

OMAC MuniNews

Volume 20, Issue 2

News & Views About the Ohio Municipal Finance Industry

July 2018

This newsletter is available on our website: www.ohiomac.com

The following article was taken from Moody's Investors Service, dated March 22, 2018.

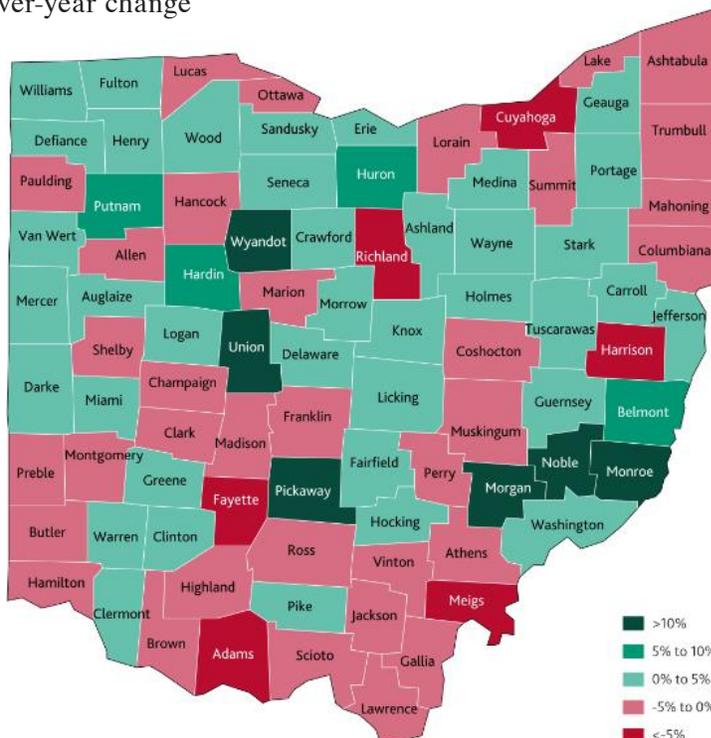
Counties - Ohio

Sales tax collections drop in 2017 with elimination of Medicaid MCO tax

On March 8, the State of Ohio (Aa1 stable) released county sales tax results for 2017 showing the first year-over-year decline since 2009. Forty of the state's 88 counties experienced an average decrease of 0.9% (see Exhibit 1). A new exclusion of Medicaid managed care organization (MCO) transactions from the sales tax base drove the credit- negative results. The exclusion occurred in mid-2017 and the fully annualized effect will take hold this year. As a result, counties will likely see another year of weak collections before resuming growth in line with the economy in 2019. Data also shows a continuation of highly volatile sales tax collections in counties with heavy natural gas drilling activity, or fracking.

EXHIBIT 1

Widespread sales tax declines in 2017 driven by elimination of Medicaid MCO tax Year-over-year change



Changes in sales tax collections owing to changes in tax rates are not reflected in the exhibit.

Sources: Ohio Department of Taxation, Moody's Investors Service

OMAC Board of Trustees:

Chairperson/President

Omar Ganoom
Boenning & Scattergood, Inc., Columbus

Treasurer

Jeffrey Freese
KeyBanc Capital Markets, Cleveland

Trustees

Michael Burns
Robert W. Baird & Company, Columbus

Emily Cannon
PNC Capital Markets, Columbus

Kent Cashell
RBC Capital Markets, Cincinnati

Kathleen Clark
Fifth Third Securities, Columbus

Christopher Johns
Sweney Cartwright, Columbus

Patrick King
Stifel, Nicolaus and Company, Incorporated, Columbus

David Tiggert
KeyBanc Capital Markets, Columbus

Affiliate Members

Brian Cooper
H.J. Umbaugh & Associates, Columbus

Stephen Szanto
Sudsina and Associates LLC, Vermilion

CONTACTS:

