



Ohio Legislative Service Commission

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Fiscal Note & Local Impact Statement

Bill: [H.B. 337 of the 130th G.A.](#)

Date: February 25, 2014

Status: As Introduced

Sponsor: Rep. Terhar

Local Impact Statement Procedure Required: Yes

Contents: Places budgeting and actuarial requirements on certain political subdivisions and permits the Auditor of State to impose sanctions for violations of the bill

State Fiscal Highlights

- The bill authorizes the Auditor of State to notify the Director of Budget and Management that a political subdivision has violated one of the specified provisions of the bill. Upon this notification, the Director of Budget and Management is required to withhold state funding to the political subdivision until the violation is fixed.

Local Fiscal Highlights

- The bill authorizes a political subdivision to have a negative cash balance in its general fund, but specifies that this negative cash balance cannot exceed 10% of the total revenues collected by the fund in the previous fiscal year.
- The bill requires the fiscal officer of a political subdivision to issue a monthly statement showing the condition of the political subdivision's general fund.
- The bill authorizes the Auditor of State to notify the Director of Budget and Management that a political subdivision has violated one of the specified provisions of the bill. Upon this notification, the Director of Budget and Management is required to withhold state funding to the political subdivision until the violation is fixed. Political subdivisions could experience a temporary loss in some forms of state funding under this provision.
- If the chief executive officer or legislative authority of the political subdivision determines that the available revenue receipts and balances for the general fund or any other fund for the current fiscal year will in all probability be less than the appropriations for the year, the chief executive officer or legislative authority must take such actions as will prevent the expenditures and incurred obligations from exceeding such revenue receipts. The bill then specifies budget and personnel actions that can be taken to address any budget shortfalls.

- The bill specifies the conditions in which certain political subdivisions under fiscal watch or emergency can dissolve a financial planning commission. These conditions would appear to be rare and would presumably only result in some minimal operational cost savings.
- The bill requires any political subdivision that is under a fiscal watch or emergency to notify the Auditor of State before selling or encumbering any real or tangible personal property fully or partially owned by the political subdivision for consideration greater than \$500,000. It is uncertain as to how many such cases would occur.
- The bill requires an annual actuarial valuation report to be conducted for any political subdivision that operates its own retirement system. As of this writing, only the city of Cincinnati operates its own retirement system. The Ohio Retirement Study Council estimates that an actuarial valuation of a state retirement system can cost approximately \$200,000 to \$250,000. Presumably, the costs of such a valuation for a political subdivision would be less.

Detailed Fiscal Analysis

Overview

The bill contains several revisions to the budgeting requirements of local governments, requires actuarial standards to be applied in political subdivisions that operate independent retirement systems, and authorizes the Auditor of State, in conjunction with the Director of Budget and Management, to impose sanctions on those local governments that fail to comply with the provisions of the bill. Some provisions of the bill would apply only to specific or limited political subdivisions, while other provisions would apply universally to all political subdivisions in the state. For the purposes of this analysis, these provisions are listed in four categories based on the number of political subdivisions impacted: (1) budgeting requirements, (2) suspension of state funding, (3) fiscal watches and fiscal emergencies, and (4) political subdivision retirement systems.

Budgeting requirements

The bill has several provisions that pertain to budgeting requirements for all political subdivisions in the state. These provisions pertain to rainy day reserve balance accounts, negative cash balances, statements of the condition of the general fund, and mayoral protests of expenditures.

Rainy day reserve accounts

Current law authorizes the taxing authority of a political subdivision to establish a reserve balance account in the subdivision's general fund or in one or more special funds for operating purposes. The amount in the reserve account in any fiscal year cannot exceed 5% of the revenue credited to that fund in the previous fiscal year. In the case of counties and townships, this amount can be the greater of that amount or $\frac{1}{6}$ of the expenditures during the preceding fiscal year. The bill specifies that it is the intent of the General Assembly that each county, township, and municipal corporation maintain a reserve balance account in its general fund equal to approximately 5% of the revenue credited to that fund in the preceding fiscal year. However, the bill does not specifically mandate the establishment of such a fund.

Negative cash balances

The bill authorizes a board of county commissioners, board of township trustees, or legislative authority of a municipal corporation to establish limits on the negative cash balance of its general fund, but specifies that in no case may the negative cash balance of that general fund exceed 10% of the general fund's total revenue on the preceding fiscal year. There could potentially be some circumstances in which the timing of the collection receipts by a political subdivision, as in the case of income or property taxes, would result in a temporary negative cash balance that exceeds the

threshold in the bill. However, the manner in which these political subdivisions would remedy this underage is uncertain.

Statement regarding the condition of the general fund

The bill requires the fiscal officer of a municipal corporation, county, and township to furnish a monthly statement to the chief executive officer and the legislative authority of the municipal corporation, board of county commissioners, or board of township trustees, as applicable, showing the condition of the political subdivision's general fund. These statements must provide a summary of the status of general fund appropriations. If the chief executive officer or legislative authority of the political subdivision determines that the available revenue receipts and balances for the general fund or any other fund for the current fiscal year will in all probability be less than the appropriations for the year, the chief executive officer or legislative authority must take measures to avoid such a shortfall. These steps include (1) issuing orders or passing ordinances or resolutions to reduce expenditures, or (2) implementing personnel actions including, but not limited to, mandatory cost savings days similar to those established by the Director of Administrative Services for exempt state employees. Finally, the bill repeals a law that authorizes a mayor to protest an expenditure authorized by a legislative authority of the municipal corporation that exceeds revenues for the current year. Altogether the fiscal effects of these changes are uncertain. There would likely be some minimal administrative costs for preparing monthly reports on the status of a political subdivision's general fund. While it is unclear, however, as to how often the legislative authority of a political subdivision would exercise the provisions of the bill to alter spending, presumably these actions would lead to a reduction in spending for the political subdivision.

