

Property Tax Levy Law



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Constitutional Restrictions

- * O. Const. Art. XII, Sec. 2 imposes two primary limitations on real property taxation
- * All real property must be taxed uniformly according to fair market value
 - * i.e., all real property must be treated equally
- * Taxes can exceed one percent of “true value” (fair market value) only by popular vote



Constitutional Restrictions

- * Statutory law is even more restrictive
 - * Unvoted taxes cannot exceed 1% of **taxable** value
 - * See RC 5705.02
- * Article XII, Sec 2a of the Constitution allows real property to be “classified” or categorized for tax reduction factors as either residential/ agricultural or other



Property Taxation Overview

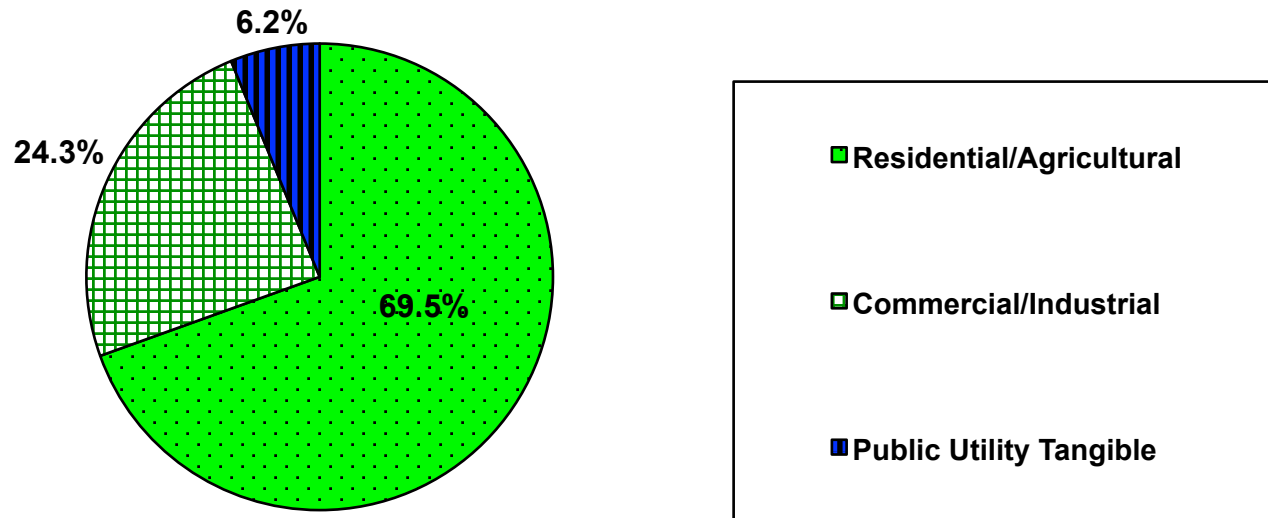
- * There are two “classes” of real property
 - * Residential & agricultural (Class 1)
 - * Commercial and industrial (Class 2)

- * There are two “types” of tangible personal property
 - * General business (which is no longer taxable)
 - * Public utility



Property Taxation Overview

PERCENTAGE OF SCHOOL PROPERTY TAX COLLECTIONS BY TYPE Tax Year 2012





Property Taxation Overview

- * In a simple world, calculating property tax is “simple”:

$$\begin{array}{ccccc} \text{Property} & & \text{Property} & & \text{Property} \\ \text{Value} & \times & \text{Tax Rate} & = & \text{Tax Due} \end{array}$$



