



OHIO TOWNSHIP ASSOCIATION

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House Finance Committee Sub. HB 153 Interested Party Testimony April 12, 2011

My name is Matthew DeTemple and I am the Executive Director for the Ohio Township Association. On behalf of the Ohio Township Association (OTA), thank you for the opportunity to testify before you today to express our views on several provisions of Sub. House Bill 153, the biennial budget bill.

The OTA certainly understands the financial position of the state. Our members are experiencing similar hardships. We recognize the difficult task the members of the General Assembly have in adopting a balanced budget. Townships are willing to accept our share of the cuts. Our concern is that Sub. HB 153 imposes a disproportionate share of the cuts on townships.

REVENUE STREAMS

Mr. Chairman, members of the Subcommittee, you are all aware that townships are funded primarily through property tax levies. Unlike counties that may levy both a property tax and sales tax and municipalities that may levy a property tax and income tax, townships may only levy one type of tax, the property tax. Additionally, townships are very cognizant of the millage requests put before voters due to schools and social service agencies reliance on property tax revenue, as well. Therefore, any and all reductions in revenue will be difficult to replace and will greatly hamper the ability of townships to provide the basic services on which residents rely.

The proposed reductions in the Local Government Fund (25% for FY 2012 & 50% for FY 2013) will cripple township general revenue funds that are already depleted. The LGF is the second and third largest revenue stream for most townships and townships will be forced to eliminate or drastically reduce services or pass a levy to make up for the lost revenue. In a healthy economy, I might come before you seeking an increase in the LGF. Given the current situation, we are seeking a more proportionate reduction in the LGF.

When the General Assembly enacted deregulation legislation (2000) and tax reform (2005), they provided a program of revenue replacement for monies that will be lost due to deregulation and the phase-out of the tangible personal property (TPP) tax. This mechanism provided a financial buffer for townships and a scheduled time frame to reduce costs and/or pass levies to make up for the lost revenue. The bill before you eliminates these reimbursements in many townships.

We do want to say thank you to the administration for recognizing that some communities are more adversely impacted than others relative to these two phase-out programs and we do appreciate

that the provisions of Sub. HB 153 may provide these communities with more revenue and increase the length of time for reimbursements.

I would like to note that the proposed reductions or eliminations in Sub. HB 153 would be in addition to changes made to the estate tax (Sub. HB 3), as passed by the House Ways & Means Committee in February. (Companion measure before the Senate Ways & Means & Economic Development Committee) Additionally, you have heard people say, “Local governments are going to receive revenue from the casinos that will open soon.” Mr. Chairman, members of the Subcommittee, townships will not receive any casino revenue. Attached to my written testimony is brief summary of how townships are currently funded.

Townships, like the state, plan budgets. With TPP and utility, governments planned for the phase-down. Should Sub. HB 3 pass, townships will plan for that revenue reduction. We are willing to do our share and do more with less, but we must have time to prepare for that new era. Additionally, we ask you to consider that townships already meet one of the greatest end goals of this state; we do not have an income tax. Therefore, we are very attractive to businesses looking to locate in Ohio, but with these cuts, compounded with some of the provisions in the Transportation Budget, our infrastructure and ability to provide basic services could be in serious jeopardy.

COST SAVING & OTHER MEASURES

The cost of doing business has escalated over the years, both in private and public offices. Townships, generally known as the most cost-efficient and cost effective form of government in Ohio, are reliant on the property tax. Townships have learned to do more with less while still providing quality services to their residents. This is a byproduct of ingenuity on the part of township officials and employees and increased use of technology available today. More tools are needed to help townships be even more efficient and effective.

OTA SUPPORTS

Employer / Employee Shares of Pension

Included in HB 153 is language that increases employee contribution rate by 2 percentage points and decreases employer contribution rates 2 percentage points. As this relates to townships, this would include all township employees that are in OPERS and OP&F. The OTA supports the temporary shift in contribution rates as a means to help save townships money. This will provide townships with immediate and substantive savings over the next two years.

Fire Department Grants

For many years, the Ohio Department of Commerce has offered grants to volunteer fire departments through the Volunteer Fire Department Equipment Grant program. This program has helped many volunteer township fire departments across the state. Substitute HB 153 continues the offering of this important grant program with a provision for approximately \$1.6 million in dedicated grant money. The OTA strongly supports the continuation of this program, as well as all programs that would provide grants to local governments, especially during these tough economic times.

