Ohio | Department of Taxation

Phase-out of the Tangible Personal Property Tax and Public Utility Deregulation Replacement (KwH) Payments for Municipal Governments

The governor's FY2012/2013 executive budget proposal calls for accelerating the scheduled phase-out of certain payments made by the state to localities that replace taxes they once collected on tangible personal property (TPP) and certain types of electricity generation. These spreadsheets were prepared by the Ohio Department of Taxation to show the changes to these payments for various municipalities that currently receive them.

Due to the wide range of levy types of municipal governments in Ohio, the Department has expressed figures for the proposed changes in three categories:

- Current expense levies
- Non-current expense, non-unvoted debt levies[i]
- Inside millage or charter millage debt levies

The phase-out of these funds is in current law and has been expected: A phase-out of the replacement payments for the TPP tax and for public utility deregulation with respect to fixed rate, current expense and non-current expense, non-debt levies is already in law. Under the administration proposal, the phase-out will be accelerated for programs with little reliance on current expense payments. However, municipalities that are heavily reliant on these replacement payments will experience a prolonged period of phase-out beyond that in current law (treatment of inside millage and charter levies for debt purposes that qualify for reimbursements are not impacted by any of the proposed changes). For non-current expense, non-debt levies, the phase-out will be accelerated from seven years to four years.

Methodology for determining total available resources: The reliance on these payments was determined by taking into account the total resources available to each municipality. Total resources for municipalities include total property tax receipts (including rollbacks/homestead), total TPP and public utility reimbursements, total municipal income taxes, each municipalities' share of local government fund allocations, total admissions tax allocations, and estate tax allocations under certain conditions (if a municipality received estate tax allocations in each of four years, 2006-2009, the median allocation for those four years was used; otherwise the value is zero).

Funding changes to municipalities are measured based on their reliance: The test for whether a municipality continues to get reimbursement is based on the question of whether a municipality's reimbursement exceeds 2% of calculated total resources. However, the fact that the proposed change in reimbursement occurs halfway through tax year 2011 complicates the calculation in 2011.

The first half reimbursement payment in tax year 2011 is unaffected by the proposed change. Only the payments scheduled to be made after June 30 are compared to 2% of total resources. If the second half payment is less than 2% of total resources, then no payment is made. If the second half payment is greater than 2% of total resources, then the second-half payment is reduced by an amount equal to 2% of total resources.

This has differing impacts on the TPP and public utility deregulation replacement payments. Because the utility deregulation payments are split evenly between the halves of the calendar year, this means that municipalities with reliance up to 4%, measured on a full-year basis, will receive no payments after June 30, 2011. Since the TPP reimbursements are very heavily weighted toward the second half of the calendar year (6/7 of the payments are made in the second half of the year, to mimic the timing of the TPP tax payments that they replaced), municipalities with reliance measures less than 2.333%, measured on a full-year basis, will receive no payments after June 30, 2011.

After tax year 2011, the annual reduction in fixed rate reimbursement is limited to no more than 2% of base year total resources. The same methodology applies to both TPP and public utility deregulation replacement payments.

Base calculation methodology and calendar/fiscal year clarification: For the 2011 payment, the base calculation takes into account the fact that part of the calendar year payment will already have been made before June 30 by adjusting the total reimbursement for the payment already made. The base year of the calculations is calendar year 2010. The 2010 reimbursements are also adjusted to reflect levies that are no longer in place in 2010. Under current law for TPP and proposed law for SB3, any levy not in place after 2010 does not qualify for phase-out reimbursements.

The numbers presented in the spreadsheets are by calendar year, since that matches the fiscal year for municipal government. For that reason, the aggregate numbers shown in these tables will not match aggregate numbers previously released in the budget summary because those numbers were shown on a state fiscal year basis.

All of the data is presented in a single spreadsheet at the link below. Embedded in the spreadsheet are six different worksheets, two for each of the three classifications highlighted in the bullets above. For each classification, there is a separate worksheet for the TPP reimbursements and the SB3 reimbursements. **All calculations in this spreadsheet are subject to change. The calculations represent our best determination at this time as to the proper classification of every levy in municipal government.** If you have concerns or questions about the classification or calculations, please relay them to tpp@tax.state.oh.us.

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[i] Levies that fit into the category of non-current expense include those with the following levy names: airport resurfacing; bond or any levy name including the word bond; capital improvement or any levy name including the word capital; debt or any levy name including the word debt; equipment or any levy name including the word equipment, unless the levy is for combined operating and equipment; employee term. fund; fire pension or any levy containing the word pension, including police pensions; fireman's fund or any practically similar name; sinking fund; road improvements or any levy containing the word road; fire truck or apparatus; flood or any levy containing the word flood; conservancy district; county health; note retirement; sewage, or any levy containing the words sewage or sewer; park improvement; parkland acquisition; storm drain; street or any levy name containing the word street; lighting, or any levy name containing the word lighting; and water. Inside or charter millage with the names including bond, debt, or sinking fund are classified as unvoted, non-current expense.