



Office of the Tax Commissioner
P.O. Box 530
Columbus, Ohio 43216-0530
www.tax.ohio.gov

MONTHLY CASH-FLOW CHANGES RELATED TO THE LOCAL DISTRIBUTION FUND DISTRIBUTIONS

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Background

Since July 2001, the three local distribution funds - the Local Government Fund (LGF), Local Government Revenue Assistance Fund (LGRAF), and Library and Local Government Support Fund (LLGSF) - have been subject to a "freeze". During calendar year 2007, distributions from the three local distribution funds have equaled the monthly amounts distributed during calendar year 2006. However, the freeze ends beginning in January 2008. This email primarily discusses changes you can expect in the cash flow patterns of these local distributions starting in January 2008.

The current state operating budget (Am. Sub. H.B. 119) contains a variety of changes related to the local distribution funds. These are outlined in the Department of Taxation publication found at the following link:

http://tax.ohio.gov/channels/other/documents/explanation_of_local_distribution_fund_changes_final.pdf

One major change to be noted is the discontinuation of distributions from the LGRAF beginning in January 2008. The LGF shall receive amounts that previously would have gone to the LGRAF. In addition, changes have been made in the formula used to distribute the state LGF proceeds among the 88 county undivided local government funds. These changes, and others, are discussed in the publication mentioned above.

Restoration of "percentage of revenue" funding

The major change discussed herein pertains to the restoration of the "percentage of revenue" funding method. Prior to the freeze that began in 2001, the local distribution funds had been funded based on a designated percentage of monthly revenues collected from selected major state tax sources (although the LLGSF was funded only by the state income tax). The recent law change returns to this concept, but takes it to its logical conclusion: rather than receiving a percentage of revenues from certain selected tax sources, the local funds will receive a percentage of **all** state General Revenue Fund (GRF) tax sources. This will provide greater stability for the local funds because they will be supported by a wider, and thus inherently steadier, funding foundation. For the first time, the local distribution funds will be in lockstep with the state's total GRF tax revenues

Changes in monthly cash flow for the local distribution funds

One result of transitioning from "freeze" funding to "percentage of revenue" funding will be a notable change in the monthly pattern of the local distributions. That is, beginning in 2008 the flow of the monthly distributions will be notably different than the steady ("frozen") pattern that has been experienced since July 2001. For example, ever since the imposition of the freeze, the

February distributions have been quite large because the freeze continued to reflect the transfer that was made to the local funds from the Income Tax Reduction Fund (ITRF) in early 2001; there will be no transfers from the ITRF occurring in 2008 (just as there have been none since 2001), so we expect that February 2008 distributions will be much smaller than February 2007 distributions. To summarize, in some months the CY 2008 local distributions will be lower than in CY 2007, but in other months the CY 2008 distributions will exceed the those for CY 2007.

Projected monthly cash flow in calendar year 2008

In case you are interested in translating your county’s annualized CY 2008 distribution estimates into monthly figures, provided below is a table indicating each month’s projected calendar year 2008 distributions as a percentage of total projected calendar year 2008 distributions. (Note that dealer in intangibles tax distributions are omitted from these percentage share calculations, but such distributions are not expected to have much impact anyway.) Simply multiply your CY 2008 distribution estimate by the CY 2008 monthly percentage shares provided below to derive monthly estimates. (These percentage shares are applicable to the LGF as well as the LLGSF since both funds are now supported by the same tax revenue sources.) Purely for comparative purposes, you will note that we’ve also provided the actual CY 2007 monthly shares for the LLGSF and for the combined LGF and LGRAF.

	CY 2008 proj. monthly LGF and LLGSF distributions as % total CY 2008 distributions	CY 2007 monthly LLGSF distribution as % total CY 2007 distributions	CY 2007 monthly LGF & LGRAF distributions as % total CY 2007 distributions
January	7.7%	7.5%	7.4%
February	11.4%	21.7%	16.3%
March	5.7%	4.6%	5.9%
April	7.5%	4.8%	7.6%
May	9.4%	11.7%	10.7%
June	13.1%	4.6%	7.3%
July	8.1%	6.9%	7.5%
August	6.8%	6.5%	6.8%
September	7.4%	7.3%	7.1%
October	8.0%	9.9%	8.2%
November	8.2%	7.6%	8.5%
December	6.6%	<u>7.0%</u>	<u>6.7%</u>
Total calendar year	100.0%	100.0%	100.0%

Finally, please refer below to the projected cumulative monthly distributions for calendar year 2008, as well as the actual cumulative distributions for calendar year 2007. The figures show that calendar year-to-date 2008 distributions will not catch up to calendar year-to-date 2007 distributions until June 2008. We thought it useful to provide this to you in case concerns are expressed by local governments that their distributions are falling short of their expectations. (Note: None of the calendar year 2008 figures have been updated to reflect the several months’ of actual distributions that have been made as of the issuance date of this memorandum.)

Statewide LGF & LGRAF distributions (in millions)

	CY 2008 proj. cumulative monthly LGF <u>distributions</u>	CY 2007 cumulative monthly LGF & LGRAF <u>distributions</u>
January	\$59.0	\$56.2
February	146.2	179.2
March	190.1	224.1
April	247.8	281.8
May	319.7	362.7
June	420.0	417.6
July	482.1	474.2
August	534.3	525.6
September	591.1	579.5
October	652.4	641.8
November	714.9	706.0
December	765.1	756.8

Statewide LLGSF distributions (in millions)

	CY 2008 proj. cumulative monthly LLGSF <u>distributions</u>	CY 2007 cumulative monthly LLGSF <u>distributions</u>
January	\$35.6	\$34.5
February	88.2	133.7
March	114.7	154.7
April	149.5	176.4
May	192.9	230.0
June	253.4	250.8
July	290.8	282.2
August	322.3	312.2
September	356.6	345.8
October	393.6	391.2
November	431.3	425.8
December	461.5	458.0