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Office of Research and Drafting

Legislative Budget Office

S.B. 308
135th General Assembly

Fiscal Note & Local Impact Statement

[Click here for S.B. 308's Bill Analysis]

Version: As Introduced

Primary Sponsor: Sen. O'Brien

Local Impact Statement Procedure Required: Yes

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Revised

Highlights

- The bill modifies the school district 20-mill floor calculation, resulting in a reduction in annual property tax revenue growth for an estimated 238 school districts in the bill's first three years. Assuming the bill's change is in effect for tax year (TY) 2024 through TY 2026, a full three-year property tax reappraisal or update cycle, and voted property tax rates remain unchanged, school district revenue losses statewide are estimated to be $117 million for TY 2024, $175 million for TY 2025, and $336 million for TY 2026. These losses increase each year as more school districts go through a reappraisal or update.
- Property taxes are largely paid by property owners, but a small portion is reimbursed by the state through property tax rollbacks and the homestead exemption. The $336 million estimated school district revenue loss for TY 2026 results in a $296 million reduction in property tax bills for property owners and a $40 million reduction in GRF reimbursement payments for the state.
- The bill has no effect on state aid to school districts through the school funding formula as presently designed.

Detailed Analysis

Change in school district floor calculation

The bill changes the calculation of effective mills on outside (voter approved) fixed-rate levies of school districts and joint vocational school districts (JVSDs).[1] Under continuing law, effective tax rates on outside fixed-rate levies are set by calculating the percentage reductions required in order to levy the same amount of taxes for current expenses in the current year as in the prior year on carryover property.[2] Under current law for school districts and JVSDs, however, these effective tax rates when combined with inside general fund millage cannot go below a floor: 20 mills for school districts and two mills for JVSDs.[3] For districts that are at the floor, therefore, increases in taxable property value lead to commensurate increases in property tax revenue on carryover property from outside fixed-rate levies.

The bill includes emergency and substitute levies in the floor calculation along with fixed-rate levies and inside general fund millage.[4] The bill's effect on school districts that impose emergency or substitute levies is to increase the total millage that is compared with the 20-mill floor. School districts now at the floor, in which taxable value increases result in commensurate revenue increases, will no longer be at the floor if they have such levies and will lose this revenue that results from valuation increases.

The bill provides for similar calculations for JVSDs, adjusting the percentage reduction if necessary, so that taxes charged and payable for current expenses would be at the two-mill floor. Although JVSDs are permitted to have either emergency levies or substitute levies,[5] tax rate abstracts published by the Department of Taxation do not show either type of levy used by JVSDs in TY 2024. Based on this, the bill appears to have no effect on JVSDs.

Local school district revenue effects

Estimated revenue losses grow rapidly in the first three years after the bill goes into effect, from $117 million for the first year (TY 2024) to $175 million for the second year (TY 2025) to a total estimated at $336 million after the bill has been in effect for three years (TY 2026), a full reappraisal or update cycle for all 88 counties. This pattern is illustrated in the chart below, which shows estimated school district taxes on real property. Although the bill could not actually go

[1] Millage can be "inside" or "outside." Inside mills are the first ten mills (1%), which taxing authorities are allowed to levy administratively without seeking voter approval. Outside mills, those in addition to the first ten mills, must be submitted for approval by voters.

[2] Carryover property is property taxed in the same class in both the current and prior tax years. The two classes of real property are Class 1 which includes residential and agricultural land and improvements, and Class 2 which includes all other real property. Separate effective tax rates are figured for each class.

[3] An exception for school districts applies if the effective tax rate needed to reach the floor would be more than the rate approved by voters. However, the effective rate cannot be raised above the voted rate. As of TY 2023, only ten school districts are under this exception.

