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OTA Testimony

May 1, 2024

Joint Committee on Property Tax Review and Reform

Good morning, Co-Chair Roemer, Co-Chair Blessing, and Property Tax Review and Reform Committee members. I am Heidi M. Fought, the Executive Director of the Ohio Township Association (OTA). On behalf of Ohio's 1,308 townships, thank you for the opportunity to testify before this committee.

Townships in Ohio predate our state government. The Congressional Acts, which established various land grants, determined the townships' size and shape. As the Ohio Territory became populated, it was only natural that the surveyed townships became the basic government unit.

The landscape of townships has changed over the last 220 years, and to keep pace with the demands of changing times, the township's functions, duties, and obligations have changed. Townships are mandated to provide road service, cemetery maintenance, settle line fence disputes, maintain the township hall, and control noxious weeds and brush. In total, townships across the state maintain over 41,000 miles of roads, and townships are responsible for approximately 2,400 registered cemeteries.

In addition to the services listed above, townships may provide various other services to their residents, such as fire protection, EMS, police protection, parks, recreation, senior services, zoning, waste disposal, and lighting districts.

Townships are creatures of statute. They may only perform operations or provide services authorized in the Ohio Revised Code. The main chapter of the Code that pertains to townships is Title 5, but you will find township-related statutes in Titles 3, 7, 15, 45, 55, and 57, to name a few.

Townships, as creatures of statute, often find themselves faced with difficulties in responding to the ever-changing needs of their constituents. We frequently seek permissive authority before the General Assembly to do various things. This could include allowing townships to resell cemetery lots, granting townships the ability to accept credit cards as a form of payment, or seeking more authority for townships to set speed limits on township roads.

Townships, unlike other forms of local government, have very limited funding streams. In addition to levying a property tax, municipalities may levy an income tax, and counties may levy a sales tax. A document detailing township revenue sources is attached to my testimony.

As you will see, townships are funded primarily through property taxes levied on real property within the townships. Even though property tax is the primary source, townships only levy approximately 6% of the total property taxes in Ohio.

Like other local governments and schools, all real property in townships is subject to taxation. Real property is separated into two classes: Class 1 is residential and agricultural property, and Class 2 is commercial, industrial, and all other property.

All property taxes are applied to individual properties at a specific tax millage rate. One mill is one-thousandth of a dollar (one-tenth of a cent), and a one-mill tax equals \$1 in property tax levied per \$1,000 of a property's assessed value.

Townships receive both unvoted and voted millage. As previous witnesses have shared, unvoted millage is referred to as inside millage. It is not subject to reduction factors and experiences inflationary growth.

In most places, the full ten mills of inside millage are levied annually and shared between the political subdivisions overlapping every parcel of real estate. In a township's case, those overlapping jurisdictions include a township, school district, and county. R.C. §5705.31(D) establishes the formula for allocating the millage, which relates to the conversion of the prior fifteen-mill limit to ten mills in 1933. The allocations of inside millage under the formula are generally guaranteed. However, certain annexations and other territory attachments and detachments can either create townships that did not legally exist when the allocations were established or involuntarily cause non-uniform inside millage in violation of the uniform taxation rule contained in Article XII, Section 2 of the Ohio Constitution.

On average, townships receive 1-2.5 mills of inside millage. Although townships receive the least inside millage, it is a vital funding stream for townships since such millage is not subject to the reduction factors. The inside millage is typically used for operating expenses (General Fund) or roads (Road & Bridge Fund). Inside millage may also be formally allocated to special purposes authorized by law, e.g., a township park district under R.C. §511.27 or cemetery purposes under R.C. §517.03.

Inside millage may also be used to satisfy the requirement of Article XII, Section 11 of the Ohio Constitution, that general obligation debt be secured by the levy of a tax. When a township is issuing unvoted debt, it pledges its inside millage to pay debt service unless it is paid from other sources such as special assessments.

