OHIO LEGISLATIVE SERVICE COMMISSION

www.lsc.ohio.gov

Office of Research and Drafting

Legislative Budget Office

H.B. 187
135th General Assembly

Fiscal Note & Local Impact Statement

Click here for H.B. 187's Bill Analysis

Version: As Reported by House Ways and Means

Primary Sponsors: Reps. Hall and Bird

Local Impact Statement Procedure Required: Yes

Philip A. Cummins, Senior Economist, and other LBO staff

Revised

Highlights

- The bill's requirement that real property taxable values for tax year (TY) 2023 through TY 2025 be based on property valuation studies, with the three years preceding each tax year given equal weight, would reduce the projected increase in tax collections to school districts and local governments by an estimated $539 million over that three-year period.
- The largest portion of local revenue losses are attributed to TY 2023, because a larger share of the statewide real property valuation is subject to reappraisals and updates in that year than in the following two years.
- The bill would increase future expenditures from the GRF. Estimated expenditures under the school funding formula increase by roughly $47 million in FY 2025 and by an uncertain amount in future years. These increases would be partially offset by reductions in property tax relief payments. The GRF reimburses school districts and local governments for revenue losses from the 10% and 2.5% rollbacks and the homestead exemption, which are estimated to decrease by a net $25 million over TY 2023 through TY 2025.
- In TY 2026 and thereafter, valuations would no longer be based equally on the prior three years' valuation studies, resulting initially in larger real property tax increases from the bill's reduced levels.
- In TY 2024 and thereafter, county auditors would make determinations whether real property is valued uniformly for tax purposes. The Tax Commissioner has this authority now and can direct auditors to change values. Under the bill, the Commissioner could recommend value adjustments and could appeal to the Board of Tax Appeals (BTA) an auditor's disregard of recommendations. Fiscal effects, if any, appear uncertain.

Detailed Analysis

The bill would change use of sales-assessment ratio studies by the Tax Commissioner to determine the true value of real property on the tax lien date, which is January 1 of the tax year. The change would apply to TY 2023, TY 2024, and TY 2025 only. The bill requires that the studies be based on all open market arms' length sales during the previous three years, rather than a representative sampling, and that data from the three years be given equal weight. This differs from current practice, which places more weight on sales in the latest year, closer to the tax lien date. The bill allows the Commissioner to require appraisals if few arms' length sales occurred, and requires the Commissioner to use such studies and other information, including current economic conditions, in determining real property true values. For land valued at its current agricultural use value, a similar three-year average value is to be used for each of TY 2023 through TY 2025, after which use of the three-year average would end and valuation for a tax year would revert to the value calculated for that year.

The largest effects of these changes would be for TY 2023, for which real property taxes will generally be paid in calendar year 2024. For TY 2023, $160 billion of Class 1 and Class 2 real property is subject to reappraisal or update, 53% of the $304 billion of valuations subject to these reassessments in total for TY 2023, TY 2024, and TY 2025. Corresponding numbers for the latter two years are $101 billion (33%) and $44 billion (14%), respectively.[1]

The bill also alters the roles of the Tax Commissioner and county auditors in determining real property values by giving county auditors rather than the Tax Commissioner authority regarding real property tax equalization (i.e., the determination whether property is taxed at a uniform 35% of its true or current agricultural use value). The Commissioner, in place of the auditor in current law, could appeal to BTA. The fiscal effect, if any, of this change is uncertain.

Ohio's property tax system

The bill's provisions would reduce the increase in real property taxable values and in school district and local government tax revenue in the three tax years to which it applies. However, Ohio's system of real property taxation includes tax rate adjustments that offset part of the effect on tax revenues spurred by valuation increases. With fixed-sum levies, those imposed to raise required amounts of money (bond levies and school emergency and substitute levies), valuation increases result in offsetting reductions in tax rates, so that the levies continue to raise required sums of money in total across all classes of property subject to taxation, including real property and public utility tangible personal property. The comparatively smaller valuation increases under the bill would be offset by smaller tax rate decreases (in other words, higher tax rates) at which the fixed-sum levies would be imposed.

For outside fixed-rate levies, effective tax rates are adjusted downward to offset higher valuations. Separate adjustments are figured for Class 1 and Class 2 real property. With the bill, smaller effective tax rate decreases generally would offset the smaller increases in property taxable values that would result from the bill's provisions. An exception is for school districts with

[1] Valuations cited in this paragraph are for TY 2022. Class 1 real property includes agricultural and residential land and improvements. Class 2 includes commercial, industrial, mineral, and railroad real property.

current expense levies at or near a 20-mill floor that applies to such levies. The effective millage rate for such levies would not adjust downward further with property value increases, implying that tax revenue would increase. For joint vocational school districts (JVSDs), with a two-mill floor, fixed-rate levy rates at or near that floor would also not adjust downward further in response to higher valuations. For such levies, a smaller valuation increase with the bill would yield a smaller tax revenue increase.

Inside millage, up to ten mills (1%) that local taxing authorities may impose without voter approval, is not subject to such adjustments. With inside millage, a given percentage increase in real property taxable values gives rise to a corresponding percentage increase in taxes due from inside mills. Smaller valuation increases with the bill would result in smaller tax revenue increases than under current law.