Contracting with an ESC

Current state law permits local governments to participate in a variety of agreements that will result in shared services. With respect to schools, educational service centers (ESC) around the state provide education support services for districts in areas such as special education, instruction support and curriculum and conduct joint purchasing for schools such as textbooks, equipment and buses. Language is included in Sub. HB 153 to permit a township to contract with an ESC for services. This is simply another tool in the toolbox for townships that are looking for more efficient and effective ways to provide services.

Use of Design/Build

The use of Design/Build has been a privilege for the state for a number of years but local governments have not been permitted to use this method when constructing public improvements. Language in Sub. HB 153 opens up the use of Design/Build to local governments, including townships. Furthermore, Sub. HB 153 increases the competitive bidding threshold for these services to \$200,000. The Design/Build concept involves a seamless process that incorporates feasibility (budget), design, scope development and construction under one roof, which provides accountability from concept to completion. By permitting townships to use Design/Build, there is potential for faster project delivery and the elimination of redundancies and costs.

Advertising on Township Website

The use of the internet and e-commerce, has transformed business and government operations. Many townships have websites and use them for publicizing township meetings, posting new resolutions and promoting township and community events. The reduction in revenue and the increasing costs to maintain those websites may hinder townships from being able to provide these cost effective and efficient services to their residents. Included in Sub. HB 153 is language permitting local governments, including townships, to authorize commercial advertising on their websites. This will provide townships a small revenue stream to help offset the costs of the website.

Furlough Days & Modified Work Weeks

Included in Sub. HB 153 is language extending the use of furlough days and a modified work week to townships. The OTA supports including townships in this section of the Code in order to assist with budgetary constraints.

OTA SUPPORTS WITH CHANGES

Shared Services

Included in our legislative platform for the 129th General Assembly, the OTA has requested a provision in the Ohio Revised Code that provides blanket authority for collaboration between jurisdictions. The OTA has worked with Senators Turner and Seitz on language creating such a statute and SB 125 was introduced several weeks ago. Substitute HB 153 includes similar language to SB 125 with one exception and the OTA respectfully requests that this language be inserted in Revised Code Section 9.482

“No agreement entered into under this section shall be performed within a political subdivision by another political subdivision without obtaining the written consent of the political subdivision which is not a party to the agreement and in which the agreement is to be performed prior to the performance of the agreement.”

By including this language, this will ensure that contracts that have already been entered into will not be impacted without the consent of all contracting parties to the original agreement.

Health Insurance Pooling

For many years the OTA has sought permissive authority for townships to join in state government health insurance pools. We remain supportive of this concept. Pooling can be an important concept in holding down insurance costs, however, health insurance is a complex marketplace which can vary greatly from one region to the next in Ohio. We support the provisions in Sub. HB 153 which require that an exhaustive study of the provision of health insurance be undertaken. We believe the bill contains a comprehensive list of topics that must be addressed in the study.

There are requirements in Sub. HB 153 which cause us concern. Various townships in Ohio currently participate in regional health insurance consortiums as a means of holding down costs. We believe such consortiums should remain an option for townships and that township trustees should have the prerogative to exercise that option, rather than seeking permission from DAS. The bill will grant DAS broad authority to design health insurance plans for townships, develop a request for proposals and solicit bids for health care plans for political subdivisions. These functions are traditionally performed by locally elected officials and we believe decisions as detailed as the elements of employees health insurance should be subject to local control.

Finally, Sub. HB 153 contains a stiff penalty that townships would not receive state aid if in violation of the health insurance provisions of Revised Code Section 9.901. Rather than mandatory participation in a state health insurance plan, enforced by such a stiff penalty, we would favor the permissive authority to choose to participate in the state plans that will result from the work of the consultant and DAS.

Prevailing Wage

The OTA has lobbied over the last ten years for an increase in the prevailing wage threshold and we were happy to see that the proposed threshold in Sub. HB 153 is \$5 million for the majority of public improvements. The new prevailing wage threshold would not apply to road projects, as those projects would be subject to current thresholds of \$78,258 for new roads and \$23,447 for reconstruction and improvements. The OTA respectfully requests the thresholds for road projects be increased to at least \$250,000 and \$75,000 respectfully.

