



OHIO TOWNSHIP ASSOCIATION

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Sub. HB 64 Biennium Budget Senate Finance Committee June 9, 2015

Good morning Mr. Chairman and members of the Finance Committee. On behalf of the Ohio Township Association (OTA), thank you for the opportunity to testify before you to express our views on Substitute House Bill 64, the biennial budget bill, and items that impact townships.

Townships offer a low tax venue that provides excellent services. That's why businesses such as Ford Motor Company, Honda, AK Steel, Proctor & Gamble, Timken, PPG Industries, CertainTeed Corp., Prologis, and Vantiv Corp. have all located major facilities in townships. Almost all population growth in Ohio from 2000 to 2010 was in townships. Yet, townships levy only 5.8% of the property taxes in Ohio.

Revenue for Townships

One of the most important issues for our members is funding for townships. As you know, townships do not levy income or sales taxes and do not receive casino revenue. Late last session, townships received a one-time cash infusion of \$10 million from the General Assembly. The \$10 million was distributed as follows: the first \$5 million was equally divided among Ohio's 1,308 townships. The remaining \$5 million was allocated based upon by the number of miles of road in each township. Again, this one-time cash infusion is only for the remaining six months of FY 2015. While we are grateful for the \$10 million infusion to our members, we believe a compelling case for additional funding can be made. Apparently, this body has acknowledged the merits of that argument as Sub. HB 64, as we understand it, contains additional funding for townships. Please know that we are grateful of this recognition of our plight and that this money will be put to good use.

Additionally, forecasts for FY 16-17 show increases in the state's General Revenue Fund (GRF) over the two-year biennium, thus there would be an increase in the Local Government Fund (LGF), which receives 1.66% of the GRF. Unfortunately, those forecasts are based on other proposed changes that impact townships. One of those proposed changes, to the Kilowatt Hour (KWH) tax, will increase state GRF by a projected \$65.3 million, but will at the same time reduce the size of the LGF by \$4 million. Likewise, while it is laudable to lower the personal income tax (PIT) rate, it is worth noting that most township residents are already not subject to a municipal income tax and each reduction of the PIT at the state level will have a negative impact on the LGF. If the political will of the General Assembly is to modify the KWH tax and lower the PIT, we ask that hold harmless language be added to protect the distribution of the LGF and the continued work of local governments.

Phase Out of TPP & Public Utility Reimbursements

Included in Sub. HB 64 is language that will reinstitute a phase-out of tangible personal property (TPP) and public utility property (PUTP) tax reimbursements that townships receive as part of tax reform enacted in 2005. As a key component of Ohio's 2005 tax reform, the state created the Commercial Activity Tax (CAT) and eliminated the TPP and PUTP taxes. While the OTA saw the need to update Ohio's tax laws, the state essentially eliminated a tax that funded local programs and replaced it with a tax that ultimately benefits the state GRF. As noted, part of the tax reform package called for reimbursements designed to hold harmless for five years and followed by phased-down payments through 2018. This transition period provided a window of opportunity for policy makers and interested parties to craft a permanent solution to address the loss of local revenue.

A short and long-term solution to replacing lost TPP and PUTP revenue absolutely is essential for critical programs and services that are important in townships. As you are aware, townships are heavily reliant on the property tax. The proposed phase-out will more drastically impact townships than other forms of local government. According to a spreadsheet released by the Ohio Department of Taxation, in 2014 townships were reimbursed \$24.56 million for TPP tax lost and nearly \$3 million in dereg revenue lost. These are funds that provide essential township services. The money we are talking about is important but perhaps even more important is the principle involved. The principle is that when the state repeals a tax that provides revenue to townships, the state has a responsibility to deal with the revenue shortfall it creates.

The OTA strongly urges the General Assembly to continue the reimbursement to townships at the current level for at least the next biennium so that state leaders, policy makers and local government officials can address the unfinished business of tax reform.

Severance Tax

Mr. Chairman, I would like to say a few things about the proposed severance tax, as the activities of the oil and gas industry related to fracking are occurring in township jurisdictions. All of the 901 producing wells in the Marcellus and Utica shale play are in townships. We do not object to this activity; however our members want to insure that the roads, bridges and water supplies that our residents rely on are not degraded and left in an unusable position after the activities are completed.

The OTA has adopted a legislative platform for the 131st General Assembly and this issue is included in the platform. Specifically, the OTA encourages the General Assembly to address the following items as they relate to oil and gas taxes:

1. The severance tax rate on oil and gas companies should be increased and this can be done without discouraging the industry from locating in Ohio. Ohio's current severance taxes are among the lowest in the country.

2. Revenue from increased severance taxes on oil and gas companies should be used minimally for income tax cuts. Some revenue should be used to restore local government funding cuts or to provide property tax relief. Special emphasis should be given to impacted local governments.
3. A portion of the increased severance tax should be allocated to a trust fund established by legislation. Expenditures from the fund would be limited to specified purposes, including repairing or replacing infrastructure in impacted areas, addressing environmental and water volume and quality issues resulting from oil and gas drilling and related activities, and economic development in the area of the state which includes the Utica shale formation after peak production of oil and gas has been realized.

We understand that this body is considering including a severance tax increase in Sub. HB 64. We encourage you to include with the proposed increase language requiring a portion of the tax revenue to be earmarked for local governments for infrastructure and long-term economic development purposes in the impacted area. We recommend that of the money dedicated for impacted communities, 20% to be distributed to counties and distributed through current LGF formulas in each respective county; 5% to go toward a township road maintenance fund; and the remaining 75% to be deposited into a Ohio Shale Gas Infrastructure Development Fund, to be used for infrastructure needs and the demand for government services.

Township Items Included in Sub. HB 64

The OTA appreciates the continued inclusion of the following items in Sub. HB 64. All of these provisions offer townships flexibility to provide cost-efficient and effective services. We appreciate your willingness to retain the items that were included in the “As Passed by the House” version and include some additional good government items.

- ***Continuous Cemetery Levy*** - Currently, a cemetery levy may only be levied for up to five years. Due to cemetery maintenance being a mandated responsibility, the OTA supports the language that would give townships the option to place a continuous levy on the ballot for cemetery operations.
- ***Use of a Public Auction For Real and Personal Property Purchases*** - The OTA supports the new language in R.C. §505.1010 that would allow a township, after proper notification, a public hearing and with maximum bidding levels authorized at said public meeting, to purchase real or personal property at public auction.
- ***Provide Townships the Authority to Accept Credit Cards*** - The OTA is supportive of the language in Sub. HB 64 that would grant townships the same explicit authority in R.C. Chapter 5 for townships, as the state (R.C. §113.40) and counties (R.C. §301.28) currently have the ability.
- ***Permit Townships to Sell Vehicles to Another Political Subdivision Without Competitive Bidding*** - Counties may sell, including motor vehicles, to any political subdivision, the state or federal government, without advertising (R.C. §307.12(D)). The OTA appreciates that townships are given this same authority in Sub. HB 64.

Other Requests for Inclusion

- Provide for a hearing in R.C. §505.86, which permits a township to remove unsafe buildings
- Explicitly permit a township to pay township bills online
- Ability to resell cemetery lots purchased prior to 1986

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