Francis A Mamo 212-553-3826
Analyst
frank.mamo@moodys.com

Alexandra S. Parker 212-553-4889
MD-Public Finance
alexandra.parker@moodys.com

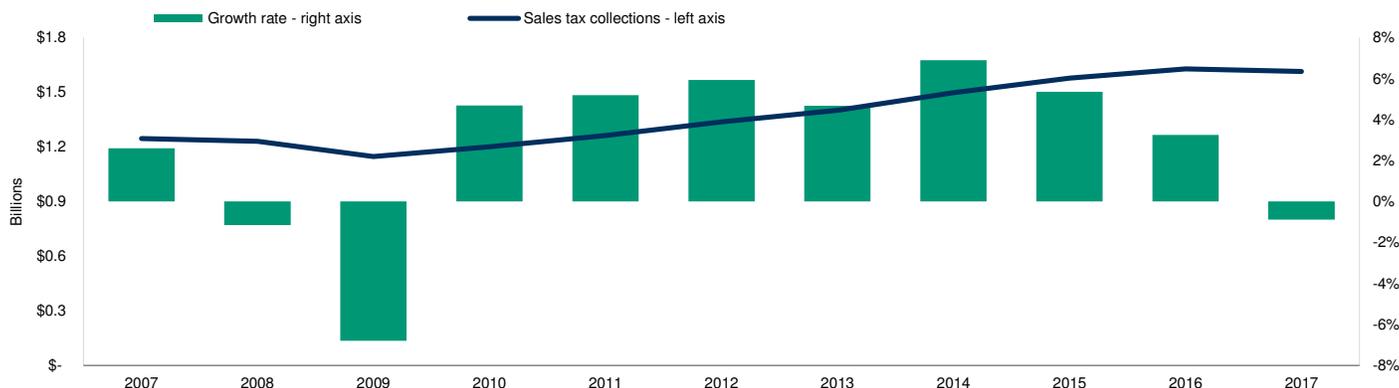
Mark McIntire 312.706.9960
VP-Sr Credit Officer/ Manager
mark.mcintire@moodys.com

Expiration of Medicaid MCO sales tax begins to hit county sales tax collections

Statewide county sales tax collections fell 0.9% between 2016 and 2017. The decline marked the first annual drop since 2009 (see Exhibit 2) and was primarily driven by state and federal policy as opposed to economic weakness. The credit-negative results pose a challenge for counties as sales tax revenues account for 40% to 60% of their annual operating income, on average.

EXHIBIT 2

Statewide county sales tax collections fall for the first time since 2009



Changes in sales tax collections owing to changes in tax rates are not reflected in the exhibit.

Sources: Ohio Department of Taxation, Moody's Investors Service

In 2014, the Centers for Medicare & Medicaid (CMS) announced that Ohio's state and local sales tax on Medicaid MCO transactions was impermissible, arguing such taxes needed to be uniformly applied to all healthcare services or providers. CMS gave the state until June 30, 2017 to comply with new guidelines. While the state implemented a new "health insuring corporation" provider assessment to offset the effect of the expiring tax on its own budget, no permanent solution was passed to make counties whole.

On average, the Medicaid MCO tax accounted for 7.9% of county sales tax collections in 2016, the last full year it was collected. Reliance on the Medicaid MCO tax ranged from a low of 1.6% of annual collections (Delaware County, Aaa stable) to a high of 24.9% (Vinton County) in 2016. The state provided temporary transitional relief to counties in 2017 to make up for some of the lost revenue. For 21 of the state's 88 counties, the transitional relief was equivalent to two or more years of their prior Medicaid MCO tax.

Ohio's 10 largest counties experienced sales tax declines in 2017, after showing years of growth. Cuyahoga County (Aa2 stable) and Montgomery County (Aa1) saw the largest drop, realizing 5.0% and 4.2% declines, respectively (see Exhibit 3).