Public Notice

Townships, like other governments and businesses, have taken advantage of the Internet to provide web sites that have information ranging from meeting minutes to online forms to public

notification of township happenings. Web sites have allowed townships to provide information to the public at a very low cost but it is a constant struggle to balance the cost of doing business with the public's right to know. Substitute HB 153 includes language that permits a township to eliminate multiple public notice requirements if a notice is posted on a statewide web site and a brief notice is published in the newspaper. Additionally, the township may place the notice on the township's web site. This change allows for antiquated public notice requirements that mandated three or four notices to be changed to one notice. For example, ORC § 511.25 requires the sale of township park district lands to be advertised four times, whereas township owned property is only subject to two notice requirements (ORC §505.10).

While we appreciate the reduction in the notice requirements, the OTA respectfully requests the language be altered to permit a township to use a statewide website **OR** the township's web site for compliance with the web site publication requirement, as opposed to requiring the use of a statewide web site. Townships that have web sites have been directing members of the community and local vendors to their websites for information for years.

INDIRECT COST INCREASES FOR TOWNSHIPS

Costs of Audits

Current law requires certain expenses of deputy state auditors to be paid out of the state treasury, as opposed to local governments, such as vacation, sick time, traveling costs and hotel expenses. Substitute HB 153 eliminates this provision, thus permitting the State Auditor to apportion these costs to local governments as part of the cost of an audit. The bill also requires the Auditor of State to establish by rule rates to be charged to local governments for recovering the costs of audits. Auditor Yost testified that this provision will help ensure consistency in costs being charged and provide a better level of predictability for budgeting purposes but the OTA asks at what increased cost to townships?

Office Space for Health District

Townships are required to help fund general health districts, primarily through inside millage allocations. A provision in Sub. HB 153 states that the county commissioners have no duty to provide office space and utilities to a county general health district beginning in 2016. While the bill does provide for a transition period, this language will likely increase costs for townships.

Mr. Chairman and members of the Subcommittee, thank you for the opportunity to testify and your consideration of our requests. I would be happy to answer any questions that you may have.

TOWNSHIP FUNDING

Taxes

Tax money is distributed to townships through the collection of inside millage, levies, motor and lodging taxes. Townships are primarily funded through property taxes levied on real property within the township.

Inside Millage - The Ohio Constitution prohibits taxes on property in excess of 1% of true value without voter approval (Article XII, Section 2). Actual implementation of this amendment involved the creation of a statutory limit of ten mills. Apportionment of those ten mills followed a formula by which each local government received two-thirds of the taxes allowed to it under a previous system.

Townships usually have somewhere between 1 and 2 1/2 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.

Levies - 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 Section 5705.19 lists all of the different purposes for which a township may levy a tax in excess of the ten mill limitation.

Pass along taxes, such as the motor vehicle license tax or the hotel bed tax, may be implemented by a majority vote of the board of township trustees but both are subject to referendum by township residents.

Additional Motor Vehicle Tax - Pursuant to ORC §4504.18, a township may levy an annual \$5 motor vehicle license plate tax 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.

Lodging Tax - Ohio Revised Code §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 ORC §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 ORC §5739.09(A)(1).

Fixed Funding

Fixed funding, for purposes of this document, are monies the Ohio Revised Code provides the authority for townships to collect. They require a limited amount of work on the township's part. These funds include the Local Government Fund, motor vehicle license fees, gasoline tax, TPP reimbursement, public utility taxes, the estate tax, solid waste and C&DD host community fees, cigarette license and liquor permit fees.

Local Government Fund (LGF) - Ohio's Local Government Fund (LGF) was established by the General Assembly in 1934. The LGF was created during the peak of the Great Depression, when many local governments were experiencing severe financial difficulties. The LGF has undergone many changes since its inception, but the basic elements of the program have remained constant over the years: a designated portion of state revenues (currently 3.68% of the state's general revenue fund) are deposited into the LGF; a formula is used to allocate the monies to the county undivided local government fund in each Ohio county; and county budget commissions authorize and determine the distribution to local governments. Townships use this money to offset operational costs and fund unfunded mandates.