Property Taxation Overview

* In Ohio, real property tax is calculated:

$$\left(\begin{array}{c} \text{Property} \\ \text{Value} \end{array} \times \begin{array}{c} \text{Assessment} \\ \text{Rate \%} \\ (35\%) \end{array} \right) \times \left(\begin{array}{c} \text{Tax} \\ \text{Rate} \end{array} \times \begin{array}{c} \text{Reduction} \\ \text{Factors} \end{array} \right)$$

$$= \begin{array}{c} \text{Gross Real} \\ \text{Property} \\ \text{Taxes} \end{array} - \begin{array}{c} \text{Tax} \\ \text{Credits} \\ \text{(paid by} \\ \text{state)} \end{array} = \begin{array}{c} \text{Net Real} \\ \text{Property} \\ \text{Tax Due} \end{array}$$



Property Tax Rates

- * There are three different tax rates for each levy that is in effect:
 - The *voted rate* at which the levy was originally enacted, which is the rate that is always applied to tangible property
 - The *effective tax rate for Class 1 real property*, which is the rate calculated after application of Class 1 reduction factors
 - The *effective tax rate for Class 2 real property*, which is the rate calculated after application of Class 2 reduction factors



Property Tax Rates

- * There are two different ways tax levies can be implemented:
 - * Unvoted millage (*inside millage*) is approved by the county budget commission, but cannot exceed 10 mills (a mill is 0.1 percent) for any taxpayer
 - * Voted millage (*outside millage*) is approved by a popular vote



Property Tax Rates

- * The Ohio Constitution limits property tax rates without a vote to one percent of true value
- * State law further restricts the unvoted limit to 10 mills of assessed value
 - * the “*10-mill limitation*”
- * These 10 mills are the *inside mills*, of which schools generally receive 4 to 6 mills



Property Tax Rates

- * All levies in excess of the 10-mill limitation are outside levies and can only be enacted by popular vote
- * There are several different allowable purposes for levies (both inside and outside)
- * For voted levies, the purpose determines whether *tax reduction factors* apply
- * Inside millage is not subject to reduction factors



Levy Purposes

- * There are four main purposes for voted school district levies:
 - Current Expense, for the general operations of the school district
 - Emergency, for the general operations of the school district
 - Permanent Improvement, generally for maintenance of physical plant
 - Bond, for site acquisition and building construction



Levy Types

- * These levies can be divided into two groups:
 - * Fixed-rate levies
 - * Current expense
 - * Permanent improvement
 - * Fixed-sum levies
 - * Emergency (school district only)
 - * Bond



Levy Purposes

- * Fixed-rate levies are subject to tax reduction factors for real property taxation
 - * The full rate applies to public utility tangible property
 - * Provides revenue growth if additional property is added to the district
- * Fixed-sum levies are designed to raise specific dollar amounts from all types of property, and are not subject to reduction factors
 - * Revenue is generally not subject to growth



Common Levy Types

- * **Additional** levies are new. They result in an increase in tax
- * **Renewal** levies continue taxation at the same rate that is already being paid. There is no increase in tax revenue
- * **Replacement** levies sound like renewal levies, but provide additional revenue under reduction factor law. The additional revenue comes only from real property



Special Levy Types for School Districts

- * Incremental rate levies (ORC 5705.212)
 - * Current expense purpose only
 - * Works like a series of fixed-rate levies
- * Incremental amount levies (ORC 5705.213)
 - * Current expense purpose only
 - * Works like a series of fixed-sum levies
- * Dual purpose levies
 - * Many different combinations are permissible



Special Levy Types for School Districts

- * Substitute Levies (ORC 5705.199)
 - * Can only replace existing emergency levies
 - * Revenues allowed to grow to capture new construction
- * Conversion Levies (ORC 5705.219)
 - * Works very similarly to an emergency levy
 - * Allows districts to get to the 20-mill floor
 - * 2014 is the last year these are allowed on the ballot
- * Income Tax Levies (ORC 5748)
 - * One option is a tax on all income
 - * Second option is a tax on earned income only



Income Taxes

- * 184 districts currently have an income tax
- * The tax is on residents only
- * The current trend is for taxes on earned income only
- * For more information see:
 - * http://www.tax.ohio.gov/divisions/tax_analysis/tax_data_series/individual_income/documents/SDIT_q_and_a_updated_2010.pdf