EXHIBIT 3

After years of sales tax growth, Ohio's 10 largest counties all saw declines in 2017

County	2015-2016 Change	2016-2017 Change	Moody's GO rating	Metro Area
Cuyahoga	7.3%	-5.0%	Aa2 stable	Cleveland
Montgomery	6.2%	-4.2%	Aa1	Dayton
Lucas	2.4%	-2.9%	Aa2	Toledo
Mahoning	2.1%	-1.8%	Aa3	Youngstown
Hamilton	3.4%	-1.7%	Aa2 stable	Cincinnati
Franklin	5.5%	-1.3%	Aaa stable	Columbus
Butler	6.5%	-1.0%	Aa1 stable	Cincinnati
Lorain	1.6%	-0.6%	Aa2	Cleveland
Stark	3.9%	-0.2%	Aa2	Canton
Summit	3.9%	-0.2%	Aa1 stable	Akron

Changes in sales tax collections owing to changes in tax rates are not reflected in the exhibit.

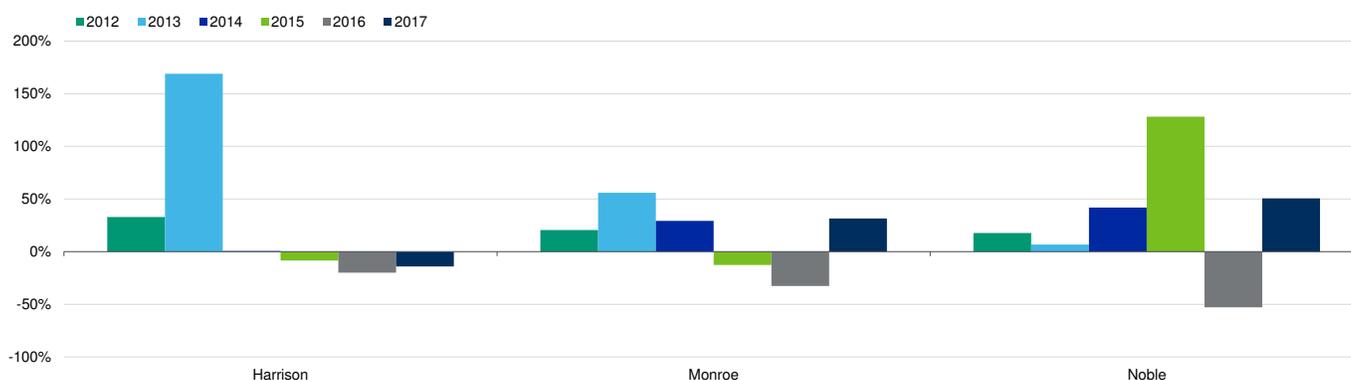
Sources: Ohio Department of Taxation, Moody's Investors Service

Counties with large fracking activity continue sales tax volatility

The data released by the state also shows a continuation of highly volatile sales tax collections among the state's natural gas producing counties. Monroe County (Baa1 stable) and Noble County were the state's largest gainers in 2017 while Harrison County was the largest loser. Exhibit 4 illustrates the annual change in sales tax collections for these three natural gas producing counties over the past five years, which ranged from a 53% drop to 169% gain. The volatility is driven by construction of natural gas pipeline and drilling facilities, the equipment of which is subject to the local sales tax. equipment of which is subject to the local sales tax.

EXHIBIT 4

Major natural gas producing counties continue to exhibit highly volatile sales tax collections



Changes in sales tax collections owing to changes in tax rates not reflected in the exhibit.

Sources: Ohio Department of Taxation, Moody's Investors Service



2018 May Election Results

Voters approved 76% of Ohio's school district levies in the election. Of the sixty-eight (68) school district tax levies on the ballot, fifty-two (52) were approved while sixteen (16) were defeated.

Of the sixteen (16) bond issues on the ballot, school districts represented the majority with thirteen (13) followed by one (1) county, one (1) township and one (1) municipalities. Of these, fourteen (14) were considered large - \$10,000,000 or greater, one (1) were considered intermediate - \$5,000,000 to \$9,999,999 and one (1) were considered small - less than \$5,000,000. Voters approved nine (9) or \$345,342,432 while rejecting seven (7) or \$212,200,213.

