Township Financials 101: Where the Money Comes

2020 Ohio Township Association Winter Conference and Trade Show

Thursday, February 6 • 1:00 to 2:00 PM
Friday, February 7 • 1:45 to 2:45 PM

Presented by:
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Retired (2013) Executive Director
County Commissioners Association of Ohio
Townships Have Limited Funding Streams

• Townships, unlike other forms of local government, have very limited funding streams.

• Majority of township revenue comes from:
  ✓ Property tax
  ✓ State/local tax sharing
“The art of taxation consists in so plucking the goose as to get the most feathers with the least hissing.”

- Tax money is distributed to townships through the collection of:
  - Inside millage = unvoted millage;
  - Outside millage = voted levies;
  - State intergovernmental funding;
  - Township Permissive taxes; and,
  - Other Sources/Fees
- Townships are primarily funded through property taxes levied within the township.
Two types of property subject to taxation:

- **Real Property**
  - Residential & Agricultural (Class 1)
  - All Other (Commercial, Industrial, Mineral or Class 2)

- **Personal Property**
  - Public Utility Personal
Real Property Taxation Basics

- Annual tax on real estate
- Assessed by county auditor at 35% of fair market value
- Amount based on assessed value of real estate
- Revenue collected by county auditor & distributed to townships
- Subject to ten mill limitation (§2 Article XII of Ohio Constitution)
- A mill is one-tenth (1/10) of one cent or a $1.00 tax per $1,000 of assessed property value
# Public Utility Personal Property Tax Basics

## Assessment Rates

<table>
<thead>
<tr>
<th>Type of Utility</th>
<th>Type of Property</th>
<th>Assessment Rate (%)</th>
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<tbody>
<tr>
<td>Electric</td>
<td>Production (Generating) Equipment</td>
<td>24</td>
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<tr>
<td></td>
<td>Transmission &amp; Distribution</td>
<td>85</td>
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<td>All Other</td>
<td>24</td>
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<tr>
<td>Rural Electric</td>
<td>Production (Generating) Equipment</td>
<td>24</td>
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<td></td>
<td>Transmission &amp; Distribution</td>
<td>50</td>
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<td></td>
<td>All Other</td>
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<td>Natural Gas</td>
<td>All Property</td>
<td>25</td>
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<td>Heating, Pipeline, &amp; Water Works</td>
<td>All Property</td>
<td>88</td>
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<tr>
<td>Water Transportation</td>
<td>All Property</td>
<td>25</td>
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</table>

Source: Ohio Department of Taxation, FY 2018 Annual Report, pages 120-123
Ohio Constitution imposes two primary limitations on real property taxation:

✓ All real property must be taxed uniformly according to its “true value in money” = fair market value.

✓ Taxes can exceed 1% of value only with voter approval—TEN MILL LIMIT
Article XII, Section 2 (Ten Mill Limit)

No property, taxed according to value, shall be so taxed in excess of one per cent of its true value in money for all state and local purposes, but laws may be passed authorizing additional taxes to be levied outside of such limitation, either when approved by at least a majority of the electors of the taxing district voting on such proposition, or when provided for by the charter of a municipal corporation.
Tax Reduction Factors

A Mechanism to Stop Tax Increases Resulting from Inflationary Increases in Value

- Property taxes generally can not increase in the taxing district because of inflationary increases resulting from re-appraisals or triennial updates.
- Tax Reduction Factors are applied to current levies to assure growth does not occur. Applied to what is known as CARRYOVER property.
- Tax Reduction Factors are applied to the gross millage (voted rate) which lowers the millage and is referred to as effective millage.
- Growth generally limited to inside millage and new construction or improvements.
C(2) With respect to each voted tax authorized to be levied by each taxing district, the amount of taxes imposed by such tax against all land and improvements thereon in each class shall be reduced in order that the amount charged for collection against all land and improvements in that class in the current year, exclusive of land and improvements not taxed by the district in both the preceding year and in the current year and those not taxed in that class in the preceding year, equals the amount charged for collection against such land and improvements in the preceding year.
Property Tax Credit Programs

- There are three property tax credit programs in Ohio
- These credits reduce the amount of taxes paid by property taxpayers
- The State reimburses Local Government for the taxpayer credits

- Non-Business Credit
  ✓ Formerly the 10% Credit or “Rollback”

- Owner Occupancy Credit
  ✓ Formerly the 2½% Credit or “Rollback”

- Homestead Exemption
  ✓ Means Tested by income
Property Tax Credit Programs

- **Non-Business Credit** started in 1971; in 2005 credit eliminated for business property.
- **Owner Occupancy Credit** started in 1979.
- Full 10% & 2½% Credit only applies to renewal levies. **New & Replacement Levies** passed after 9-29-13 do not receive the credit. This was **tax increase** for property tax payers, but no loss to township.
- On my tax bill my 10% credit is now down to 7.75% and my 2½% credit is down to 1.94%.

