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Understanding school levies

Funds generated from school tax levies compose a significant part of financing for Ohio schools. This fact sheet is designed to address the most frequently asked questions about school tax issues in Ohio. The information is of a general nature. Readers should seek the advice of legal counsel with specific legal problems or questions.

How are school districts financed?

School districts in Ohio are financed with a combination of federal, state and local funds. At the state level, school districts receive funding from the Ohio Department of Education's (ODE) general revenue funds and Ohio Lottery profits. At the local level, school districts receive funding from locally levied property taxes. School districts also can receive funding from income taxes approved by voters.

What is a property tax levy?

A property tax levy is the collection of taxes charged on the value of property. Each district must follow a process described in Ohio law in order for taxes to be levied on property within the district.

Boards of education propose additional local tax revenues by board resolution. Generally, school districts can place a levy on the ballot up to two times per year on specified election dates, aligning with the primary election in March or May and the general election in November. A third election date in August is available only if a district is under a fiscal emergency. If a majority of voters in an election approve the tax, county officials charge and collect the tax under the terms specified in the tax levy proposal. The collected funds are then disbursed to the district. When a levy is placed on the ballot, it must identify as its objective a legally defined school district purpose.

What types of property can be taxed?

Real property subject to taxation includes the buildings and land held by individuals or businesses. Real property is divided into two classes: Class I (residential and agricultural) and Class II (commercial, industrial and all other real property). Public utility personal property is also taxed.

What is a mill?

The unit of value for expressing the rate of property taxes in Ohio is the "mill." A mill is defined as one-tenth of a percent or one-tenth of a cent (0.1 cents) in cash terms. Millage is the factor applied to the assessed value of property to produce tax revenue.

- Inside or unvoted mills Millage imposed by local governments without voter approval as defined in the Ohio Constitution. The constitutional limit for these taxes is 1% or 10 mills. Public schools, cities, counties and other local governments within a taxing district are allocated a portion of the inside mills collected within the district according to a statutory formula.
- Outside or voted mills Millage approved by voters. Outside mills are subject to the property tax reduction factor.
- Effective mills In the case of real property, a difference can exist between a tax levy's rate as authorized by the voters and the actual amount of mills charged against a district's assessed valuation. The effective millage rate reflects the fact that the original number of voted

mills has received an adjustment to compensate for the impact of inflation on real property values.

What is the House Bill 920 factor?

In 1976, the Ohio General Assembly passed House Bill (HB) 920, which reduces the taxes charged by a voted levy to offset inflationary increases in the value of real property. This is called the property tax reduction factor or HB 920 factor. The reduction factor applies to both Class I and Class II real property. This means the amount of outside millage taxes collected on property will not exceed the amount collected at the property's value in the first year the taxes were collected. Although property values may increase while the levy is in effect, the amount of taxes collected on those properties does not increase. The reduced rate at which taxes are collected is termed the "effective" millage.

What are the permissible uses for tax levies?

Permissible uses depend on the type of levy. Among the permissible uses are: operating expenses; general ongoing permanent improvements; recreational purposes; specific permanent improvements and/or classes of improvements; community or cultural centers; school safety and security; purchase of educational technology; and debt service for bonds issued for school construction.

What are the common types of school tax levies?

- Millage-based levy A property tax used for any school district purpose but primarily for either operating expenses or permanent improvement funding. Millage-based levies used to provide operating funds are commonly known as operating levies, while those used for permanent improvements can be known as permanent improvement or PI levies. The levy, once approved by voters, is subject to the tax reduction factor.
- Emergency levy A property tax that serves as a limited operating levy (maximum of 10 years) proposed for a specific dollar amount. Because the dollar amount of taxes charged by the levy must stay constant, the millage rate increases or decreases as property values change. Emergency levies may be renewed for the dollar amount originally requested or with an increase or decrease.
- Substitute levy A levy that substitutes for an existing emergency levy and grows as new real property is added to the tax base. Substitute levies may be for a maximum of 10 years or continuing. Substitute levies may be renewed.
- **Bond issue** An authorization of a specific dollar amount to be borrowed to

