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OHIO LEGISLATIVE SERVICE COMMISSION

Office of Research
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Legislative Budget
Office

H.B. 113
136th General Assembly

Fiscal Note & Local Impact Statement

[Click here for H.B. 113's Bill Analysis](#)

Version: As Introduced

Primary Sponsors: Reps. Bird and Newman

Local Impact Statement Procedure Required: Yes

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Highlights

- The bill specifies that the three types of annexations must serve the “general good” as determined by the applicable board of county commissioners. It is unclear how many such determinations would be approved or disapproved under this provision.
- The bill makes several changes to the type 2 annexation process. The fiscal effects of these changes are uncertain, but it appears as though the number of such annexations could be reduced under the bill.
- However, the bill requires the State Board of Education to transfer territory between school districts under type 2 annexations, in contrast with current law that generally provides the State Board with discretion in territory transfer approvals. Therefore, additional school district territory transfers may occur. If so, the bill likely shifts district revenues, expenditures, and other resources, and may affect state aid. Such effects will depend on the circumstances of the transfers and the affected districts.
- Requiring school board approval of certain residential improvements in community reinvestment areas may decrease tax revenue losses to school districts and other local governments or allow districts to obtain more favorable payments in lieu of taxes.

Detailed Analysis

Annexation changes

The bill makes several modifications to the annexation law pertaining to the three types of annexation (type 1, type 2, and type 3), as well as municipal-initiated annexation. It is unclear whether the provisions of the bill will result in an increase or decrease in the number of initiated,

and approved annexations. These changes and their potential fiscal impacts are discussed in further detail below.

General good

The bill contains a provision specifying that Ohio's three types of annexations (type 1, type 2, and type 3) as well as the municipal-initiated procedure for annexing contiguous public property, serve the general good as determined by the applicable board of county commissioners. For the three expedited forms of annexation, the bill requires the board to find that on balance, the general good of the territory to be annexed will be served, and the benefits of the annexation and surrounding area outweigh the detriments. If the board does not conclude that the annexation would serve the general good, the county is required to reject the annexation under the bill. This is the current practice used for traditional annexations. It is unclear as to what impact adding this provision to expedited annexations, or municipal-initiated annexations, will have on their approval by a board of county commissioners.

Expedited type 2 changes

The bill makes several modifications to type 2 annexation procedures and factors, the effect of which will most likely be fewer such annexations. Most notably, a failure to respond to a proposed annexation by a municipal corporation is considered a refusal under the bill, rather than considered consent under current law. Additionally, the bill reduces the maximum acreage proposed for annexation from 500 acres to 200 acres. Also, the bill increases the maximum amount of contiguous boundary shared between a municipal corporation and territory to be annexed from 5% to 20%. These changes, in totality, would appear to make it more likely a type 2 annexation is not proposed, or if proposed, is rejected.

In addition to the above changes, the bill also makes modifications to the services that a municipal corporation is required to provide to an annexed territory. The bill requires that a municipal corporation agree to provide all services generally available within the municipality to an annexed territory, rather than allowing the municipality to choose which services it will provide. (However, the bill allows the municipal corporation to satisfy this requirement through establishing agreements with the county, township, or another political subdivision to provide those services.) Typically, these services would be provided through some combination of local government entities listed above. However, the bill would require the municipality annexing the territory to establish all such agreements in advance, or if an agreement cannot be reached, require the municipality to pay the costs of providing those services.

Township territory and taxation

After a type 2 annexation is approved, current law prohibits the annexed territory from being removed from the township (absent other agreements). Under the bill, this prohibition generally applies only if township services are provided within the annexed territory. In other words, the territory could be excluded under the bill if the township no longer provides services to the territory. The bill does not specify what types of services qualify.

Police, fire, and emergency medical services are commonly supported by property tax levies. In general, the taxing district aligns with the community being served. LBO staff is unaware of a reliable data source that would indicate how frequently a township continues to provide services to annexed territory. Potentially, the township has incentive to continue providing

services to maintain its existing property tax base and avoid reduced revenues for its service offerings.