Motor Vehicle License Fee - The state imposes several motor vehicle license fees upon owners of motor vehicles. The revenue the state receives from these various fees are collected and credited to the state's auto registration distribution fund. The state creates an account for each county and district of registration of the state, including townships. Of the total amount collected and deposited into the fund, notwithstanding some prohibitions listed in ORC §4501.03, 5% is distributed to townships. The township pot is divided based on a percentage of the total number of miles of township roads in the state and the township's number of miles of road maintained.

Gasoline Tax - The General Assembly adopted the first gasoline tax in 1925. The revenue collected from the tax is apportioned to state agencies and for use by counties, municipalities and townships. The tax is actually comprised of five separate statutory levies that have been enacted over the years. Townships receive a portion of proceeds from three of the five motor fuel tax levies. All told, townships receive about 1.9 cents or 6.8% of the total 28 cents per gallon motor fuel tax to maintain the 41,387 miles of township roads. The Ohio Constitution and state law require that any revenue received from any of the gasoline taxes be used only for expenditures on roads and bridges.

Fixed Funding (continued)

Tangible Personal Property Tax Reimbursement - Although phased out for most taxpayers in 2009, the tax base of tangible personal property (TPP) is property located and used in business in Ohio, including machinery, equipment and inventories. Telephone companies and internet exchange telecommunications companies will continue to pay TPP taxes through tax year 2010. Townships are reimbursed for the loss of tax revenue due to the elimination of the TPP tax. Replacement payments are based on levies approved prior to Sept. 1, 2005 and TPP values that existed as of Aug. 31, 2005. As township revenues have decreased since 2005, replacement payments have increased in order to hold townships "harmless" on qualifying levies through FY2011. Replacement payments to townships will begin to decline in FY 2012 until FY 2018 (FY 2019 for telephone property), when townships will receive no replacement payments.

Public Utility Property Tax - Public utilities are still subject to the taxation on TPP. Public utilities include electric, rural electric, natural gas, pipeline, water works, water transportation and heating. For most public utilities, the personal property tax base consists of all TPP owned and located in Ohio on Dec. 31 of the preceding year. Tax rates vary by taxing township and are the sum of all levies for the township in which the property is located or to which it is apportioned. After local administrative deductions, revenue is distributed to townships according to the taxable values and total millage levied.

Estate Tax - Estates of Ohio residents with a net taxable value over \$338,333 are subject to the state's estate tax law. Townships receive 80% of the revenue generated from the estate tax, while the remaining 20% is deposited into the state's general revenue fund. Townships use this revenue for capital investments such as new road or fire vehicles or improvements to a township building or park. Funds are also used to maintain a quality level of basic governmental services such as road repair, police, fire and emergency medical services.

Kilowatt Hour & Natural Gas Distribution Taxes - These taxes were created to replace revenues lost due to tax changes made by Senate Bill 3 & Senate Bill 287 (123rd General Assembly). Since 2002, townships have received "replacement" revenues in the form of payments from this tax. The kWh and Mcf taxes were originally designed to generate the amount of money that was "lost" due to other tax changes made by SB 3 & SB 287. The amount of money needed to replace the revenue that townships lost was deposited into the Local Replacement Fund. Initially, the amount distributed to each township was based solely on the amount of money that each lost due to tax changes made by the two bills. Since 2007, these "direct replacement" payments have begun to be phased-out and will continue until 2016, after which time these payments will be eliminated. At the same time, while replacement payments are starting to phase out, a new distribution method is being phased in. Starting in August 2007 townships began to receive distributions of "surplus" revenues, which is the amount of money left over in the Local Replacement Fund after the payments have been made but the distribution is based on a different formula. In 2017, townships will receive revenue from the Local Replacement Fund based solely on the new formula.

Solid Waste Community Host Fee - For the purposes of defraying the added costs to a township of maintaining roads and other public facilities and providing emergency and other public services, 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. All revenue collected from this fee is to be deposited into the township's general fund pursuant to ORC §3734.57 (C).

Construction and Demolition Debris Community Host Fee - Similar to solid waste law, ORC §3714.07 (C) permits a township in which a construction and demolition debris (C&DD) facility is located to levy a C&DD 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. Money received shall be paid into the township's general fund and may be used for the same purposes as the solid waste community host fee.

Cigarette License Fee - 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 Fee - Similar to the cigarette tax, 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.

Assistance Programs

In addition to the above funding, townships receive help from a limited number of state and federal grants and donations from residents, local businesses and/or foundations.