OHIO LEGISLATIVE SERVICE COMMISSION

www.lsc.ohio.gov

Office of Research and Drafting

Legislative Budget Office

H.B. 186
(l_136_0063-6)
136th General Assembly

Fiscal Note & Local Impact Statement

Click here for H.B. 186's Bill Analysis

Version: In House Ways and Means

Primary Sponsors: Reps. Hoops and D. Thomas

Local Impact Statement Procedure Required: Yes

Patrick Campbell, Budget Analyst, and other LBO staff

Highlights

- The bill limits increases in property tax revenues resulting from voted levies that may be collected by school districts on the 20-mill or 2-mill property tax floors and that have undergone a property valuation reappraisal or update to the three-year rate of inflation. Under the bill, qualifying property owners will receive a credit ("Inflation Cap Credit") for the excess amount of taxes charged and payable above the inflationary collections limit.
- LBO projects that property tax credits will total $440 million in tax year (TY) 2025, $616 million in TY 2026, and $642 million in TY 2027. The credit will be available to real property taxpayers in all 88 counties beginning in TY 2025 and years thereafter, but it will only be granted to real property owners to the extent that their local district's applicable tax revenue exceeded the relevant inflation measure.

Detailed Analysis

Property tax credit

The bill authorizes a property tax credit for property owners located in a school district or joint vocational school district (JVSD) that is on the 20-mill or 2-mill floor, respectively. If the year-over-year increase in calculated property taxes resulting from a county reappraisal or triennial update exceeds the rate of inflation over the preceding three years as calculated by the gross domestic product (GDP) deflator, property owners will receive a credit that limits this increase to the rate of inflation. The bill only limits the increase of property taxes collected due to outside (i.e., voter approved levies for current expenses) millage. The amount collected via inside mills will still increase regardless of and with no adjustment for inflation.

Under the bill, tax credits will be calculated separately depending on the class of property; "nonbusiness property," which includes residential and agricultural property minus ponds and lakes, and "business property," which includes all other types of property minus vacant properties.[1] Statewide, the majority of land would be classified as "nonbusiness property." This tax credit is recalculated every time a district's property undergoes reappraisal or a triennial update, so long as the district is on the 20-mill or 2-mill floor. Credits are calculated separately for traditional school districts and JVSDs, as JVSDs have a separate 2-mill floor. The bill will begin to affect real property in tax year (TY) 2025, manufactured and mobile homes that are taxed like real property in TY 2026, of which both are payable in calendar year (CY) 2026.

In TY 2025, the credit will be based on the county's most recent sexennial reappraisal or triennial update. If neither is scheduled for TY 2025, Section 4 of the bill determines the TY 2025 credit value as if the credit had been in effect for the property that underwent a reappraisal or triennial update in TY 2023 or TY 2024.

Calculation of credit

The bill applies the credit by first establishing a limit on collection of outside[2] mill current expense taxes charged and payable in a particular tax year on each class of property in a district on the 20-mill or 2-mill floor and that has undergone a reappraisal or update in that year. The bill sets the limit at the amount collected in the previous tax year plus growth based on the three-year rate of inflation as measured by the GDP deflator. The credit amount is the difference between the collections limit and the amount that would be collected without the limitation.

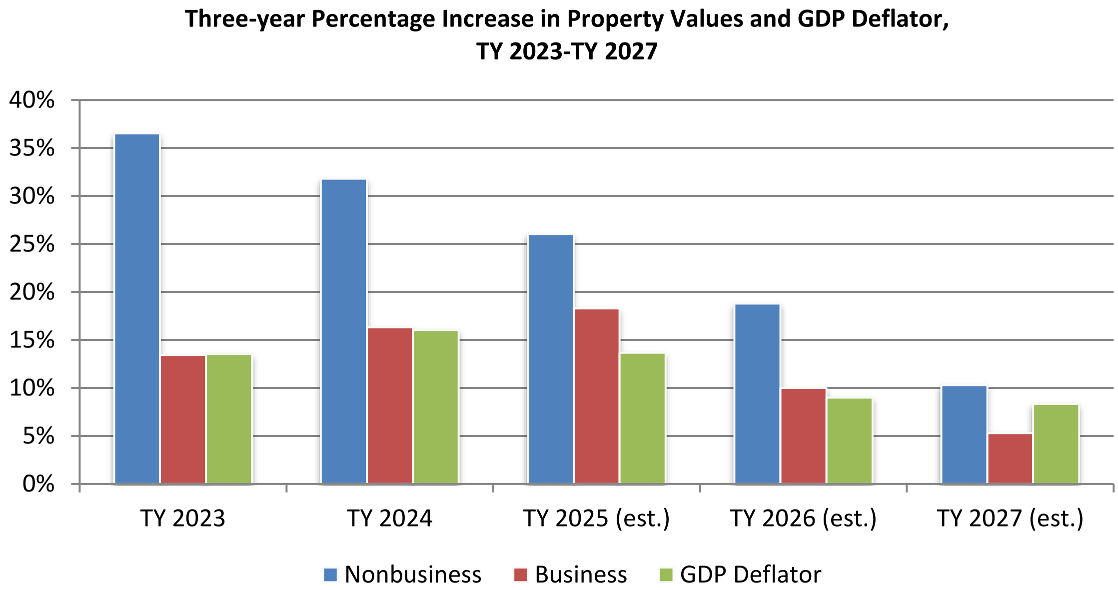
In every subsequent reappraisal or triennial update, the credit value will be determined by the extent that property taxes charged in the district exceed cumulative inflation since the original year of measurement. The credit ceases to apply, if the district is no longer on the floor.

