



LOCAL GOVERNMENT FUND

A Pillar of the State and Local
Partnership



A SUMMARY OF THE LOCAL GOVERNMENT FUND

The Local Government Fund (LGF) is one of the central pillars of the partnership between Ohio's state and local governments. It is based on the principle of revenue sharing between the state and its local partners, including municipalities (cities and villages), townships, and counties.

Ohio's municipalities host the highest concentration of the state's population and jobs. The work of Ohio's municipal officials to provide for their businesses and residents is critical to the economic success of the state. In turn, the state should play a larger role in supporting the services carried out by municipalities. This can be accomplished through the restoration of the LGF.

The LGF is an essential revenue source for cities and villages. This is especially true for those municipalities lacking a significant income tax base. Despite the fact that the state's robust financial position includes a record high general revenue fund balance and a record high rainy day fund balance (based on July 2023 numbers), the state's distribution to its local government partners is dramatically lower than it was two decades ago.

This document is meant to provide a better understanding of the Local Government Fund, its importance, and where it stands today. We encourage OML member communities to use this information in your discussions with legislators and members of the media to build support for an increase and full restoration of the LGF to its previous funding level.

THE IMPORTANCE OF LGF FUNDING

The LGF is discretionary funding used by locals for existing operating expenses. It was initiated by the state during the Great Depression in recognition of the limited fiscal capacity of local governments when compared to the state, as well as the vital role local governments play in providing critical services to Ohio residents and businesses. The LGF provides flexibility to:

- Ensure the safety and security of communities by supporting police, fire, dispatching, EMS, and county sheriffs' departments
- Provide infrastructure including roads, bridges, water and wastewater systems
- Support services including snow removal, trash collection, and recycling
- Provide for community improvements including parks, stormwater control, and brownfield remediation

HOW THE LGF WORKS

When the state collects revenue through sources such as its income tax, sales taxes, and commercial activity tax, the revenue goes into the state's General Revenue Fund (GRF). The Local Government Fund (LGF) can be thought of as a subset of the GRF – with a certain percentage of general revenues being allocated to local government funding.

In the FY 2012-2013 state operating budget, the state slashed the LGF from 3.68% of the GRF to help fill the state's projected \$8 billion hole. In the FY 2024-2025 state operating budget, the LGF percentage was increased from 1.66% of the GRF to 1.7%.

The LGF is distributed to each county's "undivided local government fund" and the county then distributes the dollars to the municipalities and townships within the county, with the county government retaining its own portion. Most counties use a discretionary distribution formula rather than following the statutory option, allowing for substantial variation by county. Those who use this alternative distribution formula are required to review their formula once every five years (based on a provision within the FY 2024-2025 state operating budget).

Because of how the funding is structured, if state revenues increase, local governments share in that increase. However, when state revenues decline, the funds local governments receive from the major state tax sources decrease. When revenue distributed through the LGF declines, it puts communities and their taxpayers in a bind – causing local leaders to consider either raising local taxes, cutting services, or both. Revenue sharing through the LGF was intended to largely prevent this.

BACKGROUND ON THE LGF

In recent decades, the funding partnership between the state and its local partners has deteriorated, with local governments increasingly being left to find ways of making ends meet. Statutory changes to the Local Government Fund formula have been the predominant driver of decreased allocations. Here is a brief, historical recap of the LGF:

- Around the time of the Great Depression, the main source of revenue for local governments was property tax, but they faced drastic declines in property tax revenue because of foreclosed-upon homes and homelessness.
- As a remedy to the economic devastation, Ohio passed its first sales tax in 1934 and created the LGF, with local governments receiving between 18% and 32% of sales tax revenue from 1935 to 1947.
- Various changes were made to the LGF over the years, including changes to the formula used to calculate each county's allocation to make it more equitable for non-urban counties, revisions to constrain the discretion that the county budget commission had in the distribution of the county's undivided local government fund, the inclusion of more funding streams into the LGF, changes to the share of these funding streams, and the establishment of a minimum allocation to each county's undivided fund.
- To balance the budget in the wake of the 2001 recession, the state froze the LGF formula by providing undivided funds within counties the same amount they received in prior years. This continued through 2007, with a new compromise reached in 2008 that established the formula based on 3.68% of GRF tax revenues and moved away from a formula based on municipal property tax values.
- In 2011, 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. In the FY 2012-2013 operating budget, the LGF was cut in half over two years, and the percentage was decreased to 1.66% of GRF revenues (beginning in August 2013).
- The FY 2016-2017 operating budget redirected a total of \$12 million each fiscal year to small villages – those with a population under 1,000 – and townships, with the small villages receiving \$2 million of that (50% allocated by lane miles and 50% allocated by population).
- The LGF percentage was increased from 1.66% to 1.7% in the FY 2024-2025 state operating budget. The minimum allocation for a county is currently \$850,000, based on a FY 2024-2025 state operating budget provision.