- **Homestead Exemption** dates from 1971
  - Must be 65.
  - Permanently & Totally Disabled.
  - Surviving Spouse at least 59.
  - Reduces $25,000 of market value from taxation ($8,750 of assessed value); for permanently & totally disabled veterans it is $50,000 of market value ($17,500).
  - Incomes above $32,800, except those “grandfathered”.

On my tax bill my 10% credit is now down to 7.75% and my 2½% credit is down to 1.94%.
Constitutional Amendments Modifying the “Uniform Rule” for Homestead Exemption

• 1970—Homestead exemption for those 65+
• 1975—For permanently & totally disabled
• 1990—For surviving spouses 60+
Constitutional Amendment Required for Homestead Exemption Program

Modification of Uniform Rule Provision

Article XII, §2

Land and improvements thereon shall be taxed by **uniform rule according to value, except** that laws may be passed to **reduce taxes** by providing for a **reduction in value of the homestead of permanently and totally disabled residents, residents sixty-five years of age and older, and residents sixty years of age or older who are surviving spouses of deceased residents** who were sixty-five years of age or older or permanently and totally disabled and receiving a reduction in the value of their homestead at the time of death, provided the surviving spouse continues to reside in a qualifying homestead, **and providing for income and other qualifications to obtain such reduction.**
There are three different tax rates for each levy in effect:

- **Voted / Gross Rate**
- **Effective Rate** for Class 1 real property
- **Effective Rate** for Class 2 real property
- Rate for Public Utility Personal property
Inside Millage • Unvoted Millage

• Resulted from Ohio Constitutional Amendment reducing 15 mill limit to 10 mills during the Great Depression.
  ✓ Aggregate or combined amount of unvoted real estate taxes levied in a political subdivision in any one year cannot exceed ten mills.

• Apportionment of those ten mills followed a formula by which each local government received two-thirds of the taxes levied with the limit was 15 mills.
  ✓ Inside millage is not subject to tax reduction factors

• Townships usually have somewhere between 1 and 2½ unvoted mills.
  ✓ Generally, unvoted mills are used for general fund purposes.
  ✓ Some townships have divided the millage into two funds: general fund and road and bridge fund.
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When a board of township trustees votes to collect revenue in excess of the ten-mill limitation, a levy must be put before the residents of the township for a vote.

Ohio Revised Code §5705.19 lists all of the different purposes for which a township may levy a tax in excess of the ten-mill limitation.

Examples:
- current expenses
- debt charges
- fire / EMS / police
- roads
- cemeteries
- parks / recreation
- greenspace
- solid waste
- senior citizen services
• Voted levies are generally subject to tax reduction factors.

• There are three types of voted property tax levies:

  ✓ **Additional** - A brand new levy placed on the ballot for consideration.
  ✓ **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 or gross rate of the existing levy, subject to the tax reduction factors in subsequent years.
Duration of Property Tax Levies

Length of Time of Levies

 ✓ Fixed number of years
   \[(generally up to 5 years)\]

 ✓ Continuing
   \[(only for certain purposes as listed in RC §5705.19)\]

 ✓ As otherwise specified in statute
   \[(could be up to 10 or 15 years or other length depending upon purpose and as listed in ORC)\]
## Washington Township, Montgomery County Example

### 2020 Budget

<table>
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<tr>
<th>Fund</th>
<th>Includes State Credit Reimbursement?</th>
<th>Date Authorized</th>
<th>Duration of Levy</th>
<th>Type of Levy</th>
<th>Year Expires</th>
<th>Gross Mills</th>
<th>Effective Mills</th>
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<td>1.95</td>
<td>1.80</td>
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<td>Fund</td>
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<td>Type of Levy</td>
<td>Year Expires</td>
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<td>Fire</td>
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<td>Recreation</td>
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<td>5 years</td>
<td>Replacement</td>
<td>2023</td>
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State Intergovernmental Funding Sources

- Property Tax Credit (Rollbacks) Reimbursement—Non-Business, Owner Occupancy & Homestead Exemption
- Motor Vehicle Fuel Tax—Gas Tax
- Motor Vehicle License Fee
- Kilowatt Hour & Natural Gas Distribution Taxes
- Tangible Personal Property (TPP) & Public Utility Personal Property Tax Reform (Elimination) Reimbursement
- Local Government Fund (LGF)
- Extra Payment to Townships
Ohio’s Motor Vehicle Fuel Taxes

- Ohio’s gas tax began in 1925 and has been altered 17 times since then for a total of **38.5¢/gallon**. Diesel fuel is **47¢/gallon. Up from 28¢/gallon**

- Last increase was July 1, 2019—an increase of **10.5¢** and **19¢** on diesel.

