OHIO LEGISLATIVE SERVICE COMMISSION

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Fiscal Note & Local Impact Statement

Bill: H.B. 415 of the 132nd G.A.

Status: As Passed by the House

Sponsor: Reps. Greenspan and Ryan

Local Impact Statement Procedure Required: No

Subject: To allocate one-half of surplus GRF revenue to a new Local Government Road Improvement Fund, from which money will be distributed directly to local governments to fund road improvements

State Fiscal Highlights

- The bill creates a new fund, the Local Government Road Improvement Fund (LGRIF), in the state treasury. The Fund will be funded by 50% of total surplus revenue from the GRF at the end of a fiscal year, beginning with the FY 2019 year-end balance. There is one exception, described in the following bullet, to this allocation of surplus GRF revenue.
- If there is surplus revenue in the GRF at the end of a fiscal year, the bill would reduce the amount deposited into the state's Budget Stabilization Fund (BSF, or Fund 7013) beginning in July 2019 by the amount deposited into the LGRIF. But if the BSF balance decreased by 10% or more in a specified period, the surplus GRF revenue would first be allocated to the BSF, with the allocations continuing each year until the BSF balance is equal to the lesser of its pre-decline level or 8.5% of the GRF revenues of the preceding fiscal year. When the BSF reaches its target balance, the reductions in revenue would affect the Income Tax Reduction Fund.
- The BSF would have a reduced balance in some years due to this policy, which would in turn decrease earnings on investment from the cash balance of the BSF that are currently deposited into the GRF, thus reducing total GRF revenue.

Local Fiscal Highlights

- The bill would provide additional funding to counties, municipalities, and townships for road improvement purposes from the new LGRIF, beginning in the second half of calendar year (CY) 2019, assuming there is surplus GRF revenue at the end of FY 2019. Funding from the LGRIF will be distributed to each county based on the proportion of centerline miles of roadway maintained by political subdivisions in the county to the total number of locally maintained centerline miles of roadway in the state. Subsequently, the amount will be allocated to political subdivisions in each county by the county treasurer.

Detailed Fiscal Analysis

Beginning in July 2019, the bill requires that 50% of any surplus revenue from the GRF at the end of a fiscal year be allocated to a newly created fund, the Local Government Road Improvement Fund (LGRIF). Under existing law, the GRF is required to keep a balance at the end of a fiscal year equal to 0.5% of GRF revenue received that year. To the extent the GRF has any unencumbered, unobligated balance at the end of a fiscal year in excess of that amount, the surplus revenue is allocated first to the Budget Stabilization Fund (BSF, or Fund 7013) to ensure that the BSF balance equals up to 8.5% of GRF revenue in the previous fiscal year; any amount that might be remaining after that is credited to the Income Tax Reduction Fund (ITRF). The bill alters this allocation mechanism by putting the LGRIF first in line for funds after the 0.5% required GRF ending balance is satisfied, i.e., 50% of any remaining unencumbered, unobligated GRF balance will be deposited into the LGRIF; any funds that might remain at that point are allocated to the BSF up to the 8.5% target, and any amounts still left go to the ITRF.

The bill makes an exception to this allocation formula if the balance of the BSF decreased by 10% or more between the first day of August and the last day of June of the preceding fiscal year. In that case, any surplus GRF revenue at the end of the fiscal year would first be allocated to the BSF. The allocation to the BSF must be made in each year until the BSF balance is equal to the lesser of the pre-decline balance or the 8.5% target. After the required allocation is satisfied, 50% of any remaining surplus revenue would be allocated to the LGRIF.

Not later than July 31 of a year in which a transfer of money is made to the LGRIF, the bill requires the Director of Budget and Management to compute the LGRIF amounts for each political subdivision[1] using the balance of the LGRIF and the ratio of locally maintained centerline miles of roadway, to the total number of locally maintained centerline miles of roadways in Ohio.[2] The bill requires the Director to certify the amounts to each county auditor in which the political subdivision is located. The Director must distribute the amounts to each county treasurer by not later than August 31 for deposit into that county's Undivided Local Government Road Improvement Fund (ULGRIF). The bill provides that each county treasurer must distribute the money in the county's ULGRIF among the political subdivisions in the county by not later than September 30. The bill specifies that a political subdivision that receives a distribution from the ULGRIF must use the money only for road improvements.