The following tables show the results of the bond issues and school tax levies submitted at the election. The results were compiled with the assistance of the County Boards of Election, and the office of the Secretary of State.

Bond Issues

The following table compares this years results with those of the past four years.

YEAR	VOLUME SUBMITTED	VOLUME APPROVED	PCT. APP.	NUMBER SUBMITTED	NUMBER APPROVED	PCT. APP.
2018	\$557,542,645	\$345,342,432	61.9%	16	9	56.3%
2017	\$811,263,330	\$471,724,878	58.1%	24	12	50.0%
2016	\$200,064,683	\$85,474,000	42.7%	8	2	25.0%
2015	\$327,423,602	\$128,561,077	39.3%	13	7	53.8%
2014	\$591,099,770	\$255,147,408	43.2%	20	9	45.0%

The second table shows by issue size, the volume and number of each submitted, and the volume and number of each approved (including ratio approved).

Issue Size*	-----SUBMITTED-----		-----APPROVED-----			
	Volume	No.	Volume	% Vol.	No.	%No
Large	\$544,871,395	14	\$342,042,432	62.8%	8	57.1%
Intermediate	\$9,371,250	1	\$0	0.0%	0	0.0%
Small	\$3,300,000	1	\$3,300,000	100.0%	1	100.0%
TOTAL	\$557,542,645	16	\$345,342,432	61.9%	9	56.3%

*Large - \$10,000,000 or greater; Intermediate - \$5,000,000 to \$9,999,999; Small - less \$5,000,000

The third table show by subdivision classification, the volume and number of issues approved.

	-----VOLUME-----			-----NUMBER-----		
	Submitted	Approved	% App.	Submitted	Approved	% App.
County	\$9,371,250	\$0	0.0%	1	0	0.0%
Municipality	\$44,800,000	\$0	0.0%	1	0	0.0%
Township	\$3,300,000	\$3,300,000	100.0%	1	1	100.0%
School District	\$500,071,395	\$342,042,432	68.4%	13	8	61.5%t
TOTAL	\$557,542,645	\$345,342,432	61.9%	16	9	56.3%



The fourth table shows further breakdown of the volume and number of issues approved for school districts.

	-----VOLUME-----			-----NUMBER-----		
	Submitted	Approved	% App.	Submitted	Approved	% App.
City S/D	\$206,340,000	\$76,500,000	37.1%	5	2	40.0%
Local S/D	\$293,731,395	\$265,542,432	90.4%	8	6	75.0%
Jt. Voc. S/D	\$0	\$0	0.0%	0	0	0.0%
TOTAL	\$500,071,395	\$342,042,432	68.4%	13	8	61.5%

School District Tax Levies

The first table shows the total new millage levies submitted (number and volume), and also the results thereof.

Type	-----Submitted-----		-----Approved-----				-----Defeated-----			
	No.	Millage	No	Pct.	Millage	Pct.	No.	Pct.	Millage	Pct.
Curr Exp & Perm Impr.*	1	10.85	0	0.0	0.00	0.0	1	100.0	10.85	100.0
Current Expense	12	70.33	8	66.7	47.68	67.8	4	33.3	22.65	32.2
Emergency	11	71.16	4	36.4	23.82	33.5	7	63.6	47.34	66.5
Permanent Improvement	5	6.10	4	80.0	2.80	45.9	1	20.0	3.30	54.1
TOTAL	29	158.44	16	55.2	74.30	46.9	13	44.8	84.14	53.1

*Millage and percent for these issues are calculated with the individual Current Expense and Permanent Improvement categories.

The second table shows the total renewal millage levies submitted (number and volume), and also the results thereof.

