

# ***Fiscal Note & Local Impact Statement***

*122<sup>nd</sup> General Assembly of Ohio*

---

**BILL:** Sub. H.B. 426 **DATE:** March 18, 1998

**STATUS:** As Reported by House Local Government and Townships **SPONSOR:** Rep. Clancy

**LOCAL IMPACT STATEMENT REQUIRED:** Yes

**CONTENTS:** Local governments' reserve balance accounts and special funds

---

## ***State Fiscal Highlights***

- No direct fiscal effect on the state.

## ***Local Fiscal Highlights***

<b>LOCAL GOVERNMENT</b>	<b>FY 1997</b>	<b>FY 1998</b>	<b>FUTURE YEARS</b>
<b>Certain counties, municipalities and townships</b>			
Revenues	- 0 -	Potential gains and losses	Potential gains and losses
Expenditures	- 0 -	- 0 -	- 0 -

- Potential shift in Local Government Fund and Local Government Revenue Assistance Fund revenues among local governments in counties which use a statutory formula for distributing those funds and where some local governments create reserve balance accounts as provided for in the bill. There could be a loss in revenues among local governments which do not create these accounts and a gain in revenues among local governments which do create the accounts.
- Currently eight counties use the statutory formula, and local governments within those counties could be affected by the bill. The eight counties are: Coshocton, Harrison, Jefferson, Lawrence, Logan, Morgan, Tuscarawas, and Wyandot.



---

## ***Detailed Fiscal Analysis***

The bill authorizes local governments to create reserve balance accounts in certain funds to reserve moneys for budget stabilization, self-insurance claim payments, and the payment of claims under retrospective ratings plans for workers' compensation. It also allows local governments to create special funds for accumulated sick, compensatory, and vacation leave for terminated or retired employees and officers, capital projects, and non-expendable trust funds.

The bill specifies that, as long as the county budget commission determines that the balances in the reserve accounts are reasonable, a local government's taxing authority cannot be reduced because of the creation of reserve accounts or the accumulation of moneys in a non-expendable trust fund. The bill also precludes the reduction of local government fund (LGF) distributions due to the existence of a reserve balance account or fund accumulation, as long as the county budget commission considers the balances in the accounts to be reasonable. The bill allows the county budget commission to require documentation on the balance held in any reserve account, and allows them to consider any unreasonable balance as unencumbered and as revenue, for the purposes of determining LGF distributions and taxing authority.

For calendar year 1997, eight of Ohio's 88 counties distribute their Local Government Fund (LGF) moneys among their political subdivisions using the statutory method. The current statutory formula for the distribution of local government fund moneys requires "relative need" to be examined. Relative need is a measure of the expenditures made by a subdivision, less certain deductions specified in statute, relative to expenditures, less those deductions, made by other subdivisions in that county. One of the deductions specified is for estimated end-of-year unencumbered balances.

Thus, because the bill does not allow balances in the reserve accounts or trust funds to be included as an unencumbered balance, it is possible that a local government in a county which uses the statutory method of distributing the LGF funds could gain additional LGF money by putting money in a reserve account created under the bill's provisions, thus increasing its measure of "relative need". In such a case, other local governments in that county would lose a corresponding amount of LGF money. The counties which currently use the statutory method are: Coshocton, Harrison, Jefferson, Lawrence, Logan, Morgan, Tuscarawas, and Wyandot.

The alternative formulas used by the other 80 counties differ from county to county, but generally are not based on the statutory definition of "relative need". Thus, the bill should have no effect in those counties.

□ *LBO staff: Leslie Little, Budget/Policy Analyst*  
*Joshua N. Slen, Budget/Policy Analyst*

H:\FN122\HB0426HR.DOC