[1] Under the bill, applicable political subdivisions are counties, townships, and municipalities.

[2] The Director of Transportation is to provide the Director of Budget and Management with the data on centerline miles from Department of Transportation records for this purpose.

The bill also specifies that the General Assembly must not enact legislation that would reduce the amount to be credited to the Local Government Fund (LGF) in each month to an amount that is less than 1.66% of the total tax revenue credited to the GRF during the preceding month.

Fiscal effect

The bill would have no fiscal effects prior to July 2019, and then would have no fiscal effects until the GRF has a surplus (as defined above) at the end of a fiscal year. It is generally difficult, if not impossible, to predict whether the GRF will have such a surplus for a given fiscal year until very near the end of that year.

In fiscal years that end with a surplus, the bill would reduce amounts going to the BSF if the 8.5% target has not been reached, and if the balance in the BSF had not declined during that year. This in turn would decrease earnings on investments from the cash balance of the BSF in those years. Currently, all earnings on investments from the cash balance of the BSF are deposited into the GRF, thus, the bill would reduce the amount of earnings on investment that will be credited to the GRF in those years. Any such reduction would depend on the amount of BSF funds that would be available for investments and interest rates available in the market at that time. In FY 2017, about $19.0 million in investment earnings from the cash balance of the BSF was deposited into the GRF; the amount was about 40% of total GRF earnings on investment in FY 2017.[3] Once the 8.5% target balance is achieved in the BSF, the bill's effect would be to reduce funds available to the ITRF.[4]

The bill would provide additional funding to counties, townships, and municipalities for road improvement purposes from the LGRIF, subject to there being a surplus GRF balance, beginning in the second half of calendar year (CY) 2019. The LGRIF would receive 50% of any surplus revenue from the GRF at the end of a fiscal year, subject to the conditions described above. The magnitude of additional funding is not possible to predict at this time, though it could reach hundreds of millions in some years based on historical experience. Funding from the LGRIF will be distributed to each county, and then to political subdivisions within the county, as described above.

It may be worth noting that, while the bill makes a change to the existing formula for allocating the GRF year-end surplus, sometimes the budget act includes a provision that supersedes the formula in statute. A recent example of this can be found in Section 512.30 of Am. Sub. H.B. 64 of the 131st General Assembly. The table below shows the amount of GRF ending balance as of June 30, surplus revenue, and the amounts subsequently transferred to the BSF at the end of each year from FY 2013 through FY 2017.

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[3] In FY 2017, total GRF earnings on investments amounted to $48.7 million.

[4] The ITRF serves as a tool for distributing funds back to income taxpayers, so the bill could eventually reduce such distributions.

GRF Ending Balance by Fiscal Year ($ in millions)					
Fiscal Year as of June 30	**GRF Ending Balance**	**Amount Retained by the GRF**	**Surplus Revenue**	**Transfer to BSF the Next Month**	**Transfer to Other Funds**
FY 2017	$170.9	$170.9	**$0.0**	$0.0	$0.0
FY 2016	$764.7	$169.7	**$595.0**	$29.5	$565.5*
FY 2015	$1,286.5	$157.4	**$1,129.1**	$526.6	$602.5
FY 2014	$1,277.4	$146.2	**$1,131.2**	$0.0	$1,131.2
FY 2013	$2,278.2	$147.8	**$2,130.4**	$995.9	$1,134.5

*Some of this money was retained by the GRF in that year.

The actual amount that will be diverted from the BSF and the ITRF to the LGRIF would depend on the amount of surplus revenue from the GRF at the end of each fiscal year, beginning in FY 2020. At the end of FY 2017, there was no surplus GRF ending balance, so no deposit into the BSF. The most recent year-end deposit into the BSF was a $29.5 million deposit made in July 2016. At the end of FY 2017, the BSF balance was $2.034 billion, which equals 6.0% of total GRF revenue in the preceding year.

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