- finance construction and other permanent improvements. Simultaneous with that approval, a property tax levy sufficient to pay the bond issue's principal and interest over its term is also authorized. Depending on the type of permanent improvements contemplated, a school district bond issue may have a maximum term of 40 years.
- Dual-purpose levy A single ballot issue for a PI purpose combined with an operating purpose. The issue may be continuing or limited. A PI/ operating levy may be either a property tax or a school district income tax. The school board, at the time it seeks the ballot issue, must state how much of the tax levy will be used for each purpose.
- Bond issue combinations A bond issue may be combined as one ballot question with property tax levies for operating or permanent improvement or both. A bond issue may also be combined with a school district income tax as one ballot question.
- County financing district levy A property
 tax levy proposed by an educational service
 center for the support of a specific program or
 purpose, such as special education. If approved,
 the tax is levied on all participating districts
 in the county. These also may be limited or
 continuing levies. A county school financing
 district levy may be packaged with a millage
 reduction for residents of participating districts.
- Incremental levy A property tax phased in for the full amount of the millage increase. It is also commonly known as a phased-in levy. It is a limited levy, with a maximum term of 10 years. Unlike a millage-based operating levy, an incremental levy imposes additional millage on a regular schedule throughout the life of the levy. The advantage is that the increments are imposed as the full voted millage, not as effective millage, meaning there is a limited amount of growth allowed in the levy. Up to five changes may be proposed during the levy's life.
- Levy increasing by dollar or percentage A
 property tax levy that can increase by dollar or
 percentage. Initially, it has a maximum term of
 10 years, but may be renewed at the ultimate
 amount for 10 years or a continuing period.

What are the options when a limited levy expires?

When a limited levy (one which is limited to a particular number of years) expires, boards of education wishing to receive continuing or additional funding can choose either to renew the levy or replace it.

 Renewal levy — Ohio law generally allows districts to ask voters to renew a limited levy when it expires. The levy must be for the same purpose and is renewed at the effective millage rate. (Example: A five-mill, five-year levy that has been lowered by the reduction factor to 3.8 mills would be renewed at the 3.8-mill rate.) A renewal, however, can be combined with an increase or decrease.

Replacement levy — This type of levy has
the same purpose as a renewal, but instead
of renewing the previous levy at the effective
millage rate, a replacement levy is imposed
at the original millage rate of the levy that it
replaces. This gives the district the benefit of
any growth in local value that occurred over the
life of the previous levy, subject to a reduction
factor in the first year like a new levy. This type
of levy cannot be used for an emergency levy,
and unlike the renewal levy, cannot be combined
with other changes in millage.

When are the tax revenues collected?

Real property taxes are paid in January and July of the calendar year following the tax year (TY) for which the taxes are levied. Thus, the county treasurer will collect the first half of TY '23 real property taxes in January 2024. Collection of the second half of TY '23 collections will occur in July 2024. Because school districts use a July 1 to June 30 fiscal year, the timing of tax payments means that revenue from TY '23 levies will be received in the second half of fiscal year (FY) '24 and in the first half of FY '25.

Can a school district levy an income tax?

Yes. The school district income tax (SDIT) is levied at a percentage on the income of district residents or on the taxable income of an estate. Businesses do not pay SDIT; only residents of the district are required to pay SDIT. SDIT uses as its base the same taxable income as reported for state income tax purposes. It can be either for operating purposes or permanent improvements. SDIT can be a limited levy for any number of years or a continuing levy and can be proposed in combination with a property tax levy, bond issue or reduction in property taxes. The advantage of SDIT for a school district is quite simple: because SDIT taxes income, not property, there is no millage reduction factor involved. The levy proceeds grow or decrease as residents' incomes do.

Are there other types of school district income taxes?

Yes. School districts also are permitted to levy income taxes on earned income only. Earned income excludes investment and retirement income. Like the income tax levied on taxable income, this tax applies to school district residents regardless of where they work. By applying the school district income tax to a narrower voter base, school districts may obtain approval of levies that would otherwise be defeated.

School districts also have the option, with voter approval, of converting a traditional income tax levy to a levy on earned income only. In addition, municipal corporations and an overlapping school district can levy a shared income tax.

What are some practical considerations in levy planning?

There are multiple considerations in sound levy planning. Among them are the following:

- 20 mill floor status;
- property tax valuation cycle;
- rollback considerations, if any;
- district demographics;
- changes in law in terms of levy language or available election dates.

The information in this fact sheet is designed to provide authoritative general information. It should not be relied upon as legal advice. OSBA recommends that questions of legal interpretation be directed to your board's legal counsel.