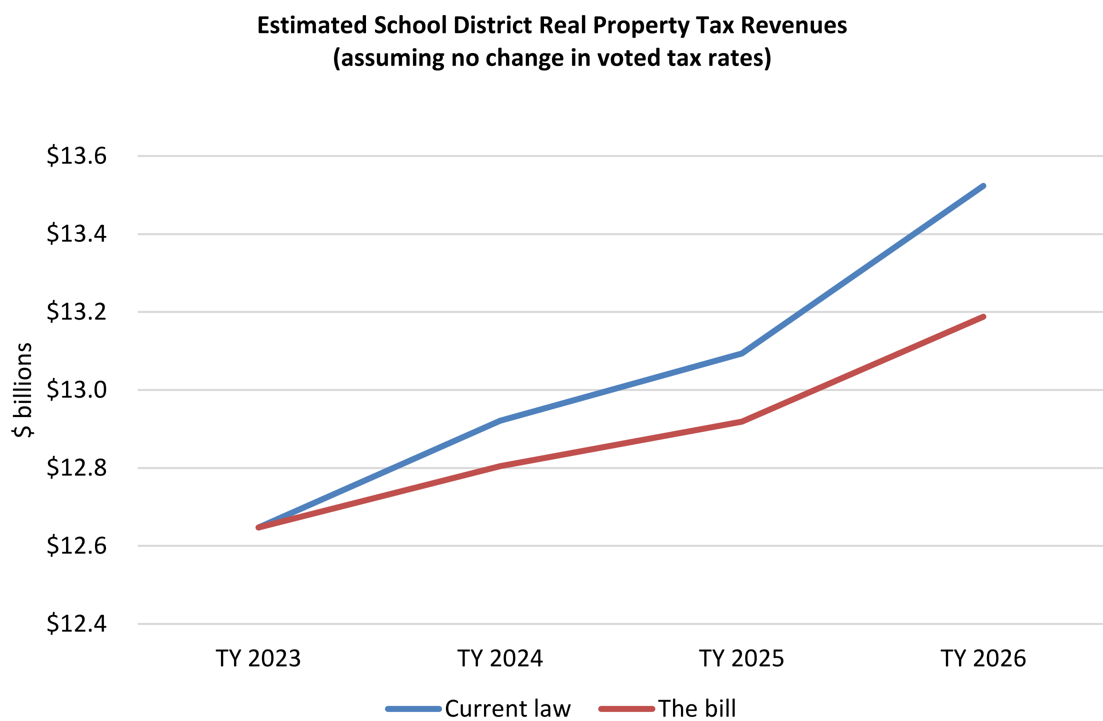
[4] For a description of these levies, see below under the heading "Characteristics of the levies."

[5] R.C. 5705.194 through 5705.197 and R.C. 5705.199, unchanged by the bill.

into effect until TY 2025, these estimates assume the bill's changes apply starting in TY 2024, the year after the latest year for which published data are available.

On this assumption, tax payments are lower starting in CY 2025 because real property taxes are paid a year in arrears. Losses cumulate in subsequent years, becoming more widespread as more counties undergo reappraisal or update. Taxable values tend to grow over time, consequently revenue losses under the bill will also tend to grow after these initial three years. These estimates assume no change in voted millage rates. School districts may respond to the decrease in revenue growth by putting more levies on the ballot. To the extent these levies are approved by voters, they could offset the revenue losses imposed by the bill.

School districts with no emergency or substitute levies will not incur losses from the bill.



Revenues of districts with current expense millage that is well above the 20-mill floor also will be unaffected by the bill. An estimated 238 school districts would lose property tax revenue in the first three years that the bill is in effect as a result of the bill's provisions, out of the total of 611 districts in TY 2023.

How the calculations were done

The revenue that is foregone under the bill results from increases in property values for school districts at the 20-mill floor, or sufficiently near the floor in the prior year to benefit from reaching the floor in the current year due to property value increases. For any specific set of property values and prior year tax rates, current year tax rates can be calculated for emergency and substitute levies. These can then be treated as given and fixed for purposes of calculating effective tax rates on outside fixed-rate levies.

Estimation of school district revenue losses combines Department of Taxation data on tax rates and taxable values for TY 2023. Numerous simplifying assumptions are made to derive approximations to the bill's effects. Percent changes in taxable values are based on a prediction by

S&P Market Intelligence, an economic forecasting firm used by LBO, of the average price of existing Ohio homes. These percent changes are used for all three classes of property.[6] Valuation changes for each reappraisal or update year are based on the percent change in the home price index from four years earlier to one year earlier, as an approximation to the way valuations are determined as of January 1 of each tax year. These percent changes are applied uniformly to all counties undergoing reappraisal or update in each of the next three years, in the absence of forecasts down to the county level. School districts are assigned to counties based on the "home" county of each district. Losses in school districts with territory in more than one county are then apportioned to those counties based on shares of taxable value in each.