School district territory transfers

Under current law, when the territory annexed to a city or village comprises part but not all of the territory of a school district, in general, the territory becomes part of the city school district or the school district of which the village is a part only with the approval of the State Board of Education. The bill requires the State Board of Education to transfer annexed territory under an expedited type 2 annexation to the school district primarily serving the annexing municipal corporation, if it differs from the district previously serving the area. While there may be fewer type 2 annexations for other local governments, the provision requiring the State Board to approve territory transfers under an expedited type 2 annexation may lead to more school district territory transfers than under current law.

If so, the bill may lead to a shift in district revenues, expenditures, and other resources. The bill has the potential to affect school district revenues in two principal ways. The first is by changing districts' tax bases and tax revenues. If a territory transfer occurs under the bill's provisions that otherwise would not have, the tax bases of the two districts affected would change accordingly, with one gaining and the other losing taxable property (and income, in the case of districts with income taxes). The magnitude of any impact will depend on the circumstances of the territory transferred.

Secondly, the gain or loss of territory may also increase or decrease state foundation aid to the affected districts. In general, state foundation aid to a school district is primarily driven by a district's enrollment, per-pupil property values and income levels, and any provisions limiting or guaranteeing funding levels. A territory transfer may result in a district having more or fewer students. Combined with changes in taxable property values and income levels in the affected districts, this, in turn, may also change the district's wealth as measured by the school funding formula. Per-pupil foundation aid is generally higher for districts with lower wealth per pupil. The current school funding formula, in effect for FY 2024 and FY 2025, is subject to a phase-in and contains various funding guarantees, both of which limit large swings in a district's state funding. The school funding formula will be calculated in a manner determined by the General Assembly for FY 2026 and each fiscal year thereafter. In addition, expenditures of the affected districts may increase or decrease depending on how the territory transfer affects the educational obligations of the districts.

However, the bill's effects on state aid and district expenditures may be mitigated to some degree by a provision in the bill that revises school district open enrollment policies for districts affected by an expedited type 2 annexation. It requires the school district from which the territory is transferred to allow a student who was enrolled in ninth grade or higher before the annexation to re-enroll in the district until the student completes twelfth grade, even if the district's policy otherwise prohibits open enrollment from other districts. For funding purposes, the foundation aid formula counts open enrollment students in the educating district's enrollment.

A student who re-enrolls in a district in this manner is considered an "adjacent district student" for transportation services, meaning that the educating district must provide transportation for the student within the boundaries of the district on the same basis as it

transports its own resident students from a regular school bus stop. Notably, current law permits, but does not require, districts to transport students in ninth grade or higher.

If additional territory transfers occur, there also may be some administrative costs generated for affected school districts and the State Board of Education to carry out clerical procedures and effectuate the transfer.

Community reinvestment areas – school board approval of residential improvements

A community reinvestment area (CRA) is an economic development tool available to local governments. It is a geographic portion of a municipal corporation's territory or of the unincorporated part of a county, for which the legislative authority of the municipal corporation or county has adopted a resolution describing the boundaries of the area. Within the CRA, new residential, commercial, or industrial structures or the increased value of existing structures after remodeling began may be granted an exemption from real property taxation for a specified number of years. For residential property, the exemption percentage and term are specified in the resolution creating the CRA.

The bill expands CRA school board approval requirements to include residential projects, alongside the current requirements for commercial and industrial projects. With certain exceptions, this change requires school boards to review and approve residential CRA applications in which more than 75% of the project's value is exempted from taxation. Extending school board approval requirements to residential projects in this manner would tend to make approval of some tax exemptions harder and might tend to decrease tax revenue losses to school districts and other political subdivisions. Alternatively, school boards may be able to secure more favorable compensatory payments in lieu of tax revenues compared to current law. School district administrative costs may increase to review a higher number of CRA applications.

Ethics filings

The bill includes city managers, assistant city managers, village administrators, and assistant village administrators to the list of individuals required to complete a financial disclosure statement with the Ethics Commission. The filing fee for such statements is \$35, which is deposited into the Ohio Ethics Commission Fund (Fund 4M60).