- Gas taxes are collected by the Ohio Department of Taxation and distributed among the state, counties, municipalities and townships by statutory formula.

- Funding received from the motor vehicle fuel tax is required by the Ohio Constitution to be used for highway purposes.
## Distribution of Ohio’s Motor Vehicle Fuel Taxes

### A Portion of the Old 28¢ Gas Tax

**Distribution Among Local Governments**

- **Municipal Share** = 42.86%
- **County Share** = 37.14%
- **Township Share** = 20.00%

*In 2018, townships received 6.8% of the gas tax total*

### Purpose

<table>
<thead>
<tr>
<th>Purpose</th>
<th>Percent</th>
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<tr>
<td><strong>STATE</strong></td>
<td>64.75</td>
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<tr>
<td>✓ State Highway Operating Fund</td>
<td>56.00</td>
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<td>✓ Debt Service</td>
<td>6.00</td>
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<td>✓ Other Transportation to State</td>
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<tr>
<td><strong>LOCAL GOVERNMENTS</strong></td>
<td>34.9</td>
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<tr>
<td>✓ Municipal, Township &amp; County Shares</td>
<td>31.5</td>
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<tr>
<td>✓ LTIP/OPWC for Local Projects</td>
<td>3.4</td>
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*After refunds and (1) 2% to HOF, (2) .875% to Waterways Safety Fund, (3) .175% to Wildlife Boat Anglers Fund, and .275% to Gas Tax Administration Fund. Total off the top = 3.275% + Refunds.*
The New 10.5¢ Gas & 19¢ Diesel Tax
(after certain reservations)

State Portion = 55%
Local Portion = 45%

The Township Distribution Formula

2003 formula directed additional money to townships. Rather than dividing the township portion equally among all 1,308 townships, a township receives the greater of:

- What it would receive if additional revenue was distributed equally among all 1,308 townships, or
- 70% of what the township would receive if one-half were allocated in proportion to township road mileage and one-half in proportion to township vehicle registrations.

This amounts to an additional approximately $8.9 million per year for townships with the money being taken equally from state, municipal & county funds.
Pursuant to R.C. §4501.04, the State of Ohio collects a $31 fee from the sale of passenger license plates.

Rates for commercial vehicles vary between several weight classes depending on the gross weight of the vehicle.

The Highway Bond Retirement Fund and the Highway Operating Fund are allocated 42.6% of the revenue from commercial vehicles having gross vehicle weights of more than 26,000 lbs.

The Highway Safety Fund receives $11 of each passenger vehicle registration, and an additional $19 for registrations of commercial trucks.
After any bond retirement obligations are made and payment is made to the BMV for administrative costs plus interest, the license revenue is distributed in the following manner:

**34% District:**
- 34% of license revenue collected from a **municipal registration** is distributed to the municipality.
- 34% of license revenue collected from a **township registration** is distributed to the county in which the resident resides.

**47% County:**
- 47% of all license revenue collected is distributed to the county in which the resident resides.

**9% County Road Mileage:**
- 9% of the total state license revenue collected is **distributed to each county** based on the ratio of each county’s road mileage compared to the total state’s mileage.

**5% Township Road Mileage:**
- 5% of the total state license revenue collected is **distributed to each township** based on the ratio of each township’s road mileage compared to the total state’s mileage.

**5% Equal:**
- 5% of the total state license revenue collected is distributed **equally among all counties.**
• **Kilowatt Hour & Natural Gas Distribution Tax Reimbursement**

These taxes were created to replace revenues lost due to tax changes made in 2002. Since 2002, townships have received “replacement” revenues in the form of payments from this tax. Initially, the amount distributed to each township was based solely on the amount of money that each jurisdiction lost due to public utility personal property tax changes. Since 2007, payments had begun to be phased-out and continued until 2013, at which time the payments were to continue for the life of the levy. The phase-out schedule changed beginning with the August 2011 payment; replacement payments were reduced by 2% of the township’s “total resources,” as that term is defined in Ohio law. Payments were reduced by additional 2% in 2012 and 2013 and then held harmless thereafter. Included in HB 64 (131st General Assembly) was the reinstatement of the phase-out of these payments by 2% each year until eliminated.

