OHIO HOUSE INSURANCE COMMITTEE
INTERESTED PARTY TESTIMONY ON HOUSE BILL 512
NOVEMBER 16, 2022

Chair Brinkman, Vice Chair Lampton, Ranking Member Miranda, Members of the Ohio House Insurance Committee, my name is Keary McCarthy, and I am the Executive Director of the Ohio Mayors Alliance, a bipartisan coalition of mayors in Ohio's 30 largest cities. On behalf of the over 3.4 million Ohioans that live in our communities, we submit the following testimony to outline our concerns about the significant fiscal impacts House Bill 512 will have on our residents and potentially our current public safety personnel.

As we have shared with the bill sponsors, we are submitting this testimony as an interested party because we share their desire to make sure that the Ohio Police & Fire Pension Fund (OP&F) is fiscally sound, well-managed, and provides stability for future retirees. But we are deeply concerned with the approach proposed in HB 512, which puts the entire burden of OP&F's solvency solely on the backs of Ohio's local governments and taxpayers. It does so by mandating an unprecedented **36 percent increase** in the municipal employer contribution rate for police and a **10 percent increase** for firefighters.

SIGNIFICANT FISCAL IMPACTS ON MUNICIPALITIES AND LOCAL TAXPAYERS

The cost of HB 512 is so significant that it would nearly wipe out the total annual allocation provided to Ohio's cities through the Local Government Fund. According to the Ohio Department of Tax, the municipal allocation of the LGF in 2021 was $197.8 million. HB 512 will cost cities **$116.9 million** once fully phased in, per the LSC fiscal note. To be clear, this is just a comparison of the increase amount compared to the LGF allocation. The total employer contribution amount by cities to OP&F would dwarf the state Local Government Fund allocation. This is in part because the LGF has been dramatically reduced in the past decade from a ratio of 3.68 percent of the state's total general revenue fund to just 1.66 percent.

Public safety is a key priority for our member communities. Even without the dramatic cost increase proposed in HB 512, public safety is by far the largest expenditure for every city that we represent and most cities across the state. On average, our cities allocate well over 50 percent of their municipal budgets to public safety and in some cities, it can exceed 60 to 70 percent of their total budgets. This is important because a state-mandated increase of this size to a municipality's largest expenditure means there is little budgetary room to absorb an increase such as this without impacting active-duty public safety personnel.

Moreover, employer contribution rates for the Ohio Police and Fire Pension Fund (OP&F) are currently higher than most other Ohio pensions. OP&F also has one of the largest differences between the rates paid by employees and employers. Here are the current employee and employer contribution rates for Ohio's various pension funds:

FUND	EMPLOYEE Contribution Rate 2022	EMPLOYER Contribution Rate for 2022
PERS (State and Local)	10.00%	14.00%
PERS (Law Enforcement)	13.00%	18.10%
PERS (Public Safety)	12.00%	18.10%
STRS	14.00%	14.00%
SERS	10.00%	14.00%
OP&F (police)	**12.25%**	**19.50%**
OP&F (fire)	**12.25%**	**24.00%**
HPRS	14.00%	26.50%

BUDGETARY IMPACTS ON ACTIVE-DUTY PUBLIC SAFETY PERSONNEL

Many cities have recently concluded contract negotiations with their police and fire departments that resulted in salary increases and the hiring of new officers. Local governments have also been utilizing federal recovery dollars to invest in public safety. For example, the City of Toledo has used about one third of its $180 million American Rescue Plan allocation to hire new police and fire classes and expand violence reduction programming. Other cities such as Lorain, Cincinnati, Warren, Middletown, Lakewood, Columbus, and Elyria have used ARP funds to hire police officers, raise police and fire pay, and invest in technology that keeps our first responders safe. Without ARP funds and with additional budget obligations created by HB 512, these hires and pay raises may be at risk. The costs associated with HB 512 will certainly make the challenges in hiring and retaining new police and fire recruits even more difficult.

Our cities have also utilized federal American Rescue Plan dollars that the state has made available to local governments through public safety grants. These grants have been in high demand, which reflects both the need and the cost pressures of public safety for our local governments. The last round of public safety grants through the Ohio Department of Public Safety was for $20 million, but the department received $80 million in grant requests for violence prevention measures.

ARP FUNDS CANNOT BE USED FOR PENSION EXPENSES

While Ohio and its local governments have received significant federal support over the last year, one-time American Rescue Plan funds cannot support or sustain a long-term annual cost increase as proposed in HB 512. First, ARP funds are explicitly prohibited from being used for this purpose in the Treasury Guidance: "No state or territory may use funds made available under this section for deposit into a pension fund." Additionally, ARP funds must be obligated by 2024 and spent by 2026. They cannot be used to help cities offset the new costs of HB 512 in the long-term when it will be fully phased in in FY2027. It has also been suggested that "employers should pay their fair share…while local governments are in a strong financial position." We would argue that taxpayer-based rate increases should be implemented based on the financial needs of a pension fund, not the financial health of a government payer.

MUNICIPAL INCOME TAX REVENUE IS UNCERTAIN DUE TO SHIFT TO REMOTE WORKING

Finally, Ohio cities rely on municipal income tax as our primary source of revenue. This reliance has grown stronger especially as other fiscal supports for cities, such as the Local Government Fund, the estate tax, and other tax reimbursements to local governments, have been reduced or eliminated altogether. However, the municipal income tax is more uncertain today than perhaps ever before because of the significant shift to remote working following the pandemic. In many Ohio cities, over half of the taxable workforce commuted into the city to work before 2020. If just a fraction of these workers shift to remote working and no longer commute into the office, cities could see sizable reductions, year after year, in their largest revenue source.

We commissioned a study last year to help us estimate the potential fiscal impacts of remote working and it estimated that some cities could see revenue reductions between 5 and 17 percent annually. The good news is that our cities have not yet started to see these revenue reductions. We believe this is in part due to inflationary pressures that are temporarily increasing tax receipts and a slower than expected transition of employer withholdings to the jurisdictions where employees are actually working. Based on discussions with large employers and employer associations around the state, we are expecting to see the negative impacts of remote working on municipal income tax as commercial leases expire and companies consider different employee location models. Our cities have seen a sizable increase in the number of income tax refund requests. This is an early indicator of an increase in remote working and the potential long-term impact it could have on municipal income tax revenue.

Moreover, Beavercreek, an OMA member city that is also one of the largest cities in the state without a municipal income tax, recently proposed a tax levy to fund its police department. That levy was narrowly defeated. Cities like Beavercreek now find themselves in the position of having to manage the increasing costs and demands of their public safety responsibilities without additional revenue. The additional cost of HB 512 will make this more difficult and further strain the current public safety workforce.

PENSION FUND IS CURRENTLY FISCALLY SOUND, BUT NEEDS THOROUGH LONG-TERM REVIEW

Given the significant cost impacts to Ohio's municipalities, our active-duty public safety personnel, and our local taxpayers we were very glad to see that the **OP&F's "most recent actuarial study shows the system in compliance with Ohio's funding requirements."** We hope that this news allows the committee additional time to consider the potential adverse impacts of HB 512 and to have a more thorough assessment of the long-term needs and challenges of OP&F. Thank you for your consideration. I would be happy to answer any questions at this time.