Tax Reduction Factors

- * Enacted by H.B. 920 in 1976
- * *Tax reduction factors* are designed to:
 - * Prevent a taxing jurisdiction from realizing additional revenue from increases in the market value of real property
 - * Only applies to real property that existed in the district in both the current and previous year
 - * Does not apply to new construction or improvements to real property



Property Tax Limitations Brief History

- * Ohio has a long history of property tax limitations
- * Reduction factors began in 1976
- * For about 50 years prior to that a *millage rollback system* existed



Property Tax Limitations Brief History

- * Under the millage rollback system, only one millage rate for all property
- * The single rate was rolled back to prevent increases in tax revenues



Property Tax Limitations Brief History

- * The millage rollback system was replaced by reduction factors because the old system was determined to benefit tangible property relative to real property because of high inflation in the early 1970s



Common Misconceptions of Reduction Factors

- * Tax reduction factors are not designed to:
 - * Ensure every taxpayer within a jurisdiction pays the same taxes on a levy as in the year preceding reappraisal or triennial update
 - * Prevent school districts from receiving additional revenue from new construction



Tax Reduction Factors

ILLUSTRATION

	Taxpayer 1	Taxpayer 2	Jurisdiction
Taxable Value Before Reappraisal	\$40,000	\$40,000	\$50,000,000
Taxes Before Reappraisal (50 mill rate)	\$2,000	\$2,000	\$2,500,000
Taxable Value After Reappraisal	\$46,000	\$42,000	\$55,000,000
Taxes After Reappraisal (45.45 mill rate)	\$2,091	\$1,909	\$2,500,000

Valuation in district increases 10 percent, but Taxpayer 1's value increases 15% and Taxpayer 2's value increases 5%

Assumes all 50 mills of tax are outside levies subject to reduction



Tax Reduction Factors

ILLUSTRATION 2 – DECREASE IN VALUATION

	Taxpayer 1	Taxpayer 2	Jurisdiction
Taxable Value Before Reappraisal	\$40,000	\$40,000	\$50,000,000
Taxes Before Reappraisal (50 mill rate)	\$2,000	\$2,000	\$2,500,000
Taxable Value After Reappraisal	\$35,200	\$38,400	\$46,000,000
Taxes After Reappraisal (54.4 mill rate)	\$1,915	\$2,089	\$2,500,000

Valuation in district decreases 8 percent, but Taxpayer 1's value decreases 12% and Taxpayer 2's value decreases 4%

Assumes all 50 mills of tax are outside levies subject to reduction



Tax Reduction Factors

- * Restrictions to tax reduction factors
 - * The legislature may place floors on effective rates for any type of jurisdiction
 - * Floors must be placed uniformly within the jurisdiction type

- * Two floors are currently in place
 - * The 20-mill floor for school districts
 - * The 2-mill floor for joint vocational school districts



Tax Reduction Factor Floors

- * Only current expense millage (inside or outside) counts toward the 20-mill floor
- * The calculation *excludes*:
 - * Bonds, permanent improvement levies, and emergency levies
 - * Although emergency levies are a form of current expense levy, they are excluded from the 20-mill calculation by statute.
- * The 20-mill floor essentially prevents further reduction of tax rates once it is reached



Levy Purposes and Reduction Factors

COMMONLY USED SCHOOL LEVIES AND THEIR TREATMENT UNDER TAX REDUCTION FACTORS

Type of Levy	Subject to Reduction Factors	Factored in 20-Mill Floor Calculation
Inside Millage (Current Expense)	No	Yes
Inside Millage (Bond)	No	No
Inside Millage (Permanent Improvement)	No	No
Outside Millage (Current Expense)	Yes	Yes
Outside Millage (Bond)	No	No
Outside Millage (Permanent Improvement)	Yes	No
Outside Millage (Emergency)	No	No