Another use of inside millage for townships is the county health district. Depending on the type of health district, funding comes from the support of their community through levies, general operating funds, contracts, county government, and inside millage of townships and municipalities, pursuant to R.C. §3709.28(C). For townships, nearly a third of Ohio's general health districts still rely heavily on inside millage to fund operations. Should a board of health want to increase its budget, a request is made to the county budget commission. Suppose the budget commission agrees with the district's request. In that case, the county auditor apportions the increase to the townships and municipalities based on taxable valuations in such townships and municipal corporations. There have been times when the township's share of the county health district's costs consumes all the inside millage a township receives. Due to minimal township funding streams, **the Ohio Township Association encourages the General Assembly to consider alternative funding models for health districts.**

When a board of township trustees votes to collect revenue in excess of the ten mill limitation, a levy must be put before the township residents for a vote. R.C. §5705.19 lists all the purposes for which a township may seek approval. Voted levies are subject to reduction factors, subtracting inflationary growth from the tax base for voted millage.

Again, if township residents want full-time fire service, they may pass a levy to provide it. They will vote down the levy that pays for the costs if they don't want to expand from one park to two parks. We like to think this is both a blessing and a curse. It is a blessing because the levies are purpose-driven and, when passed, show the types of services the residents want because they are willing to

pay for them. It is a curse because when services are provided, and more revenue is needed, a failed levy could mean the drastic reduction or end of those services.

Currently townships have three general levy types that they can place on the ballot.

- ❖ **Renewal** - *An existing levy renewed in whole or in part, or coupled with an increase, at the general election prior to the last year of collection or at any election in the last year of collection. A renewal levy reimposes the effective rate of the existing levy.*
- ❖ **Replacement** - *An existing levy may be replaced in whole or in part, or coupled with an increase, at the general election prior to the last year of collection or at any election in the last year of collection. A replacement levy reimposes the voted rate of the existing levy, subject to the reduction factor of R.C. §319.301 in the first year just as a new levy would be.*
- ❖ **Additional** - *A brand new levy placed on the ballot for consideration.*

A renewal of an existing levy keeps the existing reduction factors in place, meaning that the revenue generated by the renewal levy does not increase except due to new construction. A replacement of an existing voted tax levy removes the previously applied reduction factors, meaning that the revenue generated by the replaced levy will increase as the full millage rate is restored, subject to the application of new reduction factors that begin in the first year of collection. Replacement levies void applicable property tax rollbacks.

Both renewal and replacement levies have a high percentage rate of passage in townships. Additional levies have a low passage rate. To illustrate this, here is a breakdown of township levy types and passage rates from the 2023 and March 2024 elections.

	May 2023			November 2024			March 2024		
	Pass	Fail	Passage Rate	Pass	Fail	Passage Rate	Pass	Fail	Passage Rate
Renewal	29	1	96.6%	331	7	97.9%	28	3	90.3%
Replacement	13	1	92.8%	75	9	89%	21	9	70%
Additional	21	11	65.6%	36	41	46%	18	26	40.9%

The reduction in levies' passage rates alarms us. It is critical that townships have all three types of levies - renewal, replacement, and additional - to provide residents with options that best suit the individual township. **The Ohio Township Association encourages the General Assembly to retain all three levy types for township usage.**

The lower passage rates in November and March could also be a result of legislation enacted in the 134th General Assembly. HB 140 drastically altered the form of election notices and ballot language for property tax levies. The legislation has caused voter confusion by requiring ballot language to convey a levy's cost in dollars for each \$100,000 of the county auditor's appraised value (full market value) as opposed to each \$100 of taxable (assessed) value, which is 35% of the appraised value of the real property. There is no way to show a tax cost that applies equally to all properties in a township. Reasons for this include the type of property, the use of the property, reduction factors that vary by property class, state subsidies like rollbacks, and the fact that not all properties have a market value of \$100,000. **The OTA encourages the General Assembly to reexamine the required levy language and how the cost of levies is described to voters.**

Since 1971, a 10 percent credit has applied to each taxpayer's real property tax bill. In 2005, as part of a broader series of tax reforms, the General Assembly limited the 10% credit to all real property not intended primarily for use in a business activity. The state reimburses local governments and schools for the cost of this credit, now called the non-business credit. In addition, since 1979, a 2.5 %

credit, called the owner occupancy credit, of real property taxes has been available to homesteads - meaning a dwelling plus up to one acre occupied by the homeowner. The state reimburses local governments and schools for the cost of this credit. These two credits do not apply to additional or replacement levies passed after Sept. 29, 2013; they will continue to apply only to existing and renewed levies. **The Ohio Township Association opposes efforts to further reduce or eliminate the current state-funded property tax relief programs.**

