



**H.B. 219**

126th General Assembly  
(As Introduced)

Reps. Mason, Skindell, Key, Sykes, Yuko, Barrett, S. Patton, Koziura,  
Otterman, Ujvagi

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**BILL SUMMARY**

- Provides state financial incentives (bonuses and grants) to encourage municipal corporations, counties, and townships to save money through expenditure reductions and consolidation of services.
- Repeals Section 139 of Am. Sub. H.B. 95 of the 125th General Assembly.

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**CONTENT AND OPERATION**

**State "bonus" for operating expenses reduction**

**In general--bonus payment**

The bill requires the Auditor of State to pay a bonus "to the extent of available funds" to a municipal corporation, county, or township that reduces its operating expenses. These payments are to come from a newly created Innovation Fund (see below). The amount of a bonus is twice the amount of money certified by the Auditor of State to have been saved by the local government in a single fiscal year, and the bonus may be used for "any lawful purpose." No more than one bonus may be received by a particular municipal corporation, county, or township. (R.C. 9.27, 9.271, and 9.275.)

To receive a bonus, a municipal corporation, county, or township must file with the Auditor of State an application that contains information sufficient to prove the savings attained from its reduction of operating expenses as well as any other information the Auditor requests. If the Auditor of State determines the purported savings were attained, the Auditor must certify the savings. (R.C. 9.272.)

### **Consolidating of services as a type of reduction**

Under the bill, a municipal corporation, county, or township may reduce operating expenses by consolidating services with other government entities unless another law prohibits the consolidation. The bill specifically lists police and fire protection services as examples of services offered on its effective date that could be consolidated, and it requires that any consolidation of services be accomplished by a *joint service agreement* between the governmental units involved.<sup>1</sup> (R.C. 9.276.)

### **Performance audit**

If requested to do so by a municipal corporation, county, or township, the Auditor of State must conduct a performance audit of the government entity's operations to determine if there are any measures the entity could take to save money by reducing its operating expenses. The cost of this audit is to be paid from the Innovation Fund. The audit must focus on all operations or specific areas, whatever is specified in the request. On completion of the audit, the

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<sup>1</sup> *Under current law, townships may join to create joint township police districts under R.C. 505.481; these districts cannot include parts of a township within a municipal corporation, and they arise not by a joint agreement, but by creating a new political subdivision. It also is possible for a township or township police district to contract with the county, a municipal corporation, or another township for police protection in the township or district (R.C. 505.43, 505.49, and 505.50).*

*Townships may create fire districts (a separate political subdivision from the township itself) that may include (a) less than an entire township and (b) a municipal corporation that is within or adjoining the township. (R.C. 505.37.) In addition, a joint fire district (a separate political subdivision) can be created under R.C. 505.371 to include as many townships and municipal corporations as wish to join together; it may include less than an entire township.*

*These combinations of political subdivisions do not appear to be addressed or affected by the bill. Other relevant special districts (political subdivisions) that provide services to municipal corporations, counties, or townships similarly are not addressed or affected by the bill.*

Auditor of State must issue a report that lists recommendations that can be implemented to save money by reducing the government entity's operating expenses. For each recommendation, the Auditor of State must state the projected savings and calculate the bonus that would be received by the government entity under the bill if the recommendation is implemented. (R.C. 9.273.)

If a municipal corporation, county, or township implements any or all of the recommendations made, the Auditor of State must assume the projected savings for those implemented recommendations have been attained. The Auditor of State must verify the implementation of the recommendations and, if verified, certify the savings attained for purposes of the receipt of a bonus under the bill. (R.C. 9.274.)

### **State "grants"**

The bill permits the Auditor of State to award grants to municipal corporations, counties, and townships to provide financial assistance (1) in implementing the Auditor's recommendations made in a performance audit as described above, (2) in achieving consolidation of services under a joint service agreement, or (3) in implementing other money-saving ideas or concepts. To receive a grant, a government entity must apply to the Auditor of State, who then must pay any grant awarded from the Innovation Fund. (R.C. 9.277.)

