentage of tax revenue received by the state General Revenue Fund (GRF) during preceding month. The funding percentage for the LGF was 3.68 percent while the PLF received 1.97 percent.¹

Newly-expiring funding law

Under provisions enacted by the previous state operating budget (Am. Sub. H.B. 153, 129th General Assembly) the LGF and PLF “percentage of revenue” funding method was not used during the August 2011 through June 2013 period.² Instead of receiving allocations tied to the amount of GRF tax revenue received each month, during those 23 months the LGF and PLF received a designated percentage of the dollar amounts received by the fund during the corresponding month of the fiscal year 2011 “base-year” period.³

In both fiscal year 2012 and 2013, the PLF received 95 percent of the amount received in fiscal year 2011.⁴

The LGF funding levels dropped successively in fiscal years 2012 and 2013. In fiscal year 2012, the LGF received 75 percent of fiscal year 2011. In fiscal year 2013, it received 50 percent fiscal year 2011 funding levels. However, fiscal year 2012 funding was partially restored with a one-time \$49.27 million funding

¹ The PLF funding percentage had been 2.22 percent during the January 2008 – July 2009 period before it was reduced to 1.97 percent for the August 2009 – June 2011 period.

² The July 2011 LGF and PLF deposits equaled 3.68 percent and 2.22 percent of state GRF tax revenues, respectively. This was the only month of the FY12-13 biennium in which funding is based on the percentage-of-revenue approach.

³ However, the percentage reduction in FY12 was somewhat mitigated for county undivided local government funds due to a specific dollar supplement totaling \$49.27 million. Additional funding was also provided for the “minimum distribution” county undivided LGF provision in effect during FY12 and 13.

⁴ Subsequent transfers totaling just under \$5 million per year were made in FY12 and 13 from the PLF to the OPLIN Technology Fund and to the Library for the Blind.

supplement from the state GRF. Furthermore, in fiscal years 2012 and 2013 a minimum LGF distribution provision was in effect, ensuring that in those fiscal years no county undivided LGF receive the lesser of its actual fiscal year 2011 distributions or \$750,000. This minimum distribution provision was also funded by the GRF.

Part C: LGF and PLF changes taking effect in July 2013

Resumption of percentage-of-revenue funding and one-time percentage computation

As part of the law changes adopted with the FY12-13 budget, the “percentage of revenue” funding approach goes back into effect in fiscal year 2014 for both the LGF and the PLF. (Each month, the two funds will receive a dollar amount equal to a specified percentage of the amount of GRF tax revenue received during the previous month.) The LGF and PLF percentages shall be different than those previously in effect. In July 2013, state law requires a one-time calculation of the new funding percentages by the tax commissioner.⁵ The computations are as follows:

LGF funding percentage = FY13 LGF deposits / Total FY13 state GRF tax revenue

PLF funding percentage = FY13 PLF deposits / Total FY13 state GRF tax revenue

According to the computation performed in early July 2013 by the Department of Taxation, the updated LGF funding percentage is **1.66 percent**. The new LGF funding percentage takes effect beginning with the **August 2013** distributions. In July 2013, the LGF will receive the same amount received in July 2012.⁶

According to the July 2013 Department of Taxation computation, the updated PLF funding percentage is **1.66 percent**. The new PLF funding percentage takes effect beginning with the **July 2013** PLF distributions.

LGF minimum distribution provision made permanent

There exists a statutory formula that prescribes the method for allocating the LGF among the county undivided LGFs and the more than 500 municipalities receiving a direct LGF distribution. There were no changes made to the direct LGF allocation formula under the FY14-15 budget. Furthermore, the starting point for determining each county undivided LGF distribution remains the same: it uses the statutory formula in effect from January 2008 through July 2011. But each county’s *de facto* share of the LGF will end up being adjusted upward or downward as a result of a change in the FY14-15 budget bill that makes permanent the “minimum distribution” provision that had been in effect during the FY12-13 period.⁷

As a result of this provision made permanent by HB 59, for each fiscal year each county undivided LGF will receive no less than (1) the amount it received in fiscal year 2011 or (2) \$750,000, whichever amount is smaller. This provision affected 23 counties during fiscal year 2013, providing a total \$5.1 million to those counties.

