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Office of Research and Drafting

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H.J.R. 6
135th General Assembly

Fiscal Note & Local Impact Statement

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Version: As Introduced

Primary Sponsors: Reps. Lear and Wiggam

Local Impact Statement Procedure Required: Yes

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Highlights

- Losses of tax revenue paid to political subdivisions by real property owners could total hundreds of millions of dollars from a constitutional limit on annual real property tax increases that the joint resolution would put on this year's November ballot. Losses could cumulate over time.
- The proposed constitutional amendment is silent on the division of these tax revenue losses among local taxing authorities and the state.

Detailed Analysis

The joint resolution would place a proposal on the November 5, 2024 ballot amending Ohio's constitution to limit, with certain exceptions, real property tax increases from the prior year to the lesser of 4% or the rate of inflation if positive.[1] The limitation would apply for each parcel of real property. Exceptions include dividing of a parcel; expiration of a tax exemption, abatement, or credit that applied to the parcel; or completion or improvement of a building. The constitutional amendment, if approved by voters, would prohibit state and local governments from imposing or increasing fees, assessments, monetary charges, or payments in lieu of taxes to finance government services otherwise funded through taxation of real property. Creation of

[1] On a literal reading of the joint resolution's wording "the lesser of the rate of inflation, if positive, or four per cent" inflation of positive 0.1% would limit the tax increase to 0.1%, but with zero inflation or deflation (declining prices), the inflation rate would no longer be part of the calculation of the limit on the tax increase, which might then be deemed to be 4%. Such an outcome could be expected to be infrequent; the consumer price index, a possible measure of inflation, yielded negative values for the annual average price change on only two occasions since 1950 and was never unchanged during this period.

new or special jurisdictions, agencies, or parcels that act to circumvent the limitations imposed by the constitutional amendment is also prohibited.

Details regarding the operation of the limitation are not specified in the text of the constitutional amendment. For example, if some combination of enactment of new levies, taxable value increases, or both would result in a real property tax increase of 5% for the owner of a property, how the increase would be reduced to 4% or the rate of inflation is not spelled out. Whether local jurisdictions would share in the cutbacks on a pro-rata basis, in some other way, or not at all is unstated. Neither a role for the state in such a reduction nor the absence of such a role is specified in the amendment.

The limitation on tax increases applies to all types of real property, since the constitutional amendment does not state a narrower range of property types. How inflation is to be measured is not specified. Tax increases on the value added by improvements to real property other than buildings may be limited to 4% or less per year.[2] If approved, the constitutional amendment would go into effect on January 1, 2025, with taxes for the preceding year to be based on the amount of taxes levied in tax year (TY) 2022 plus taxes approved during 2022, 2023, and 2024.

Losses of tax revenue from real property owners would equal the difference between the amounts that individual property owners would owe in the absence of the constitutional amendment and amounts owed with the amendment. If property value increases are low and few levy increases are enacted, fiscal effects of the amendment would be small or possibly nil. Conversely, large property valuation increases and numerous enactments of levies increasing tax rates would result in large revenue losses. Potential revenue losses range into the hundreds of millions of dollars.

As an illustration of the potential fiscal effect of the constitutional amendment, a total calculated for taxes due by taxing district and real property type for TY 2023 are compared with taxes due for TY 2022. The actual calculation would be done parcel by parcel, so the fiscal effect of a limit on the magnitude of the increases would be larger. For example, if the limit on the annual tax increase is 4%, and a taxing district consists of two properties on which total taxes increase 4%, analysis at the taxing district level indicates no revenue loss from the amendment's limit on the increase. But if the districtwide 4% tax increase consists of a 3% increase on one of the properties and a 5% increase on the other, the amendment would require that the tax increase on the latter property be reduced to 4%, resulting in a one percentage point revenue loss. Analysis at the individual parcel level would show a tax reduction even though analysis at the districtwide level would not.

The illustrative calculation was done in the following way. For each of the state's 4,448 taxing districts, TY 2022 taxable real property value was adjusted downward for the value of buildings destroyed or demolished. The TY 2023 value is then figured by adding to this adjusted

[2] The joint resolution expressly permits a building that "is completed or significantly improved and is added to the tax list on the parcel after the effective date" of the constitutional amendment to incur a one-time increase in property tax liability in excess of the limitation. However, the legislation is silent about other improvements, such as sidewalks, fences, sewers, driveways, or other structures which are not buildings. Current law definitions of some of these terms are in R.C. 5701.02.

2022 value the amount of reappraisal, update, or annual equalization of valuations in the district. This calculation is intended to approximate the value change for a property taxed in the same class in both years. It excludes valuation increases from new construction, consistent with the exclusion of such property from the increase limit in the constitutional amendment. However, it understates the amendment's cost since parcels on which the use is changed, so that they are taxed in a different class, are not excluded by the amendment from the limit on the increase in taxes. (Such a change in use may be accompanied by construction on a building on the parcel to fit it for the new use, in which case the parcel would be excluded.)

These TY 2022 and TY 2023 taxable values for agricultural, residential, industrial, and commercial real property are multiplied by the class 1 (agricultural and residential) and class 2 (industrial and commercial) effective tax rates for each year and taxing district.[3] For class 1 real property, actual reductions in the two years for the 10% nonbusiness credit rollback, the 2.5% owner-occupancy credit rollback, and the homestead exemption are subtracted from these calculated tax amounts. The results are summarized and compared with the increases that would have resulted from a 4% increase.

Overall, tax increases of more than 4% total $820 million. Most of this total is for residential property, $647 million. The total also includes agricultural property, $94 million; commercial property, $61 million; and industrial property, $18 million. Increases in excess of 4% are mostly in counties undergoing sexennial reappraisals or triennial updates of their real property valuations in 2023. With the passage of time, losses could tend to cumulate, depending on how much taxes would rise in the absence of the limit.

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[3] Mineral property and some railroad property are also included in class 2 real property but are not analyzed here.