### **Other Auditor of State responsibilities**

The bill requires the Auditor of State to adopt necessary and proper rules under the Administrative Procedure Act to implement its provisions. They must do all of the following (R.C. 9.279):

- Establish bonus application forms.
- Establish bonus distribution guidelines if amounts in the Innovation Fund *are sufficient* to pay bonuses in accordance with the bill.
- Specify the information municipal corporations, counties, and townships must provide to prove savings attained from a reduction of operating expenses for which a bonus is claimed--*if* the savings were *not attained* through an implementation of Auditor of State recommendations arising from a performance audit.
- Establish guidelines and procedures for conducting a performance audit, making associated recommendations, and verifying whether a municipal corporation, county, or township has implemented recommendations.

- Establish joint service agreement requirements.
- For grants, establish application forms, standards for the applications, and standards for determining whether a grant should be awarded.

### **The Innovation Fund**

The Innovation Fund is created in the bill to pay bonuses and grants to municipal corporations, counties, and townships as described in the bill. The Fund is to be comprised of 10% of each amount that otherwise would be credited to the Local Government Fund and the Local Government Revenue Assistance Fund from public utility excise taxes and penalties, kilowatt-hour tax receipts, corporation franchise tax receipts, state sales tax receipts, state use tax receipts, and state personal income tax receipts. The Fund will be in the custody of the Treasurer of State, but not part of the state treasury. (R.C. 9.278, 5727.45, 5727.84(B), 5733.12(A), 5739.21(A), 5741.03(A), and 5747.03(A)(1) and (4) and (B)(2)(f).)

Each month the Treasurer of State must determine the amount credited to the Innovation Fund during the previous month and transfer an equal amount from the General Revenue Fund to the Innovation Fund (R.C. 9.278).

### **Repeal of Section 139 of Am. Sub. H.B. 95**

The bill outright repeals Section 139 of Am. Sub. H.B. 95 of the 125th General, last General Assembly's general biennial appropriations act (Section 3 of the bill). That uncodified law made adjustments in a specified manner to local government distributions from the Local Government Fund, the Library and Local Government Support Fund, and the Local Government Revenue Assistance Fund during the period July 1, 2003, through June 30, 2005. (See **COMMENT**.)

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## **COMMENT**

The following are summaries of Section 139 of Am. Sub. H.B. 95 of the 125th General Assembly derived from LSC's *FY 2004-FY 2005 Operating Budget Analysis*:

### **"LOCAL GOVERNMENT FUNDS**

The budget freezes, for FY 2004 and FY 2005, amounts of state tax receipts that are deposited into and distributed from the three local government funds (Local Government Fund, Local Government Revenue Assistance Fund, and Library and Local Government

Support Fund) at the lower of the formula amount or the amount that those funds received in FY 2003. For the Library and Local Government Support Fund, the FY 2003 amount is the amount before the transfer to the OPLIN Technology Fund under Section 70 of H.B. 94 of the 124th General Assembly. The freeze affects deposits and distributions of receipts from the personal income tax, the sales tax, the use tax, the corporate franchise tax, the public utilities excise tax, and the kilowatt-hour tax. Tax receipts that would otherwise been credited to the local government funds will instead be credited to the General Revenue Fund."<sup>2</sup>

***"TEMPORARY ADJUSTMENTS TO LOCAL GOVERNMENT DISTRIBUTIONS***

Am. Sub. H.B. 95 freezes, for FY 2004 and FY 2005, amounts of state tax receipts that are deposited into and distributed from the Local Government Fund, the Local Government Revenue Assistance Fund, and the Library and Local Government Support Fund at the lower of the formula amounts or the levels of FY 2003 (after all adjustments and reductions). The freezes affect deposits of receipts from the personal income tax, the sales tax, the use tax, the corporate franchise tax, the public utilities excise tax, and the kilowatt-hour tax. Tax receipts that would otherwise have been credited to the local funds will instead be credited to the GRF. The freezes are estimated to add \$121.2 million to the GRF in FY 2004 and \$187.9 million in FY 2005."<sup>3</sup>

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**HISTORY**

ACTION	DATE	JOURNAL ENTRY
Introduced	04-26-05	p. 703

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<sup>2</sup> At page 326.

<sup>3</sup> At page 403.