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# OHIO LEGISLATIVE SERVICE COMMISSION

Office of Research  
and Drafting

Legislative Budget  
Office

H.B. 113  
(1\_136\_0669-2)  
136<sup>th</sup> General Assembly

## Fiscal Note & Local Impact Statement

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

**Version:** In House Local Government

**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.
- Requiring board of county commissioner approval of certain residential improvements in community reinvestment areas may decrease tax revenue losses to school districts, counties, and other local governments or allow for more favorable payment in lieu of taxes arrangements.

### 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 of county commissioners of the county in which the territory proposed for annexation does not conclude that the annexation would serve the general good, then that county is required to reject the annexation under the bill. It is unclear 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 a modification to type 2 annexation procedures and factors, the effect of which will most likely be fewer such annexations. Specifically, the bill provides that 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. This change would appear to make it more likely a type 2 annexation is rejected through a failure to respond.

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. The bill goes on to require that the municipality provide these services beginning on the date that construction begins for those services, rather than establishing an approximate date for services. (Note, however, that 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. The bill requires 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.

### **Community reinvestment areas – board of county commissioners 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 requires a board of county commissioners to review and approve residential CRA applications in which more than 75% of the project's value is exempted from taxation unless it waives its right to do so. As a result, county commissioners could incur additional costs for reviewing these CRA applications. Requiring board of county commissioners approval for 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, counties, and other political subdivisions. Alternatively, boards of county commissioners may be able to secure more favorable compensatory payments in lieu of tax revenues compared to current law.

## **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).

## **Synopsis of Fiscal Effect Changes**

The various changes in the substitute bill (I\_136\_0669-2) with likely fiscal effects are summarized below:

- The substitute bill eliminates the previous (As Introduced) bill's fiscal effects on school districts and the State Board of Education with respect to school district territory transfers by removing provisions that require (1) the State Board 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, and (2) the school district from which the territory is being 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. The previous bill's provisions may have led to shifts in district revenues, expenditures, and state foundation aid, with increases or decreases depending on whether the district was gaining or losing territory.
- The substitute bill shifts possible increases in administrative costs from school boards to boards of county commissioners. It does so by requiring county commissioners, rather than school boards, to review and approve residential community reinvestment area (CRA) applications in which more than 75% of the project's value is exempted from taxation. This shift may also lead to different outcomes with respect to CRA applications or payment in lieu of taxes arrangements.
- The substitute bill removes several requirements for territories to be eligible for annexation in a way that appears to limit the potential number of eligible annexations.

- The substitute bill further specifies that the municipality provide services to the annexed territory beginning on the date that construction begins for those services, rather than establishing an approximate date for providing those services.