Local revenue effect

With the bill, real property taxable values would increase an estimated $63 billion over the three years to TY 2025, instead of an estimated $101 billion under current law, an increase that would be smaller by $38 billion. With this smaller increase in taxable value, the increase in tax revenue to schools and local governments would be an estimated $1.1 billion instead of $1.6 billion, a reduction in the increase by an estimated $539 million. These estimates are based only on tax levies in effect in TY 2022, and do not include revenues from any new levies or the effect of levy expirations. The smaller increase from inside millage would total an estimated $303 million, the reduction in the increase from the school district 20-mill floor would be an estimated $200 million, and the reduction in the increase from the JVSD two-mill floor is estimated at $36 million. The reduction in the increase in revenue to school districts from inside mills and the 20-mill floor would total an estimated $325 million. Local government property tax revenue would increase by $178 million less with the bill than under current law.

The bill's effects are estimated in a model of real property tax determination for school districts, JVSDs, and local governments in TY 2023 through TY 2025. Because of the complexity of real property taxation, the model necessitated various simplifying assumptions. Underlying property value increases are assumed to be the same in all counties within each property class and year. For each property class and year, a second property value increase is calculated based on a three-year average price, in line with this bill provision.

Another simplifying assumption is that the timing of school district and JVSD property value reappraisals or updates is based on the county identified as the principal or home county. Although most (58%) school districts are within a single county, many have territory in two counties (28%) or three counties (12%), and a few have territory in four or six counties. Basing estimates of the effects of valuation changes on identification of districts with a single principal or home county distorts the timing of changes between years, implying that estimates of changes calculated over the full three-year reappraisal and update cycle are likely more representative of the changes that would actually occur if the bill is enacted.

Changes in assumed property values are shown in the following tables. For residential real property, a price history was compiled from Federal Housing Finance Agency (FHFA) data.[2] This series was projected through 2027 using the August forecast for existing mean home prices in Ohio from forecasting firm S&P Global Market Intelligence. To approximate net additions (new construction less removals) to the housing stock, one percentage point was added to the three-year percentage changes. The table extends beyond TY 2025 to illustrate the increases that can be expected when valuations are no longer held down by the bill's temporary provisions.

Table 1. Assumed Residential Real Property Valuation Changes from Three Years Earlier			
Tax Year	Using Annual Values	Using Three-year Averages for 2023-2025	Difference: Increase/(Decrease)
2023	41.9%	26.1%	-15.7%
2024	31.8%	25.8%	-6.0%
2025	15.8%	14.7%	-1.1%
2026	3.8%	16.0%	+12.2%
2027	3.4%	7.3%	+4.0%
2028	3.9%	3.7%	-0.2%

For agricultural real property, taxable values through TY 2022 were extended based on extrapolating U.S. Department of Agriculture data for 2022. For Class 2 real property, extrapolation of taxable values through TY 2025 was based on the average one-year increase in the prior six years.

Table 2. Assumed Agricultural and Class 2 Real Property Valuation Changes from Three Years Earlier				
	Agricultural		Class 2	
Tax Year	Using Annual Values	Using Three-year Averages for 2023-2025	Using Annual Values	Using Three-year Averages for 2023-2025
2023	8.3%	4.0%	7.2%	4.4%
2024	13.1%	9.1%	8.6%	5.4%
2025	11.4%	7.5%	9.6%	6.3%

[2] FHFA constructs indexes of house prices based on changes in single-family home values from data on sales involving mortgages purchased or securitized by federal agencies Fannie Mae and Freddie Mac.

State fiscal effect

State foundation aid to school districts

Property tax values are a determinant of state aid to school districts under the school funding formula. In general, lower taxable property values lead to lower local shares and correspondingly higher state shares, thus leading to higher state funding. The bill reduces property values relative to current law from TY 2023 to TY 2025, which will begin to affect the school funding formula in FY 2025. The bill's changes increase estimated GRF spending on state foundation aid to school districts by approximately $47 million in FY 2025. Of this total, traditional districts would receive an additional $45 million, while JVSDs would receive an additional $2 million.

However, these estimates should be considered rough, given the simplifying assumptions described above. In particular, LBO's model for calculating valuation changes under the bill focuses on generating a statewide estimate of the bill's effect on property taxes. It is not intended to accurately predict valuation changes at the school district level. The model calculates valuation changes by applying predicted statewide average growth rates uniformly to all districts undergoing reappraisal or update in each year, based on each district's principal county. This means that the FY 2025 estimate does not include effects on about half of school districts and does not take account of other counties for multi-county school districts. Thus, actual effects may vary significantly based on a district's individual circumstances. A detailed analysis of the interaction between H.B. 187 and the school funding formula beyond FY 2025 cannot be completed at this time with a reasonable degree of accuracy since a school funding formula for years after FY 2025 has yet to be enacted. The current school funding formula was established by H.B. 110 of the 134th General Assembly for FY 2022 and FY 2023 and extended into FY 2024 and FY 2025 by H.B. 33 of the 135th General Assembly.

