

Legal Debt Margins  
Auditor of State  
Local Government Officials  
Conference

March 7, 2019



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Legal Debt Margins

I. Statutory Direct Debt Limitations

- A. County
- B. Municipalities
- C. Townships
- D. School Districts



II. Exemptions

III. Calculating Direct Debt Capacity

IV. Constitutional Indirect Ten Mill Limitation

V. Ten Mill Certificate



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LEGAL DEBT MARGINS

- ❖ Constitutional and Statutory Provisions
- ❖ General Obligation Debt
- ❖ Pledge of Property Tax  
(general taxing power)
- ❖ Voted and Unvoted



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I. STATUTORY DEBT LIMIT OR DIRECT DEBT LIMIT

- A. County:
- ✓ Ohio Revised Code § 133.07
  - ✓ Unvoted GO debt limit: Aggregate outstanding principal may NOT exceed 1% of assessed valuation
  - ✓ Overall combined unvoted and voted statutory debt limit: Aggregate principal may not exceed formula

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I. STATUTORY DEBT LIMIT OR DIRECT DEBT LIMIT

- A. County
- Overall Statutory Debt Limit =  
3% of the first \$100,000,000 AV +  
\$100,000,000 < 1.5% AV ≤ \$300,000,00 +  
2.5% of AV > \$300,000,00

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I. STATUTORY DEBT LIMIT OR DIRECT DEBT LIMIT

- B. Municipalities
- ✓ Ohio Revised Code §133.05
  - ✓ A municipality must not incur net indebtedness (i.e. principal amount of outstanding securities less amount in bond retirement funds) that exceeds an amount equal to 10½% of its valuation, or incur without a vote of the electors net indebtedness that exceeds an amount equal to 5½% of the tax valuation
  - ✓ Unvoted general obligation debt: 5½% of AV
  - ✓ Combined voted and unvoted general obligation debt: 10½%

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I. STATUTORY DEBT LIMIT OR DIRECT DEBT LIMIT

- C. Townships
- ✓ Ohio Revised Code §133.09
- ✓ Limited home rule townships may issue general obligation limited tax debt (unvoted) up to five and one half percent (5½% of its tax valuation and may not incur total debt, voted and unvoted, in excess of ten and one half percent (10½%))
- ✓ Same as municipalities

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I. STATUTORY DEBT LIMIT OR DIRECT DEBT LIMIT

- C. Townships
- Non Home Rule
- Townships shall not incur indebtedness unless authorized by a vote of the electors and shall not incur indebtedness in excess of five percent (5%) of its tax valuation unless authorized by other sections of the Ohio Revised Code

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I. STATUTORY DEBT LIMIT OR DIRECT DEBT LIMIT

- C. Townships
- ✓ Section 505.261 ORC. To acquire suitable lands and materials to establish a township park
- ✓ Section 505.262 ORC. To purchase equipment, buildings and sites, or construct buildings, for any lawful township purpose. Annual debt service charges for all bond (or notes) issued pursuant to this section may not exceed one-tenth of the township's total revenue from all sources

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I. STATUTORY DEBT LIMIT OR DIRECT DEBT LIMIT

C. Townships

- ✓ Section 505.53 ORC. To buy police equipment or building or site to house police equipment (applies to township police districts)
- ✓ Section 5709.73 et seq. ORC. Tax Incremental Financings – limited obligation (Revenue Financing)
- ✓ Section 5573.14 ORC Special Assessment Debt
- ✓ Section 507.37 ORC to buy fire equipment or buildings

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I. STATUTORY DEBT LIMIT OR DIRECT DEBT LIMIT

D. School Districts

Ohio Revised Code §133.06

- ✓ A School District shall not incur indebtedness that exceeds 1/10 of 1 % of its assessed valuation without a vote of electors
- ✓ A School is limited to voted and unvoted debt in the amount of 9% of its assessed valuation
- ✓ Permission from the state is needed to exceed 4% of the assessed valuation
- ✓ Special needs consent is needed from State Department of Education and Taxation to exceed 9% of the assessed valuation

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I. STATUTORY DEBT LIMIT OF DIRECT DEBT LIMIT

D. School Districts

- ✓ Other limitations but still subject to 9% limit
- ✓ Energy conservation debt may be incurred up to 9/10 of 1% of assessed valuation
- ✓ Unvoted debt supported by compensation payments for TIF or certain other tax abatement
- ✓ 2% Assessed Valuation for big urban districts for OFCC projects

