

Property Tax Payments to Townships by Municipalities Following Annexation & Removal of Territory

Background

While annexation is the process of extending a municipality's boundaries outward, such process does not automatically result in the removal of land from the township in which it is situated. A second process, commonly referred to as "withdrawal" or the land being "excluded," must occur to remove the land from the township's jurisdiction and change the township's boundaries.

When land is annexed and removed from the township of origin, the new law will require the municipality receiving the territory to provide compensation for lost property tax to the township of origin. These payments are sometimes referred to as "reparations" or "revenue sharing" and are supposed to help compensate, on a limited basis, the township for the loss of the land and its tax revenue.

The new law provides for a 12-year declining payment schedule when land is excluded from the township subsequent to an annexation petition filed under the new law starting October 26, 2001. Withdrawals which occur on or after October 26, 2001, but whose annexation was effective prior to October 26, 2001, are not subject to the mandatory payment schedule outlined in this chapter.

However, a municipality and township may develop an alternative arrangement through annexation agreements, cooperative economic development agreements, and alternative reparations agreements. These agreements apply in lieu of the payment scheduled outlined in this chapter.

Standard Compensation for Residential & Retail Property

The terms "residential" and "retail" property mean property classified as such by the tax commissioner for the purposes of valuing property for taxation. No "retail" property is to be included with property classified as "commercial" property.

When territory is annexed and excluded from the township, the municipality receiving the territory must make payments to the township. The following schedule is based on land that is classified as "residential" or "retail" property using the property valuation for the year that the payment is due (rather than at the time the annexation occurred), and includes the percentage of township taxes due the township if annexation had not occurred:

ORC 709.19
(A) & (D)

- A. Years 1 through 3 — 80.0%
- B. Years 4 through 5 — 52.5%
- C. Years 6 through 10 — 40.0%
- D. Years 11 through 12 — 27.5%
- E. After year 12 — 0%

Standard Compensation for Commercial & Industrial Property

The terms “commercial” and “industrial” property mean property classified as such by the tax commissioner for the purposes of valuing property for taxation. “Commercial” property does not include any property classified as “retail.”

When territory is annexed and excluded from the township, the municipality receiving the territory must make payments to such township. The following schedule is based on land that is classified as “commercial” or “industrial” property using the property valuation for the year that the payment is due (rather than at the time the annexation occurred) and includes the percentage of township taxes due the township for commercial and industrial real, personal, and public utility property taxes due the township if no annexation had occurred:

**ORC 709.19
(A) & (C)**

- A. Years 1 through 3 — 80.0%
- B. Years 4 through 5 — 67.5%
- C. Years 6 through 7 — 62.5%
- D. Years 8 through 9 — 57.5%
- E. Years 10 through 12 — 42.5%
- F. After year 12 — 0%

If tax abatements have been granted by the municipality on all or portions of the territory annexed and excluded, the municipality is still responsible to make the payments outlined above, as if the tax abatements had not been granted. No reduction is granted.

Alternative Compensation Agreements

Alternative compensation agreements may be negotiated and accepted by both the municipality and townships. Two methods are through annexation agreements and cooperative economic development agreements, which are discussed further in Chapter 10.

A third method is through alternative reparations agreements authorized under ORC 709.191 which was not changed by the new annexation law. This section provides that, in lieu of making the standard compensation payments and for any proposed annexation that does not require payments, the municipality and township can enter into an agreement to make annual payments to the township to compensate for lost tax revenues. The agreement must state the amount of the payments and the number of payments to be

**ORC 709.19 (B)
ORC 709.191**

made. It appears, however, that this current section of law may no longer have practical applicability given the changes that have been made in ORC 709.19.

If a municipality fails to make a payment pursuant to a reparations agreement, the township must notify the county budget commission in writing of the amount owed by the municipality. The county budget commission shall reduce the amount apportioned to the municipality from the undivided local government fund by the amount of the payment due the township and increase, by an equal amount, the amount apportioned to the township from the undivided local government fund.

International Airport Provision

A municipality may annex an international airport that the municipality owns. If it does, the municipality must pay the township 100% of the township taxes in the annexed territory that would have been due the township if the annexation had not occurred. The payments are to last for the next 25 years annually, unless the municipality and township enter into an alternative contract.

Under an alternative contract, the township agrees to provide the annexed territory with police, fire, or other services it is authorized to provide in exchange for specific consideration as agreed upon by the municipality and township. In no instance can the consideration received by the township be less than the payments the township would have received without an alternative contract - that is, 100% of the township taxes each year for 25 years.

It should also be noted that no territory annexed as an international airport owned by a municipality shall be considered part of the municipality for the purposes of subsequent annexation, except that the board of county commissioners may authorize subsequent annexation under these circumstances if the board determines that subsequent annexation is necessary to the continued operation of the international airport.

**ORC 709.19
(E) & (F)**