Suspension of state funding

The bill requires the Director of Budget and Management to suspend payment of all state funding for a county, township, or municipal corporation, other than benefit assistance to individuals, if the Director receives notice from the Auditor of State that a county, township, or municipal corporation has failed to comply with the following requirements: (1) a provision in the Uniform Public Securities Law that sets forth the process by which a political subdivision may issue and sell securities and that establishes requirements for their issuance or sale, (2) provisions in the Uniform Public Securities Law that prohibit a political subdivision from incurring net indebtedness that exceeds a specified percentage of its tax valuation, (3) the law authorizing a political subdivision to establish reserve balance accounts, special revenue funds, or capital project funds, (4) the law limiting a political subdivision's appropriations from each fund by the estimated revenue available for expenditure, and limiting general fund negative cash balances if the limitation is imposed under the bill, and (5) the Local Fiscal Emergencies Law, which establishes fiscal watch and fiscal emergency procedures for political subdivisions.

The bill then authorizes the Auditor of State to notify the Director of a political subdivision's failure to comply with these specific laws. The bill specifies that should the Auditor notify the Director of Budget and Management of such a failure, the Director must withhold state funds until the Auditor sends notification that the political subdivision has achieved compliance with the laws. Presumably, the Auditor of State would become aware of such cases during the financial audit of a political subdivision. Additionally, the bill does not necessarily require the Auditor of State to send notification to withhold state funding, which could potentially allow a political subdivision to come into compliance with the law without having a temporary withholding of state funding.

Fiscal watch and fiscal emergencies

Conditions that terminate a financial planning commission

Current law requires a financial planning and supervision commission to be established for a political subdivision in fiscal emergency. Additionally, current law specifies the conditions by which such a commission is terminated. The bill adds an alternative condition for terminating the commission that either a village or township under fiscal emergency has dissolved and wound up its affairs in accordance with procedures that exist in current law may dissolve the commission. Since the operation of such commissions generally only result in some administrative costs, it is unlikely that this provision would result in savings for political subdivisions.

Fiscal watch and emergency requirements

The bill requires any political subdivision that is under a fiscal watch or emergency to notify the Auditor of State before selling or encumbering any real or tangible personal property fully or partially owned by the political subdivision for consideration greater than \$500,000. The Auditor of State may issue an order prohibiting these transactions if the Auditor of State determines that they are not in the best long-term financial interest of the political subdivision. However, if such a sale or encumbrance has been approved by a financial planning and supervision commission, the Auditor is prohibited from issuing such an order.

The fiscal impact of this provision is unclear. It is possible that a political subdivision may seek to make such a sale in order to increase revenues. As of this writing, there are 22 local governments in fiscal emergency and two local governments in fiscal watch. There are six school districts in fiscal emergency and three school districts in fiscal watch.

Political subdivision retirement systems

Actuarial valuation and report

The bill establishes various duties that the governing authority of a retirement system must perform. As of this writing, the following provisions regarding retirement systems would only apply to the city of Cincinnati. Specifically, the bill requires the

governing authority of a political subdivision's retirement system to annually prepare an actuarial valuation of the pension assets, liabilities, and funding requirements of a retirement system. The governing authority must submit the report to the Ohio Retirement Study Council and the Auditor of State not later than September 1 of the following year in which the valuation was made. As a result of these pension-related provisions, the city of Cincinnati would experience additional costs for performing annual actuarial valuations. The Ohio Retirement Study Council estimates that an actuarial valuation for a state retirement system can be approximately \$200,000 to \$250,000. However, the costs to the city of Cincinnati would appear to be considerably less.

Amortization of unfunded liabilities

The bill requires the governing authority of a political subdivision's retirement system to establish a period of not more than 30 years to amortize the retirement system's unfunded actuarial accrued pension liability. If in any year, the period necessary to amortize the unfunded accrued liability exceeds 30 years, as determined by the actuarial valuation determined by the bill, a plan detailing the number of years that it will now take to amortize the liabilities and how the governing authority will reduce the amortization period to not more than 30 years must be submitted to the Ohio Retirement Study Council and the Auditor of State. The Retirement Council must determine whether the amortization plan is reasonable and the Auditor of State must determine if the plan is fiscally reasonable. If a political subdivision fails to adopt an amortization plan that is approved by the Retirement Council and Auditor of State, the Auditor must notify the Director of Budget and Management and all state funding must be withheld.

Since the provisions of the bill would only apply to one entity as of this time, any additional costs to the Auditor of State, Retirement Council, and if necessary, Office of Budget and Management, are likely to be minimal. As of this writing, the city of Cincinnati has 6,038 total employees, and 4,005 employees contributing to the retirement system, who contribute 9% of their pensionable earnings. Currently, there are approximately 4,350 pensioners receiving monthly benefits and 6,300 retirees, spouses, and dependent children enrolled in retiree health care. The market value of the retirement system's assets is currently approximately \$2.06 billion.