There is no supplemental LGF funding mechanism to defray the cost of these minimum distributions. Instead, those counties with distributions that exceed the minimum amount will have their distributions reduced proportionally in order to pay for these minimum distributions.

As LGF distributions grow over time, counties that have been subject to the minimum distribution provision can be expected to leave the minimum guarantee. During the next few years, some of those counties whose current annual distributions are close to \$750,000 may leave the guarantee amount. The degree of overall LGF funding growth will determine whether such counties will realize distributions in excess of the minimum guarantee.

⁵ Revised Code Section 131.51.

⁶ More specifically, each county undivided LGF and each municipality receiving a direct LGF distribution will receive the same amount in July 2013 as it received in July 2012.

⁷ Revised Code Section 5747.501, as amended.

Because of the inherent unpredictability of the revenue stream and the attendant difficulty in forecasting distributional outcomes, an annual reconciliation will need to occur in the last month of each fiscal year (June) to ensure that each county has received no less than its minimum distribution amount during the just-ending fiscal year. To the extent there are any supplemental LGF distributions needed to implement the minimum distribution requirement for the fiscal year (and to the extent there are any corresponding reductions to the county undivided distributions in order to pay for those supplements), such supplements and reductions will be embedded into the June LGF distributions.

Resumption of statutory PLF formula

There were no changes made to the method used for allocating the PLF among the 88 county undivided PLFs.⁸ The statutory allocation method shall resume with the July 2013 distribution, using updated computations of the calendar year 2013 entitlements as the basis of each county's allocation percentage. Those percentages shall be used through December 2013. In December the actual calendar year 2013 entitlement will be computed, as well as a reconciliation to identify any variance between actual calendar year 2013 distributions and entitlements among the counties. Any positive and negative differences resulting from the reconciliation calculation will be added to/taken from the January – June 2014 county undivided PLF distributions (i.e., spread evenly over those six months).

Beginning with the calendar year 2014 distribution year, the entire statutory entitlement computation cycle will resume. For the calendar year 2014 distribution year, the Department will issue estimated entitlement figures to the county auditors in July 2013, December 2013, and June 2014. In December 2014 the actual 2014 entitlements will be computed; in addition, a reconciliation computation will be performed to identify any differences between actual CY 2014 PLF distributions (before any adjustments) and the actual CY 2014 entitlement amounts. Any computed differences will take the form of positive or negative adjustments made to the January-June 2015 county undivided PLF distributions (to be spread evenly over those months).

Part D: LGF and PLF estimates

In early July the Department will post on its Web site the estimates of the calendar year 2013 LGF and PLF distributions. In late July it shall also post its estimates of the calendar year 2014 LGF and PLF distributions. Estimates for both years will be available at this link:

<http://www.tax.ohio.gov/government/ohiodepartmentoftaxation.aspx>

Because percentage-of-revenue funding goes back into effect, the revenue effects of the tax reform changes adopted by HB 59 on the state GRF shall also affect the LGF and PLF. The estimated revenue impact of those tax changes shall be incorporated into the calendar year 2013 and 2014 LGF and PLF distribution estimates.

Part E: Inquiries

Please direct questions on LGF and PLF distributions to the Revenue Accounting Division of the Department of Taxation, at 614-466-7150.

⁸ Revised Code Sections 5747.46-.48.