Property tax reimbursements

Under continuing law, the state GRF reimburses the revenue losses of school districts and local governments arising from the 10% rollback (also known as "non-business credit") of taxes on agricultural and residential real property, the 2.5% rollback (also known as "owner-occupied credit") of taxes on owner-occupied residences, and the homestead exemption for homeowners who qualify for that exemption. The local taxing authorities are held harmless by the state reimbursements, and property owners pay lower taxes than otherwise, with the state paying the difference with reimbursements from the GRF. Under a provision of H.B. 59 of the 130th General Assembly, new levies are not eligible for rollbacks.

Rollbacks are increased when taxable values increase by higher tax revenues from current expense millage at the 20-mill and two-mill floors and from inside millage. The 10% rollback is driven by increases in real property Class 1 tax revenue. The 2.5% rollback is driven by increases in tax revenue from owner-occupied residential property. With the bill, tax revenue increases are smaller, hence the increases in the rollbacks are smaller. Rollbacks are reimbursed from the GRF, so smaller increases in rollbacks under the bill would reduce GRF expenditures. In the model, the percent change in owner-occupied real property is approximated by the percent change in all residential real property. Over the three years, TY 2023 through TY 2025, the bill would reduce the increase in reimbursements for the 10% rollback by an estimated $46 million, and would reduce the increase in reimbursements for the 2.5% rollback by an estimated $9 million. Savings to the GRF from reductions in the increases in the two rollbacks total an estimated $55 million.

The homestead exemption reduces taxes for qualifying homeowners by an amount equal to taxes due on a fixed amount of true value, up to $25,000 or $50,000 historically depending on the type of exemption for which a homeowner qualifies, and up to that amount adjusted upward for inflation under a provision of H.B. 33 of the 135th General Assembly, the main operating budget act. The amount of the exemption for a qualifying homeowner in TY 2023, TY 2024, and TY 2025 would be the product of the applicable tax rates in the taxing district where the residence is located times the fixed amount exempted in that year (or the property's full market value if less than the amount exempted). The bill would reduce the increase in taxable values, hence would reduce the decrease in tax rates. The reduction in the homestead exemption would be smaller with the bill than under current law. The smaller reduction implies that homestead exemption amounts would be higher with the bill than under current law, increasing reimbursements from the GRF by an estimated $30 million over the period TY 2023 through TY 2025.

The bill reduces GRF reimbursements by an estimated net $25 million over a three-year period. This net estimate reflects $55 million lower reimbursements for rollbacks and $30 million higher reimbursements for homestead exemptions.

Change in authority for real property tax equalization

Starting in TY 2024, the bill gives county auditors rather than the Tax Commissioner authority regarding equalization of a county's real property, the determination whether all property in the county is taxed according to a uniform 35% of its true or current agricultural use value. Current law requires the Commissioner to make this determination and requires auditors to adjust their property values in accordance with the Commissioner's determination. This provision of the bill requires instead that the Commissioner make recommendations regarding the equalization of a county's property values, and requires the county auditor to consider those recommendations in finalizing property values. The bill would allow the Commissioner to appeal to BTA an auditor's decision to disregard the Commissioner's recommendations. Under current law, auditors may appeal the Commissioner's equalization determination to BTA.

The fiscal effect, if any, of this change appears uncertain, and the projected valuations for the above analysis were not altered for this bill provision. The provision could tend to result in more variability in initial valuation determinations, since multiple county auditors rather than a single entity, the Department of Taxation, would be making these determinations. Greater variability might give rise to more appeals. Consequently BTA's workload, funded by the GRF, could increase if more valuation challenges are made by the Department than by county auditors under current law. However, county auditors would be subject to the same constitutional and statutory constraints as the Department is now. The auditors' resulting determinations might not differ substantially from those that the Department would make under current law.

State and local administrative costs

The bill's requirements will increase costs for the Department of Taxation and county auditors.

Property tax exemption and abatement for Trotwood

The bill permits a municipality or community improvement corporation (CIC) to apply to the Tax Commissioner, within 12 months of the bill's 90-day effective date, for a property tax exemption and abatement of delinquent taxes on certain property owned by the municipality or CIC without regard to the regular time and payment limitations imposed by current law.[3] These limitations include a restriction that abatements may not generally be sought for more than three years of delinquent taxes and that abatements are unavailable for delinquent taxes accrued by previous owners. This provision of the bill restricts eligible properties to those for which the deed was recorded between specified dates. The restrictions appear to be narrowly drawn, which may limit the fiscal effects to properties owned by a single municipality or CIC.

Testimony in House Ways & Means Committee indicated that the sole property eligible for this tax exemption is government-owned real property, which is the site of a city service center in Trotwood, Ohio. Due to an administrative oversight, paperwork for its tax exemption was not timely filed. The provision of the bill would allow application for tax exemption to be made to the Tax Commissioner. Tax is currently owed on the property. Exemption from tax would be discretionary for Trotwood, a CIC, or both, but perhaps not for all other affected local taxing authorities.

FNHB0187RH-135/lb

[3] A CIC is either an economic development corporation or a county land reutilization corporation (R.C. 1724.01).