A concerning trend in the real estate market today is to utilize the LLC loophole, which makes it difficult for a county auditor to establish proper valuations. This impacts a township's revenue, as millage rates may be set higher than otherwise necessary. Closing the LLC loophole has become more important given the passage of legislation several years ago that limits the ability of townships to use the board of revision process to challenge the valuations of properties they do not own. **The Ohio Township Association encourages the General Assembly to close the loophole and ensure transparency when a controlling interest is transferred in an LLC that owns real estate.**

Ohio law provides local governments, including townships, with various economic development tools to encourage companies to locate or remain in Ohio. Some of those tools include tax abatements, enterprise zones, and tax increment financing (TIF). Some versions of these tools are facilitated and approved at the township level. Furthermore, the exemptions are by parcel or by a set area.

Incentivizing land use has traditionally been a local action. Townships have used these tools to fund development in their communities successfully after considering the impact. For example, in Jackson Township in Stark County, a TIF was used with an energy improvement district to transform an old 36-hole golf course into a 68-acre business and 180-acre park. West Chester Township in Butler County has used TIFs and other abatements to create \$3 billion in new valuation encompassing residential and commercial properties, a new library, and numerous hotels, to name a few. These tools allow townships to develop difficult pieces of land that otherwise would sit vacant or dilapidated.

Townships also face challenges with tax abatements, especially when the state, county, or attached municipality abates or diverts township property tax revenue. As previously mentioned, townships are extremely dependent on property taxes. Any outside (non-township-approved) abatement or diversion creates a hole in township funding, which then requires the township to place a levy on the ballot to make up the funding deficit.

For example, when land is annexed by municipalities under R.C. §709.023, otherwise known as Type II annexation, the land is to remain in the township, allowing the township to always collect inside millage on the territory that was annexed. Unfortunately, municipalities use TIFs and other tax diversion programs to divert the inside millage and increase valuations of voted levies away from the townships. **The OTA respectfully requests that the General Assembly add language to R.C. §709.023 to expressly prohibit any diversion of funds from townships when land is annexed under this provision.**

Another example of this injustice can be found in TIF law. Almost eight years ago, legislation was passed and enacted to require the reimbursement of certain fire and EMS levies if the township is the entity providing the fire and EMS to the TIF district created by a municipality that approved and created an incentive-district TIF. An incentive-district TIF is defined as an aggregation of individual parcels comprising an area no larger than 300 contiguous acres or one that exhibits at least one characteristic of economic distress. Incentive-district TIFs can be commercial, residential in nature, or a combination of both. A municipality may also create a parcel TIF, which applies to a single parcel and is generally only permitted for residential use if the parcel is in a blighted area. **The OTA**

requests that the levy reimbursement language enacted apply to single parcel TIFs created by a municipality that a township fire or EMS department services.

The Ohio Township Association understands the need for development tools. Still, we are concerned with any legislation regarding property tax exemption. Any reduction in taxes or change in tax valuation will negatively impact townships. The erosion of the property tax base results in fewer residents paying a higher share of services all township property owners enjoy. **The OTA encourages the General Assembly to review current tax incentives and give townships a stronger voice when township property tax dollars are being abated or diverted.**

Ohio's townships are the epitome of an efficient, low-taxing subdivision providing essential services to residents. According to urban public policy analyst Wendell Cox, townships spend, tax, and borrow less in nearly all population categories and account for only 3% of expenditures and 4.8% of taxes statewide. From rural to urban, small to large, there is a considerable advantage to the Ohio taxpayer who lives and works in a township. Smaller townships (1,000-2,499 residents) have current expenditures less than one-half that of other local governments per capita. Regarding larger townships (over 10,000 residents), they spend the equivalent of \$861 million less annually than municipalities of similar size, levy \$577 million less in annual taxation, and have \$716 million less in long-term debt based on per capita data.

Co-Chairs Roemer and Blessing, I appreciate the opportunity to testify before you and the Joint Committee on Property Tax Review and Reform. I am happy to answer any questions you or the committee members may have.