A more comprehensive history of the LGF can be obtained by contacting the OML office.

WHERE WE ARE TODAY

In the same FY 2012-2013 budget bill that brought the deep cut to the LGF, the state eliminated Ohio's estate tax, which provided roughly \$250 million annually to municipalities across the state. There was also the phase-out of the tangible personal property tax that had taken place prior to that in 2005. These multiple cuts were impactful to municipal budgets and caused significant disruptions to the services provided at the local level.

Municipalities have played a significant role in the recent financial success Ohio has experienced. Despite that significant role, the LGF percentage was only increased 0.04% in the most recent operating budget (FY 2024-2025). The same budget included a large income tax reduction at the state level. That reduction will have an effect on state revenues and will impact LGF distributions to local governments. Total LGF distributions for calendar year 2023 to county undivided local government funds are estimated to be \$455.7 million.

Municipalities are continuing their efforts to partner with the state to see LGF funding restored. By explaining the importance of the fund and its history, we hope to build momentum for a further LGF increase in the near future – providing both flexibility and stability as communities carry out critical services. This is especially needed today, as municipalities deal with the effects of inflationary cost increases for projects and services.

OML encourages its members to meet with state legislators, the media, and residents to explain the importance of the Local Government Fund as a revenue source. Providing context around your community's financial situation and explaining how increased LGF funding would be used is meaningful in convincing legislators to act in the best interest of the communities they represent.

LOCALIZING THE LGF

Legislators at the Ohio Statehouse come and go – especially in the era of term limits – so some know more about the Local Government Fund than others. To be a resource to legislators when you speak with them, you will need to learn the history of the LGF and how your community has been impacted.

Legislators are most influenced by the experiences of the communities, residents, and businesses they represent. Providing real stories, experiences, facts, and data can be influential. Consider sharing about cuts in services within your community, how you have searched for ways to increase revenues, your community's top priorities, and how increased LGF funding would be used to fund those priorities.

KEY TALKING POINTS

The State and Local Partnership

The Local Government Fund is a central pillar of the partnership between state and local government.

- The economic development efforts at the local level significantly contribute to the state's economic success – strengthening businesses and leading to increased revenues. 80% of jobs and 65% of Ohio's residents are located in Ohio municipalities.
- Local governments have limited fiscal capacity. Smaller, rural communities depend on LGF funding the most, because they generally lack a strong municipal income tax base that can supply the revenue they need to adequately fund projects, goods, and services.
- Decreased financial resources from the state force municipalities to cut services, raise local taxes, and sometimes both. Partnership from the state through the LGF can mean a lower overall tax burden on Ohioans, who are already struggling, because local governments do not have to rely on local taxes to make up for a lack of funding.
- The LGF is viewed as more advantageous than grant funding because of the flexibility it provides – allowing local officials to more easily solve community problems.

LGF Funding Level

The LGF is critical to Ohio communities and needs funded to previous funding levels.

- The current LGF percentage of 1.7% is only a slight improvement over the 1.66% that was established during the state's fiscal crisis a decade ago to fill the \$8 billion budget gap.
- Before it was cut, the previous funding level was 3.68% of general revenues.
- Municipalities paid a significant price to help the state out of a deep financial hole; municipalities continue to wait for the state to restore the partnership between state and local government.
- Cuts to the Local Government Fund have been exacerbated by other actions at the state level, including the elimination of the estate tax, phase out of the tangible personal property tax, and changes made by the Legislature to the municipal income tax creating special exemptions that have reduced revenues.

- Municipalities are rightfully disappointed that, amid record high state revenues, the state did not restore the LGF percentage before its consideration of state tax cuts during the FY2024-2025 budget process. A decrease in state revenues will impact LGF funding distributions, meaning even less funding assistance from the state to local governmental units, despite the slightly increased funding percentage.

Critical Community Services

Businesses and residents rely on the services provided through LGF funding and are hindered when they are not provided at the levels needed. Most municipal officials indicate that they would spend additional LGF funding on infrastructure projects, public safety, and staff recruitment and retention.

- **Public Safety** – Every community needs adequate police, fire, and EMS. Cuts in municipal revenue sources such as the LGF directly impact funding for public safety – in effect, “defunding” police and other safety services.
- **Infrastructure** – Infrastructure costs are huge and increasing because of inflation. As a result, many of Ohio’s municipalities lack the financial resources to fund improvements or even have the matching funds for grant opportunities. Local officials can use LGF monies to budget for infrastructure such as roads, bridges, water, sewer, and broadband.
- **Other services** – Whether paying for parks, snow removal, or trash collection, LGF funding provides additional flexibility in the ability of municipalities to provide such services.