Property value increases and inflation rates over time

The three-year rates of inflation and three-year percentage changes in Ohio property values are displayed in the chart below. The rates of inflation are actual values for the three years prior to the concurrent year listed in the chart. For example, the rate of 16.0% in TY 2024 is the percentage change from CY 2020 to CY 2023. For years TY 2026 onward, all values are those projected by Moody's Analytics. The three-year percentage changes in residential ("Nonbusiness") and commercial ("Business") property values are measured for those counties undergoing reappraisal or triennial update. Future values are derived from the Federal Housing Finance Agency's (FHFA) All Transactions Home Price Index and Commercial Real Estate Index for Ohio, respectively. For example, the 18.8% increase in the home price index (labeled "Nonbusiness" in the chart) in TY 2026 is measured as the change in Ohio residential home values from CY 2022 to CY 2025. For years TY 2025 onward, all property values are those projected by Moody's Analytics.

[1] LBO staff evaluated county auditor data in a handful of counties and observed that vacant land equals between 0.8% (Cuyahoga) and 5.2% (Washington) of all real property value. However, the presence of lakes and ponds cannot be determined by LBO when using the land use codes in Ohio Administrative Code (O.A.C.) 5703-25-10.

[2] The 20-mill floor for applicable school districts equals the inside current expense millage plus the outside current expense millage. The entire 20-mill floor is comprised of outside millage for those school districts that do not allocate their inside millage for current expenses.



The rate of property value increase in class 1 (e.g., residential and agricultural) property far exceeded that of inflation as measured by the GDP deflator in recent years, and it is expected to do so by a smaller margin in TY 2025 and TY 2026. The projected valuation increase in TY 2027 is closer to the forecasted inflation measure. On the other hand, class 2 (e.g., commercial and industrial) property values did not exceed inflation by large magnitudes in any year of this analysis. For this reason, about 97% of the estimated property tax savings from the Inflation Cap Credit is expected to be conferred to nonbusiness (i.e., class 1) property owners.

Projection of credit amounts for property owners

Based on the projected values of inflation and property value increases, LBO estimates that property tax credits will total $440 million in TY 2025, $616 million in TY 2026, and $642 million in TY 2027. The credit will be available to taxpayers in all 88 counties beginning in TY 2025 and years thereafter, but it will only be granted to real property owners to the extent that their local district's applicable tax revenue exceeded the relevant inflation measure.

Real property taxes are typically paid a year in arrears on a semiannual basis, with specific due dates that vary by county. While the exact dates are set locally, the first-half payment is due early in the calendar year, and the second-half payment is due mid-year. However, the bill requires that the entire Inflation Cap Credit be applied against the second-half tax payment for TY 2025. For this reason, school districts and JVSDs will incur 100% of the TY 2025 revenue loss in FY 2027 when the second-half payment for TY 2025 is due. Later in FY 2027, the schools will incur 50% of the estimated TY 2026 revenue loss when the first-half payment is due. In FY 2028 and years thereafter, the more conventional pattern should resume such that a fiscal year's receipts will equal 50% of the property tax payments from the two relevant taxable years.

Impact to the school funding formula

Under the current school funding formula, a district's capacity to raise local funds is partially determined by the aggregate value of the property in the district, calculated as the lesser of the most recent year's valuation or the average valuation over the most recent three tax years (the district's "local share valuation"). The formula uses property valuations, in part, to determine the local and state shares of foundation funding.[3] In general, state aid per pupil is higher for lower wealth school districts. The bill's property tax credit reduces property tax revenues to school districts, but that is not an input for the school funding formula, so the bill will not affect state foundation aid expenditures in FY 2026 or FY 2027.

Synopsis of Fiscal Effect Changes

- The substitute bill (l_136_0063-6) modifies the credit by naming it the "Inflation Cap Credit" and making it available to real property owners in all 88 counties for TY 2025 rather than just those property owners in a county undergoing reappraisal or triennial update in TY 2025. This retrospective aspect determines the TY 2025 credit value as if the credit had been in effect for the property that underwent a reappraisal or triennial update in TY 2023 or TY 2024. The provision increases the estimated fiscal effect by $365 million in TY 2025, $389 million in TY 2026, and $396 million in TY 2027.

- The substitute bill eliminates the bill's fiscal effects on state foundation aid through the school funding formula by removing the provision in the As Introduced (previous) bill that adjusts the calculation of a district's real property valuation for state funding purposes to provide it with additional state aid and thus partially offset any reductions in a district's property tax revenue. In general, the previous bill calculated property value reductions for purposes of the school funding formula by dividing the amount of property tax revenue the district lost in the applicable tax year (for both "nonbusiness property" and "business property") as a result of the bill by the district's effective tax rate for that tax year.

FNHB0186H1-136/zg

[3] In addition to property valuation, two measures of the income of a district's residents, both related to federal adjusted gross income (FAGI), factor into the determination of a district's capacity to raise local funds. Property valuation is weighted at 60% while the income measures are each weighted at 20%.