• **Tangible Personal Property (TPP) Tax Reimbursement**

By 2010, the tax on tangible personal property (TPP) of non-utility businesses was eliminated. Like the above, townships were initially reimbursed the full amount of lost tax revenue due to the elimination of the TPP tax and then the amounts were to be completely phased out by 2018. Replacement payments are based on those levies approved prior to Sept. 1, 2005 (but only if the levy is still in place) and on TPP values that existed as of Aug. 31, 2005. Like the above, payments are reduced by 2% of the township’s “total resources” until eliminated.
The Local Government Fund (LGF) dates back to 1935, when the state enacted the first sales tax and reduced the 15 mill limit to 10 mills.

While the LGF has undergone many changes since its inception, the basic elements remain the same: a designated portion of state revenue (1.68% of the state GRF) is deposited into the LGF and a statutory formula is used to allocate revenue to the undivided LGFs of each of the 88 counties.

The money sent to all 88 counties is then allocated to the political subdivisions by either a statutory formula or an alternative formula. The determination to use a statutory or an alternative formula is left up to each individual county.

A township’s share varies considerably from county to county based upon a formula devised locally to allocate the revenue.
Since March 2015, townships have been allocated an additional $10 million from the state local government fund.

This funding is calculated by the Tax Commissioner but distributed by county auditors as directed by the Tax Commissioner.

Half of the $10 million was divided among the counties so that each township in the state receives the same amount, and the other half was apportioned based on township road miles.

This LGF Supplemental Payment is in addition to the amount the township receives from the county budget commission under either that statutory formula or a county alternative formula.
Township Permissive Taxes

- **Lodging Tax**
  - R.C. §5739.08 permits a township to levy an excise tax up to 3% on guests that stay at a lodging facility located within the township.
  - The revenue received from this specific lodging tax may be placed in a township’s general fund for use on any lawful township purpose.
  - In addition, townships may impose an “additional” lodging excise tax of up to 3% under authority granted by R.C. §5739.09(B)(1); however, this “additional” tax may not be imposed if the county has already imposed a lodging tax under authority provided by R.C. §5739.09(A)(1). 50% of revenue must be distributed to convention and visitor’s bureaus.

- **Permissive Motor Vehicle License Tax**
  - A township may levy two annual $5.00 motor vehicle license plate taxes for the purposes of paying the costs of construction, reconstruction, improvement, maintenance and repair of township roads, bridges, cost and maintenance of traffic control devices, purchase and maintenance of township road equipment and the construction, reconstruction, improvement, maintenance and repair of township road buildings. Tax must be enacted and BMV notified by July 1 for tax to be effective the following January 1.
Other Sources of Revenue/Fees

- **Cigarette License Fees**
  Ohio levies a charge on every person desiring to engage in the wholesale or retail business of trafficking in cigarettes. The township in which the charge originates shall receive 37.5% of the total wholesaler fees and 62.5% of the total retailer fees.

- **Liquor Permit Fees**
  A township that has liquor permit establishments located within the unincorporated territory are entitled to receive 35% of the undivided liquor permit fund, which is comprised of all liquor permit fees, except B-2a and S permit fees from B-2a and S permit holders who do not also hold A-2 permits.

- **Solid Waste Host Community Fee**
  A township in which such a solid waste disposal facility is located may levy a fee of not more than 25 cents per ton on the disposal of solid wastes at the facility.

- **Construction & Demolition Debris Host Community Fee**
  A township in which a construction and demolition debris (C&DD) facility is located may levy a host community fee of up to 4 cents per cubic yard or up to 8 cents per ton of the disposal fee required to be paid by the facility.
Other Sources of Revenue/Fees

• **Ambulance or Emergency Medical Services Fee**
  A board of township trustees may establish reasonable charges for the use of ambulance or emergency medical services. The board may charge a different rate for residents and non-residents but the non-resident rate can be no less than the authorized Medicare reimbursement rate.

• **False Alarm Fee**
  A township may charge commercial or residential building owners a fee for false alarms. A board may charge up to $300 for more than three false fire alarms in one year. Additionally, a board may charge for false alarms responded to by police officers or constables protecting the township. If officers or constables respond to the same commercial or residential building more than three times in one year, the fourth call in the same year may be charged $50, the fifth call $100 and any subsequent calls may be charged $150.

• **JEDDs or JEDZs**
  Joint Economic Development Districts (JEDDs) or Zones (JEDZ) are economic development tools that allows collaboration of municipalities and townships to encourage business growth. The JEDD/JEDZ agreement dictates how income tax revenues collected within the area will be allocated.

• **Grants**

• **Investment Income**
Larry L. Long  
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Is Your Township Served by an Ohio Revised Code Chapter 6119 Water & Sewer District?  

Is the Regional District Serving Your County a Member of the Coalition of Ohio Regional Districts (CORD)?  

For further information contact Larry Long or Catina Taylor, Executive Assistant at the CORD office

88 N. Fifth St • Columbus, Ohio 43215  
614.464.4414 ext. 7