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I. STATUTORY DEBT LIMIT OF DIRECT DEBT LIMIT

D. School Districts

- ✓ Chapter 3318 Voted Bonds specifically for OFCC local share limit equals local share determined by OFCC
- ✓ Section 133.06 approved project limit equals local share determined by OFCC plus 50%
- ✓ 9% limit does not apply – Exempt but counted for future determination of 9% limit

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II. Exemptions from Statutory Debt Limit

- Special Assessment Bonds;
- Sales Tax Bonds;
- Income Tax Bonds; to extent certain pledges are made and property taxes are specifically not pledged
- OWDA
- OPWC
- Tax Anticipation Notes
- Revenue Anticipation Notes
- GO – self-supporting; to extent that bonds are fully self-supporting after payment of O&M;
- Specified Debt: i.e., Jail Bonds
  - Classroom Facilities Bonds

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II. EXEMPTIONS FROM STATUTORY DEBT LIMIT

- Types of Debt not subject to Debt Limits
  - not general obligation; no pledge of property tax
- Revenue Bonds
- Conduit Bonds
- Lease Purchase Obligations, if subject to annual appropriation

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III. CALCULATING DIRECT DEBT CAPACITY

- Assessed Valuation applied to applicable formula equals Direct Debt Limit
- Debt subject to limit:
  - Total Debt outstanding (Principal Amount)
  - Subtract all Debt that is not General Obligation
  - Subtract all Exempted Debt
  - Subtract balance in Bond Retirement Fund
  - Equals Net Debt subject to Limitation
- Direct Debt Capacity:
  - Direct Debt Limit minus Net Debt subject to limitation

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IV. CONSTITUTIONAL INDIRECT TEN MILL LIMITATION

- Ohio Constitution Article XII Section II
- Issuance of general obligation debt requires a pledge of property tax
- Pledge of ad valorem taxes does not create a stream of revenues; Tax pledge is contingent
- Only applied to bonds with a general obligation general taxing power pledge

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IV. CONSTITUTIONAL INDIRECT TEN MILL LIMITATION

Constitutional Debt Limit:  
- Article XII, § 2, Ohio Constitution;  
- Tax Rate Limit; (Indirect Debt Limit)  
Prohibits taxation of property >1% of value (Ten Mills) without vote of the electorate; Inside Millage Ohio Revised Code §5705.02

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IV. CONSTITUTIONAL INDIRECT TEN MILL LIMITATION

- Applies to Overlapping Subdivisions
  - ➡ Total millage of the Issuer and overlapping subdivisions pledged to debt service may not exceed ten mills in the aggregate
- Unvoted general obligation debt of all overlapping subdivisions must be considered
- Annual Debt Service is considered principal and interest payments

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IV. CONSTITUTIONAL INDIRECT TEN MILL LIMITATION

- Ten Mill limit is not applicable to:
  - Voted Bonds
  - Revenue Bonds;
  - Tax Increment Revenue Bonds
  - Sales Tax Bonds;
  - Income Tax Bonds
  - Conduit Bonds.

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IV. CONSTITUTIONAL INDIRECT TEN MILL LIMITATION

- Inside Millage actual vs. theoretical distribution
- Actual distribution by Budget Commission of taxes as set forth in Ohio Revised Code §5705.31
- Theoretical allocation: How would inside millage be allocated if all political subdivisions defaulted on debt
- First use of property taxes is to pay debt Ohio Revised Code §5705.31

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IV. CONSTITUTIONAL INDIRECT TEN MILL LIMITATION

Ten mill Limitation Certification is a purely theoretical computation it has nothing to do with actual distribution of inside millage made by the Budget Commission

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V. TEN MILL CERTIFICATE

- Certification by County Auditor that requested debt is within Ten Mill Debt Limit Ohio Revised Code §5705.51
- Must have Ten Mill Certificate from each applicable County
- Ten Mill Certificate must represent highest possible millage combination of various overlapping jurisdictions

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V. TEN MILL CERTIFICATE

The computation of the millage used by each overlapping subdivision is based on that subdivision's assessed valuation, but all of those computations are added together to come up with the total amount of millage used

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Questions?

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