Type	-----Submitted-----		-----Approved-----				-----Defeated-----			
	No.	Millage	No	Pct.	Millage	Pct.	No.	Pct.	Millage	Pct.
Current Expense	6	35.10	6	100.0	35.10	100.0	0	0.0	0.00	0.0
Emergency	26	147.29	24	92.3	136.19	92.5	2	7.7	11.10	7.5
Permanent Improvement	5	12.90	5	100.0	12.90	100.0	0	0.0	0.00	0.0
TOTAL	37	195.29	35	94.6	184.19	94.3	2	5.4	11.10	5.7

*Millage and percent for these issues are calculated with the individual Current Expense and Permanent Improvement categories.

The third table gives a three year comparison (Elections) by levy type, the total new millage submitted and approved, with the ratio approved.

	----- 2018 -----			----- 2017 -----			----- 2016 -----		
	Subm.	App.	% App.	Subm.	App.	% App.	Subm.	App.	% App.
Current Expense	70.33	47.68	67.8	63.13	46.58	73.8	41.26	32.46	78.7
Permanent Improvement	6.10	2.80	45.9	16.74	7.90	47.2	11.70	6.40	54.7
Curr Exp & Perm Impr.*	10.85	0.00	0.0	14.40	14.40	100.0	0.00	0.00	0.0
Emergency	71.16	23.82	33.5	30.30	12.30	40.6	13.45	0.00	0.0
TOTAL	158.44	74.30	46.9	124.57	81.18	65.2	66.41	38.86	58.5

*Millage and percent for these issues are calculated with the individual Current Expense and Permanent Improvement categories.

CALENDAR

Calendar of Issuer Conferences & Outings for 2018

NAME	EVENT	DATE	LOCATION
CAAO	Winter Conference	Nov. 14 – 16	Embassy Suites - Dublin, Ohio
CTAO	Fall Meeting	November 13 - 15	Columbus Marriott North – Columbus, Ohio
GFOA	Annual Fall Conference Advanced Accounting Seminar	September 19 - 21 August 1 - 2	Hyatt Regency Cincinnati - Cincinnati, Ohio Niagara Event Center - Put-In-Bay, Ohio
MFOA (OML)	OML Annual Conference MFOA Annual Conference	Oct. 31 – Nov. 2 Oct. 31 – Nov. 1	Renaissance Hotel – Columbus, Ohio Renaissance Hotel - Columbus, Ohio
OAPT	Annual Conference National Conference	October 3 – 5 July 22 - 25	DoubleTree by Hilton Downtown – Cleveland, Ohio The Peabody Hotel – Memphis, Tennessee
OASBO	Leadership Institute – Battle Lake Erie	August 5 – 7	Sheraton Erie Bayfront Hotel – Erie Pennsylvania
OMCA	Annual Conference Parliamentary Procedure Athenian – The Wright Brothers Improving Public Speaking	July 16 - 19 September 26 October 19 November 2	Crown Plaza Hotel - Dublin, Ohio Willoughby City Moraine City Hall – Moraine, Ohio Monroe Community Center – Monroe, Ohio
OSBA	Capital Conference	November 11 – 13	Columbus Convention Center – Columbus, Ohio

(T) – means date or place is tentative.

Red lettering means revised or updated events.

CAAO – County Auditor’s Association of Ohio----- (614) 228-2226----- www.caao.org
 CTAO – County Treasures Association of Ohio----- (614) 517-5072----- www.ohiocountytreasurers.org
 GFOA – Government Finance Officers Association----- (614) 221-1900----- www.ohgfoa.com
 MFOA – Municipal Finance Officers Association of Ohio---- (614) 221-4349----- www.omloho.org
 NACO – National Association of Counties----- (614) 221-5627----- www.naco.org
 OAPT – Ohio Association of Public Treasurers----- (440) 576-3944----- www.ohioapt.org
 OASBO – Ohio Association of School Business Officials----- (614) 431-9116----- www.oasbo-ohio.org
 OMCA – Ohio Municipal Clerks Association----- (614) 221-4349----- www.omca.us
 OSBA – Ohio School Boards Association----- (614) 540-4000----- www.ohioschoolboards.org

If your organization has other events scheduled that you would like to see listed here, please contact OMAC at 800-969-6622 or email us at chris@Ohiomac.com.