



OHIO HOUSE WAYS & MEANS COMMITTEE
March 28, 2023

Written Opponent Testimony
House Bill 1

Chair Roemer, Vice Chair Merrin, Ranking Member Troy, and members of the Ohio House Ways and Means Committee:

Thank you for the opportunity to provide written opponent testimony regarding House Bill 1, legislation that would cut state income taxes and create a flat income tax (proposed to be 2.75%) while also making changes to the state's property taxes.

The Ohio Municipal League represents more than 730 cities and villages, and although each community is unique, they rely on sustainable, predictable funding for the services they provide. While the municipal income tax and Local Government Fund are primary sources of revenue, many municipalities also receive property tax dollars as a significant portion of their general revenues. Therefore, HB1 is of concern to us.

The LSC analysis of HB1 shows that, through the property tax changes alone, this would result in revenue losses to school districts and local governments estimated at \$538 million – with the local government share being \$239 million – in FY25 and increasing amounts in future years. This would exacerbate past cuts to local governments and further impact critical programs and services for the residents and businesses within our state's municipalities – services such as police, fire, and maintenance and construction of streets.

Our desire is to see municipalities and other local governments made whole. As the bill currently stands, too many issues remain unresolved that have the potential to negatively impact Ohio's cities and villages through revenue losses and impacts to local services.

Property Taxes and the State Rollback Questions

It is unclear how substantially the proposed cut in the property tax assessment rate, the removal of the state's 10% rollback, and the provisions of former House Bill 920 come into effect based on the currently proposed legislation. It includes language relative to the intent to make local governments financially impacted by HB1 "whole" in the current version, but the vagueness of how this will be done remains a significant concern. Even with a transition period of appropriations to the local governments impacted, the communities and the taxpayers that benefit from municipal services will ultimately experience higher taxes or a change in the level of services at the local level.

Many municipalities – especially smaller ones – are affected by changes to property taxes due to their reliance on them for important services, as well as their reliance on the LGF. A third of municipalities do not have a municipal income tax, making revenue generated from

the local property tax an even more critical source of local funding. However, the property tax changes in this legislation have the potential to lead to greater dependence on the municipal income tax – in both the number of communities adopting the tax as well as the potential need to increase current rates. Legislators should be aware of this potential shift in taxation as they consider HB1.

Effect on Public Safety and Other Services in Our Communities

Municipalities spend a high proportion of their revenue on public safety, and this also is especially true of smaller communities. Generally, municipalities are spending between 65-80% of their revenue for police and/or fire. A shift in property tax collections proposed in HB1 would require lost revenue to be made up elsewhere in order for these important safety services to continue unhindered.

To reiterate, the projected lost revenue from property taxes in HB1 could lead to communities without an income tax instituting new municipal income taxes – or asking voters for an increase in their rates – to make up for the loss and to continue these services at their current levels.

Additionally, services such as libraries, programs to combat homelessness, and support for those with developmental disabilities provide a continuity of care in our communities. Property tax levies are a mechanism used for these purposes, and the critical resources the funding provides affect the everyday lives of residents in Ohio's cities and villages. Municipalities will be left to deal with the unintended consequences if existing programs are not adequately funded, leaving further demand for increased municipal services.

Local Government Fund

A decade ago, municipalities along with other local governments played an important role in the recovery of Ohio's financial position when the state was projected to have an \$8 billion deficit. The local government fund, an important state-local revenue sharing component, was cut by over \$500 million to restore the state's financial position without further compensation to local governments. At the same time, our members were financially hurt by the elimination of the estate tax, as well as the phase out of the tangible personal property tax that had taken place prior to that in 2005.

HB1 effectively cuts the Local Government Fund by reducing overall state revenue through the income tax cut found in the bill. This means local governments will not receive as much in distributions through the LGF. In addition to the \$239 million in lost tax revenue for local governments as a result of the property tax rollback changes in HB1, the LGF is estimated to lose \$43 million in FY24 and \$31 million in FY25 because of the income tax cut. The revenue losses in HB1 will exacerbate the past cuts already experienced by the state's local governments, and the effects would remain for years, further affecting services and safety.

Ohio is more attractive when its communities are safe and provide a high quality of life. We appreciate the goal of the House to make Ohio more economically competitive, but we also urge the Legislature to bear in mind that not all communities are the same, and there is no "one size fits all" approach. Differences such as the size of communities, the location of communities, and the economic environment of communities will play a factor in the effects of HB1 and the ability of communities to adapt to or recover from the financial impacts.

We appreciate that Representative Mathews, the sponsor of HB1, has reached out to municipalities to discuss our concerns, and we look forward to continuing to work with this committee to find solutions to the challenging problems with the current version of the bill.

Thank you for the opportunity to share our views on behalf of the members of the Ohio Municipal League.

A handwritten signature in black ink, appearing to read 'K Scarrett', with a stylized flourish at the end.

Kent Scarrett
Executive Director
Ohio Municipal League