

**Joint Committee on Property Tax Review and Reform
Invited Testimony**

May 1, 2024

Chairs Blessing and Roemer and members of the Joint Committee on Property Tax Review and Reform:

Thank you for the opportunity to provide comments regarding Ohio's property tax system on behalf of the Ohio Municipal League, which represents more than 730 of Ohio's cities and villages. My name is Larry Heiser, and I currently serve as the Director of Finance for the City of Beachwood. I am also the President of the Municipal Finance Officers Association of Ohio, a partner association under the OML umbrella.

Before speaking specifically on property tax levies, it is important to paint an overall picture of where municipal revenues come from. Chief among these is the municipal income tax, the primary source of revenue for more than 600 cities and villages in Ohio. The municipal income tax is levied at both a person's principal place of work and where they live -- where they benefit from the services and infrastructure provided by the municipality. Nearly 70% of a typical municipality's general fund revenue is attributable to its municipal income tax. As a reminder, a one percent income tax can be implemented by an act of that community's council. Anything over one percent must be approved by the voting residents. To ensure accountability and good stewardship of local dollars, it is critical that municipalities continue to have control over the collection and administration of this critical revenue source.

Members of this committee are also familiar with the Local Government Fund that serves as one of the central pillars of the state and local partnership in Ohio. It currently sits at 1.7% of the state's General Revenue Fund, which is nowhere near the 3.68% where it once stood. In the same past budget bill that brought deep cuts to the LGF, the state eliminated Ohio's Estate Tax, which provided roughly \$250 million annually to municipalities around the state. There was also the phase out of the tangible personal property tax that had taken place prior to that in 2005. These cuts were impactful to local budgets and caused significant disruptions to the services provided at the local level.

Additionally, there exist other revenue sources that are dedicated toward specific purposes, such as the gas tax and water/sewer fees. These additional sources of revenue are critical to a municipality's ability to meet its service responsibilities, but they are seldomly sufficient to support these activities and are supplemented by general operating budgets. Many state and federal grants are essential to the functioning of municipal governments, as well.

All of these municipal funding sources are provided in recognition of the vital role cities and villages play in providing critical services to residents and the limited fiscal capacity of local governments when compared to the state or federal government. On the municipal level, revenue is used for public safety, capital projects, infrastructure maintenance/road improvements, parks and recreation, debt service and more. On public safety, alone, municipalities are generally spending between 65-80% of their revenue for police and/or fire.

If you were to look at a spectrum of municipal services, you would find that purposes such as police, street maintenance, municipal court prosecutors, and delivery of water and sewer typically fall under the "required" category. There also exist quasi-required services such as public recreation or even fire service that are often expected of municipalities. Most other services would be considered voluntary amenities for residents.

State legislative changes related to municipal funding sources, especially the municipal income tax, challenge the sustainability of local revenue generation for municipalities, which serve as Ohio's economic engines. These changes cause disruptions and can result in the request to voters for increased tax rates or other supplemental revenue generators in order to ensure critical services continue. In many cases, that is where property tax levies at the municipal level come into play.

Many municipalities – especially smaller ones – are affected by changes to property taxes due to their reliance on that particular funding source, as well as their reliance on the LGF. A third of municipalities do not have a municipal income tax, making revenue generated from the local property tax an even more critical source of revenue generation.

I became the elected Auditor for the City of Bexley in 2005. After approximately one year of public meetings into the city's finances, it was determined that to update the city's police station, the city went to the voters in 2009, and the issue passed for a property tax levy to support the construction of a new police station. At the City of University Heights in 2014, the residents voted for a park renewal levy, and a new park was constructed within the city at the site of an old school. Voted levies of this nature are critical decisions made by the residents, taxing themselves for the purposes presented by the local officials. In Beachwood, where I currently serve, residents talk with candidates each election cycle regarding streetlights. I am hopeful that this fall we will put on the ballot a levy to provide such a service if the simple majority of residents vote for streetlights.

The City of Beachwood has two active TIF (Tax Increment Financing) agreements and a CRA (Community Reinvestment Area). For our CRA operations, the local school district has, for the first four years of these agreements, been made whole by the operations of the businesses located in the CRA.

Tax Increment Financing, as an economic development tool, supports community-based projects that stimulate new economic growth. They can encourage community revitalization and new development that strategically transforms a community's assets. They foster more commercial, industrial, or mixed-use development that bridges gaps, expanding the local municipalities potential to attract other like-investments, generate new business activity, create jobs and increase overall property values within the targeted area over time. This increased overall benefit affects not only the municipality, but the other taxing authorities as well. The long-term catalytic benefit of TIF projects, like Eaton's Headquarters in Beachwood, results in more than just that; they result in enhancing the overall quality of life within the community, supporting projects that lead to more commercial activity within business districts and generating other new construction projects. The city has seen an investment of more than \$1 billion in new commercial activity since 2009 related to the TIF area. However, I have unfortunately been witness to the downside of a TIF project while I was Finance Director at University Heights, which imploded and did not deliver results to the community as envisioned and has created a financial hardship with the developers long gone. The initial agreements are critical in relation to final results or if the project underperforms.

Inside millage for all entities is closely monitored. As a staff auditor in the Ohio Auditor of State's office, I became distinctly aware as to the lengths that local governments would go in order to protect their "inside millage." Now after more than 20 years in local government, it is clear that if one entity gives up any inside millage, that millage will never come back to the entity. Inside millage is protected by all local governments. Recently, the City of Beachwood worked with the local school district as the school district was looking to rebuild its infrastructure. The final result was that the City of Beachwood would not assess charter millage and not forgo inside millage for a term of three years so that, if voters approved the new levy, their property taxes would remain stable. Part of this strategy was to also mitigate property taxes for our local businesses.

During my time as Finance Director for the City of Johnstown, property tax accounted for approximately 10 percent of the city budget and was crucial for delivery of services. Otherwise, for medium-sized cities, the

general property tax revenue accounts for close to 7 percent of yearly revenue. Regardless of the percentage, local governments rely on the consistency of those cash flows as part of yearly operations.

This joint committee is tasked with identifying solutions on existing challenges to Ohio's property tax system, and local governments will play an important role in whatever changes are made. As a partner with the state, it is important that municipalities do not experience revenue loss through future changes in state policy related to Ohio's property tax system. As committee members are aware, the Legislature could examine new sources of revenue, such as the existing tax expenditure list, which could generate revenue and serve as a source of funding to shield at-risk taxpayers from spikes in property taxes. Doing this would protect the revenues of local governments.

Thank you for the opportunity to provide this information. I would be happy to answer any questions.

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