



HOUSE STATE AND LOCAL GOVERNMENT COMMITTEE

OPPONENT TESTIMONY -- HOUSE BILL 720

December 6, 2018

Jon Honeck
Senior Policy Analyst

Good afternoon, Chair Anielski, Vice Chair Hambley, Ranking Member Holmes, and Distinguished Members of the House State and Local Government Committee. My name is Jon Honeck, and I am a Senior Policy Analyst at the County Commissioners Association of Ohio. Thank you for allowing me to testify. I am here to express CCAO's opposition to House Bill 720, a bill which would require all increases in a county permissive sales tax to be submitted to the voters for approval. The current process, which gives commissioners the option to adopt a sales tax increase for the general fund either by resolution or by submitting the question to voters, is working well and has been tested by decades of experience. When an increase for the general fund is adopted by resolution, voters have 30 days to gather signatures for a referendum. This 30-day rule has been in place since the enactment of the first law authorizing a county sales tax in 1967. There is no need to change it now.

The sales tax is the largest single source of revenue for the general fund of most counties. Counties are arms of the state, and provide basic functions of government on behalf of the state according to the procedures given to them by state law. State law limits the county sales tax rate to a maximum rate of 1.5%.¹ The largest expenditures are for the justice system and public safety, which together comprise over half of the average county's general fund budget. Counties also are responsible for the maintenance of 29,000 thousand miles of roads and over 26,000 bridges, and administer the elections process that makes our democracy possible. County government is truly "where the rubber meets the road."

In recent decades, counties have had to manage their budgets in the context of dwindling financial support from the state and increasing costs from an opiate addiction

¹ Separately, a transit authority may seek voter approval for a sales tax up to 1.5%.



County Risk
Sharing Authority

Fax: 614-220-0209
www.corsa.org



Fax: 614-229-4588
www.cebco.org



County Commissioners
Association of Ohio
Service Corporation

Fax: 614-221-6986
www.ccao.org

epidemic that is unprecedented in American history. Local Government Fund support has dwindled from 4.8 percent of state GRF taxes in 2000 to just 1.66 percent today. The end of the Medicaid managed care organization sales tax has created another fiscal crunch for counties. The Medicaid MCO tax accounted for nearly 8 percent of the counties' total sales tax revenue in 2016. The state's final transition payment occurred in August of this year, and there is no plan for a permanent replacement. CCAO looks forward to working with the General Assembly to address these two financial issues in the 2019-2020 legislative session.

House Bill 720 seeks to overturn 50 years of state legislation allowing commissioners to adopt a resolution for a sales tax for the general fund, subject to a referendum. Current law strikes a balance between circumstances that require voter approval for a sales tax increase and circumstances in which commissioners can move forward by resolution. It should be noted that when the Ohio Constitution was amended in 1912 to allow for a referendum procedure, laws providing for a tax increase or making an appropriation go into immediate effect and are excluded from the referendum process.² When the General Assembly raised the sales tax by 1/4 percent in 2013, there was no referendum process available to the public.

County sales tax authority is granted in two Revised Code sections. Counties first received sales tax authority in 1967, when House Bill 919 enacted R.C. 5739.021, which permitted the adoption of a resolution for a sales tax rate up to 0.5 percent, subject to a voter referendum. The original law did not provide commissioners with the option to submit the question to the voters, but this option was added in 1969. Authorization for a tax rate up to 1 percent was added in 1982. This section currently allows for the adoption of a sales tax for the general fund, supporting criminal and administrative justice services, funding a regional transportation improvement project, and to pay the expenses of the tax.

In 1986, the General Assembly enacted House Bill 583 which contained a new section, R.C. 5709.026, which allows for the enactment of an additional sales tax up to a rate of 0.5%. This section is structured somewhat differently and in its original form listed four purposes for sales tax revenue collected under its authority: the county general fund; a convention facilities authority; a transit authority, and a community improvements board. In its original form it required all sales tax increases adopted under its authority to be submitted to the voters. In 1987, this section was amended to allow sales taxes for the general fund to be enacted by resolution, subject to a referendum. Sales taxes enacted for eleven other specialized purposes or a combination of purposes still must be submitted to the voters.

² Ohio Const., Art II, Sec. 1d. "Laws providing for tax levies, appropriations for the current expenses of the state government and state institutions, and emergency laws necessary for the immediate preservation of the public peace, health or safety, shall go into immediate effect... "

Referendum procedures are set out in Revised Code section 305.31. The basic rules for the referendum have not changed since 1967. Voters have 30 days after the adoption of the resolution to gather signatures. A valid petition must have signatures equal to at least 10 percent of the number of electors that voted in the most recent gubernatorial election. This procedure was used in recent years to force referendums in Allen County in 2009 and Brown County in 2010. Earlier this year, a petition drive in Hamilton County successfully gathered enough signatures to force a referendum, but the commissioners rescinded the sales tax resolution before the election took place.

The sponsors have let it be known that the impetus for House Bill 720 was a failed petition drive in Montgomery County. Montgomery County Commissioners followed the prescribed procedures by advertising in a newspaper of general circulation that the county would hold two public hearings on a proposed 0.25 percent rate increase on June 19 and June 26. These hearings were preceded by a public information session on April 30, 2018 and presentations to the Dayton Development Coalition and the Dayton Area Chamber of Commerce. At the public information session, county officials explained the need to make up for a \$9 million annual loss in Medicaid MCO tax money, and described a plan to make strategic investments in four areas: economic development and community projects; adult workforce and preschool; criminal justice; and, capital expenditures. Articles on this topic appeared for months in the *Dayton Daily News*.³ The adoption of the resolution could not have been a surprise to anyone in Montgomery County who was paying attention to local issues.

After the adoption of the resolution, Montgomery County's sales tax rate is 1.25 percent, still below the maximum rate of 1.5 percent. Before this year, Montgomery's County's sales tax rate had stood at 1.0 percent since 1989, despite having a struggling economy in recent decades. During the 2008-2009 recession, Montgomery County cut 500 employee positions and delayed capital expenditures. The LGF distribution to Montgomery County government fell by almost half, from \$14.5 million in 2001 to \$7.6 million in 2017. The county's 2018 planned general fund expenditure was \$154.7 million, still below the \$156.3 million spent in 2007.

Montgomery County's fiscal struggles are a common story. County commissioners have done the best they can to manage budgets through difficult economic times and dwindling state revenue sharing. Commissioners will take responsibility for all of the difficult fiscal decisions they have to make. Current law strikes a balance between

³ The sales tax issue appeared in the *Dayton Daily News* starting in January 2018. Coverage intensified in the spring as the county's budget plan took shape. Articles included "Montgomery County proposing sales tax increase," 4/24/2018; "Could you pay more in sales tax?" 5/1/2018; "Sales tax increase: Dates set to speak your piece" 5/18/2018; "Public feedback sought for Montgomery County sales tax increase" 6/17/2018; "Montgomery County sales tax increase proposal draws ire, support" 6/19/2018; "Montgomery County set to approve sales tax increase."

commissioners' authority to raise sales taxes and giving the public a check on that authority. We urge you to reject House Bill 720.

Thank you for allowing me to testify. I would be pleased to answer any questions you may have.