Increased Costs on Local Governments

The limited financial resources of many municipalities make them ever more reliant on the state. Inflationary pressures and the higher costs of such things as infrastructure projects, utilities, and fuel continue to negatively impact available dollars.

- Local governments have not experienced additional increases in the dollars they have received through the LGF, despite increased inflationary pressures.

WHAT WE'VE HEARD FROM OML MEMBERS

On a recent OML survey, members cited increased inflationary costs and past cuts to the LGF as factors most affecting their ability to carry out services.

Most members have indicated that if the LGF was increased, they would use the funds for street repairs and other infrastructure improvements. Also cited as uses for an increase in the LGF were staff recruitment and retention, water and sewer upgrades, public safety training and equipment, technology improvements, and utilizing the funds for the matches for larger grant-funded projects. The following are examples of responses from the survey:

“The municipalities are the ones working on the smaller projects that provide jobs and taxes for both the state and local governments. The LGF is an easy way for the state to help local governments in these efforts by taking some of the burden off of us to fund our operations.”

“It is important for all municipalities, regardless if they are in able to take direct advantage of the economic development opportunities coming to the state, to be able to benefit from the increased growth in jobs and businesses coming to Ohio. The LGF fund helps make that possible.”

“Some grant processes seem to favor bigger municipalities or those who have not taken care of their community in the past. The LGF gives everybody a portion of tax funds and seems to be a fairer way to distribute those funds.”

“We are in need of street updating, sidewalk updating, tree removal and replant, and demolition of the buildings that the community walks by on a daily basis. Our funds are becoming non-existent due to rising costs and the age of the village itself that has had no updates or grants in over 20 years.”

“In 2008, the city’s local government revenues were \$679,000. In 2021, there were \$437,000 or a decrease of 35%. That along with the elimination of almost \$1 million in estate tax has crippled the city in the ability to make infrastructure and capital purchases over the past decade.”

“We are still approximately \$1.2 million down in our LGF revenues. The LGF helps us provide funds for road/street improvements and equipment and additional staffing in our Police and Fire Departments. We have had to maintain minimum levels in Public Safety and our funding for roads from the general fund went from \$400,000 per year to \$200,000. It required us to ask the voters to pass a levy, but it is dependent upon the approval of voters. We need additional staff in the police and fire departments because overtime is out of control due to current staffing levels.”

“Getting additional funding that could be used to address increases projected for the operation of our sewer system or to be used to help offset costs on emergency vehicles would be a benefit to our community.”

“We now have to cut the amount of paving projects in half since the LGF has been cut. We have aging infrastructure and not being able to keep up on paving and infrastructure projects continues to put us further behind.”

“With the loss of the LGF from the past, we have been really scraping bottom to try and keep our police department personnel safe and able to staff 24/7.”

“We have had to gut our parks and rec budget. It seems the shortfall increases every year and make it increasingly difficult to tackle things like infrastructure repairs and upgrades such as stormwater infiltration into our sewer system and maintenance of our clean water system.”

“We have had to cut staffing. It has made it more difficult to meet pay roll and to hire qualified persons to fill positions.”

“Wages need to be increased to attract new hires and retain current staff. Police department staffing is suffering... No applications are being submitted, we believe due to starting wage. We need to be more competitive; increase in funding would be very beneficial.”

“Our village is small, and we can only employ part-time and seasonal staff. It has been harder to find and keep people who will work for what we can pay.”

“Inflationary costs are dramatically impacting budgets. These costs include fuel, natural gas, road projects, water/sewer projects, and more. Existing operating funds cannot keep up.”

“Increases in costs for fuel, electricity, insurance and right down to cost of postage has almost went to a 40% increase. Without an increase to our LGF it will become harder to provide many services here in our small village, especially wage increases and maintenance of vehicle and structures. We will have to make cutbacks to street repair and safety programs.”

“Our village existed without a municipal income tax until the administration redirected our LGF. We were forced to implement a municipal income tax and increase property taxes.”

“We were forced to make an increase in income tax from 1% to 1.5% in 2013 after the LGF was essentially eliminated, or be forced to cut services. This was the first and only income tax increase since its inception in 1970.”

“The cut to the local government funding and estate tax forced us to increase our income tax an additional .5% to bring us out of a deficit and continue with policing protection.

“We have some of the highest operating levies in the area. This is due to low home values and needing a high levy to produce an amount that will be able to make a difference... This is the bulk of our revenue, and we simply cannot keep ‘passing the buck’ to our low-income residents to keep up with the cost of materials to continue the work.”

“As for small villages – we don’t have the industry and businesses to help carry us thru an income tax like the larger entities. We count on the LGF to simply operate!”

“We rely on the LGF to function. We have one tax levy for general operating and one for streets. Getting tax levies to pass is very difficult and is getting harder as inflation continues to rise. For the village to stay solvent we HAVE to have the LGF to survive.”



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