Because of the numerous simplifying assumptions on which the estimates are based, resulting predictions should be viewed as only approximations.

GRF spending reductions

Property taxes are largely paid by property owners, but a small portion is reimbursed by the state for property tax rollbacks and the homestead exemption. Lower school district revenues imply lower rollbacks on qualifying levies, including the 10% nonbusiness tax reduction and the 2.5% tax reduction for owner-occupied homes. Also, lower school district effective tax rates imply smaller homestead exemption reductions, the amounts of which are based on local tax rates as well as the amounts of taxable value exempted. The state GRF reimburses these losses to local taxing authorities. The $336 million estimated school district revenue loss for TY 2026 results in an estimated $40 million reduction in GRF reimbursement payments for the state.

Characteristics of the levies

Current expense levies include both outside current expense levies and inside general fund millage. Current expenses include lawful expenditures of a subdivision except for permanent improvements and debt-related payments including interest.[7] The inside millage is not subject to rate adjustments. Adjustments are made to the rates on the outside current expense levies. Tax rates charged and payable with the adjustments are termed effective rates. The underlying voted rates at which the taxes are levied do not change. Upward effective rate adjustments when property values decrease cannot result in effective tax rates higher than the voted rates.

Emergency levies are fixed-sum levies. With each such levy, voters approve a specific amount of tax revenue to be collected each year that the levy remains in force. Tax rates are adjusted as needed in response to changes in property taxable values so as to raise the required sums. The tax rate for an emergency levy is imposed uniformly across taxable Class 1 and Class 2 real property and public utility tangible personal property. Taxes charged and payable, for

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[6] Ideally, predictions would be based on separate indexes for Ohio agricultural land values, for commercial and industrial real property, and for public utility tangible property, but LBO does not know of reliable forecasts for these variables. Historically, aggregate taxable values for the three property classes are closely correlated. To the extent that the predicted home price increases overstate the likely changes in prices of other types of property, this fiscal note's loss estimates may also be overstated. Residential property accounted for about 75% of taxable real property value in the state in TY 2023.

[7] R.C. 5705.01.

calculating the tax rate to compare with the 20-mill floor, exclude emergency levies in current law but include them under the bill. Law governing emergency levies is unchanged by the bill.

A substitute levy raises revenue initially equal in amount to that raised by the emergency or substitute levies for which it is being substituted. After the first year, a substitute levy raises revenue equal in amount to that raised in the prior year plus the product of the rate at which it was charged in the prior year times the taxable value of all real property in the current year that is not carryover property (e.g., new construction). The substitute levy tax rate is charged uniformly across property types. Taxes charged and payable, for calculating the tax rate to compare with the 20-mill floor, exclude substitute levies in current law but with the bill includes them. As with emergency levies, the law governing substitute levies is unchanged by the bill.

Impact to the school funding formula

While the bill affects property tax revenues to school districts, it would have no effect under the state's current formula for funding public schools. This is because the amount of state aid that a traditional school district receives depends not on the district's local tax revenues, but on measures of the district's capacity to raise those revenues. These measures include the taxable value of the property in the district as well as measures of its residents' incomes. However, the current school funding formula is effective only through FY 2025. The formula or formulas for FY 2026 and beyond will be calculated in ways to be determined by future General Assemblies.

Change in inside millage provision

The bill prohibits school boards from changing the purpose of their inside millage in ways that would increase real property tax revenues in the tax year the change takes effect. It further requires that any other change to inside millage that would increase tax revenues in the initial year of the change be preceded by a public hearing solely on the proposed change. The prohibition and perhaps also the meeting requirement will likely preclude increases in tax revenues, but any fiscal effect of this bill provision depends on what future school boards might decide in the absence of the provision. LBO does not have an estimate of the fiscal effect, if any, of this bill provision.

JVSDs would be unaffected by this bill provision. They do not currently collect inside millage.

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