Schedule of monthly LGF distributions, CY 2011-2014

Reflects total LGF funding during each month, and not recipient-specific outcomes

Month	Basis for CY 2011 Distributions	Basis for CY 2012 Distributions	Basis for CY 2013 Distributions	Basis for CY 2014 Distributions
January	3.68% of Dec 2010 revenue	75% of Jan 2011 distribution	50% of Jan 2011 distribution	1.66% of Dec 2013 revenue
February	3.68% of Jan 2011 revenue	75% of Feb 2011 distribution	50% of Feb 2011 distribution	1.66% of Jan 2014 revenue
March	3.68% of Feb 2011 revenue	75% of March 2011 distribution	50% of March 2011 distribution	1.66% of Feb 2014 revenue
April	3.68% of March 2011 revenue	75% of April 2011 distribution	50% of April 2011 distribution	1.66% of March 2014 revenue
May	3.68% of April 2011 revenue	75% of May 2011 distribution	50% of May 2011 distribution	1.66% of April 2014 revenue
June	3.68% of May 2011 revenue	75% of June 2011 distribution	50% of June 2011 distribution	1.66% of May 2014 revenue
July	3.68% of June 2011 revenue	50% of July 2010 distribution	50% of July 2010 distribution	1.66% of June 2014 revenue
August	75% of Aug 2010 distribution	50% of Aug 2010 distribution	1.66% of July 2013 revenue	1.66% of July 2014 revenue
September	75% of Sept 2010 distribution	50% of Sept 2010 distribution	1.66% of Aug 2013 revenue	1.66% of Aug 2014 revenue
October	75% of Oct 2010 distribution	50% of Oct 2010 distribution	1.66% of Sept 2013 revenue	1.66% of Sept 2014 revenue
November	75% of Nov 2010 distribution	50% of Nov 2010 distribution	1.66% of Oct 2013 revenue	1.66% of Oct 2014 revenue
December	75% of Dec 2010 distribution	50% of Dec 2010 distribution	1.66% of Nov 2013 revenue	1.66% of Nov 2014 revenue

Note: In addition, monies were provided to the LGF from the state GRF during FY 12-13 to implement the "minimum" distributions provided to affected county undivided local government funds. Furthermore, an additional \$49 million was provided to the county undivided LGFs during FY12 from the state GRF.

Schedule of monthly PLF distributions, CY 2011-2014

Reflects total PLF funding during each month, and not recipient-specific outcomes

Month	Basis for CY 2011 Distributions	Basis for CY 2012 Distributions	Basis for CY 2013 Distributions	Basis for CY 2014 Distributions
January	1.97% of Jan 2010 revenue	95% of Jan 2011 distribution	100% of Jan 2011 distribution	1.66% of Dec 2013 revenue
February	1.97% of Feb 2010 revenue	95% of Feb 2011 distribution	100% of Feb 2011 distribution	1.66% of Jan 2014 revenue
March	1.97% of March 2010 revenue	95% of March 2011 distribution	100% of March 2011 distribution	1.66% of Feb 2014 revenue
April	1.97% of April 2010 revenue	95% of April 2011 distribution	100% of April 2011 distribution	1.66% of March 2014 revenue
May	1.97% of May 2010 revenue	95% of May 2011 distribution	100% of May 2011 distribution	1.66% of April 2014 revenue
June	1.97% of June 2010 revenue	95% of June 2011 distribution	100% of June 2011 distribution	1.66% of May 2014 revenue
July	2.22% of June 2011 revenue	95% of July 2010 distribution	1.66% of June 2013 revenue	1.66% of June 2014 revenue
August	95% of Aug 2010 distribution	100% of Aug 2011 distribution	1.66% of July 2013 revenue	1.66% of July 2014 revenue
September	95% of Sept 2010 distribution	100% of Sept 2011 distribution	1.66% of Aug 2013 revenue	1.66% of Aug 2014 revenue
October	95% of Oct 2010 distribution	100% of Oct 2011 distribution	1.66% of Sept 2013 revenue	1.66% of Sept 2014 revenue
November	95% of Nov 2010 distribution	100% of Nov 2011 distribution	1.66% of Oct 2013 revenue	1.66% of Oct 2014 revenue
December	95% of Dec 2010 distribution	100% of Dec 2011 distribution	1.66% of Nov 2013 revenue	1.66% of Nov 2014 revenue

Note: Not reflected in this table are subsequent transfers from the PLF to the Library for the Blind Fund and OPLIN Technology Fund, starting August 2011.