

Did You Know?

Understanding Township Funding

Townships, unlike other forms of local government, have very limited funding streams. Townships are primarily funded through property taxes levied on real property within the township. What is millage? This refers to the tax rate that is assessed in mills per dollar. A mill is 1/1000 of one dollar. Therefore, each mill generates \$1 of taxes for every \$1000 of a property's assessed value.

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 10 mills. Apportionment of those 10 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.

Inside millage is a vital source of revenue for townships. It is used to fund general operations, supplement levy-funded services and, in many counties, fund the local health district.

Perhaps no other local government source is as little understood as inside millage. Easily enough understood is what inside millage is - an unvoted property tax authorized by the Ohio Constitution and established by the General Assembly which may not exceed ten mills in any taxing district. However, things become a bit murky when the discussion turns to its calculation and allocation among various political subdivisions in Ohio.

The Ohio Revised Code guarantees a minimum levy within the 10-mill limitation to political subdivisions that received a levy within the 15-mill limitation during the last five years it was in effect (1929-1933). The minimum levy within the 10-mill limitation for these political subdivisions is set by statute and is determined by using two-thirds of their rounded average annual levy within the 15-mill limitation. All townships are guaranteed a minimum levy within the 10-mill limitation because they were receiving inside millage in 1929.

Outside Millage (Voted Levies) - When a board of township trustees votes to collect revenue in excess of the 10-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 10-mill limitation.

The Ohio Constitution and the General Assembly, by statute, authorize boards of township trustees to levy taxes on real property in excess of the 10-mill limitation subject to the approval of the electors of the township. There are several types of township voted levies: renewal, replacement and additional.

Renewal - A property tax that collects the exact amount of taxes and is for the same purpose as the levy it replaces.

Township Funding Sources

- *Inside Millage* - used to fund general operations, supplement levy-funded services and, in many counties, fund the local health district.
- *Outside Millage* - voted levies

Types of Levies

- *Renewal* - A property tax that collects the exact amount of taxes and is for the same purpose as the one it replaces.
- *Replacement* - A property tax levy that enables the township to replace an expiring levy but receive taxes based on the current valuation of all property in an area, including new development.
- *Additional* - A new levy at a specific rate of millage. The levy could be for a variety of purposes as laid out in R.C. §5705.19.

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Revised Code §5705.19 sets forth the period of time for which a levy may be collected. Most levies are for a limited-term, not to exceed five (5) years. However, township levies for police, fire, EMS, parks, libraries and roads may be for a continuous period.

Reduction Factors

The millage rate of renewal, replacement and additional levies are subject to the reduction factors of R.C. §319.301. Tax reduction factors operate to limit the amount of revenue raised by a levy to, in effect, offset the inflationary growth in the value of real property being taxed. Reduction factors are only calculated on "carryover property" or property which is taxed both in the preceding and current year. This means that new construction does not trigger a change in reduction factors, thus, taxing districts are allowed to receive new revenue when new property or improvements to any existing property are added to the tax duplicate. Consequently, after approval of a voted levy, townships will only benefit from new construction, not from the inflationary growth of their tax base over the life of their levy. Inside millage is not subject to the tax reduction factor.

**Did You Know is for informational purposes only and not intended as legal advice.*