Tax Reduction Factor Floors

EFFECT OF REDUCTION FACTORS ON CURRENT OPERATING TAXES

	District One	District Two
Base Year Taxable Value	\$50,000,000	\$50,000,000
Inside Millage (millage exempt from tax reduction factors) ¹	4	6
Base Year Outside Millage (millage subject to reduction factors)¹	17.00	17.00
Base Year Total Millage (combined inside and outside) ¹	21.00	23.00
Base Year Taxes/Outside Millage (17 mills x \$50,000,000)¹	\$850,000	\$850,000
Base Year Taxes/Inside Millage (inside rate x \$50,000,000) ¹	\$200,000	\$300,000
Appraisal Year (A.Y.) Taxable Value	\$55,000,000	\$55,000,000
A. Y. Initial Outside Millage (\$850,000 / \$55,000,000)* ¹	15.45	15.45
A. Y. Inside Millage (exempt from reduction factors) ¹	4	6
A. Y. Revised Outside Millage**¹	16.00	15.45
A. Y. Total Effective Millage (inside + outside revised millage) ¹	20.00	21.45
A. Y. Taxes/Outside Millage (Revised Outside Millage x \$55,000,000)	\$880,000	\$850,000
A. Y. Taxes/Inside Millage (inside rate x \$55,000,000)	\$220,000	\$330,000

(1) All millages are for current expenses.

*Initially, no new taxes may be generated due to reappraisal.

**District One's outside millage is increased from 15.45 to 16 mills to prevent the total millage from falling below 20 mills. District One is allowed to collect more money on outside millage than District Two, which is unaffected by the 20-mill floor.



Tax Reduction Factor Floors

EFFECT OF REDUCTION FACTORS ON CURRENT OPERATING TAXES WHEN VALUES DECLINE

	District One	District Two
Base Year Taxable Value	\$50,000,000	\$50,000,000
Inside Millage (millage exempt from tax reduction factors) ¹	4	6
Base Year Outside Millage (millage subject to reduction factors)¹	16.00	16.00
Base Year Total Millage (combined inside and outside) ¹	20.00	22.00
Base Year Taxes/Outside Millage (16 mills x \$50,000,000)¹	\$800,000	\$800,000
Base Year Taxes/Inside Millage (inside rate x \$50,000,000) ¹	\$200,000	\$300,000
Appraisal Year (A.Y.) Taxable Value	\$45,000,000	\$45,000,000
A. Y. Initial Outside Millage (\$800,000 / \$45,000,000) ¹	17.8	17.8
A. Y. Inside Millage (exempt from reduction factors) ¹	4	6
A. Y. Revised Outside Millage¹	17.8	17.8
A. Y. Total Effective Millage (inside + outside revised millage) ¹	21.8	23.8
A. Y. Taxes/Outside Millage (Revised Outside Millage x \$45,000,000)	\$800,000	\$800,000
A. Y. Taxes/Inside Millage (inside rate x \$45,000,000)	\$180,000	\$270,000

(1) All millages are for current expenses.



Tax Reduction Factor Floors

- * Once a district reaches the 20-mill floor, it receives full growth on those 20 mills
 - * i.e., H.B. 920's tax reduction factors do not apply
- * Also, there is no “banking” of reduction factors that would have applied below 20 had there been no floor. A district at the 20-mill floor that passes a new levy gets the full revenue impact from that new levy
- * A district at the floor that has values decline will come off the 20-mill floor



Tax Reduction Factor Floors

- * For tax year 2012, 209 districts were at the 20-mill floor for at least one class of real property
- * In tax year 2008, 400 districts were at the 20-mill floor for at least one class of real property
- * Many are just off of the floor because of valuation drops associated with the real estate market



Tax Reduction Factor Floors

- * Getting to the floor creates growth in real property taxes from reappraisal on all 20 mills
- * To get additional money, districts can use emergency levies and/or income taxes because these do not count toward the floor (about 2/3 of districts at the floor have done this)