



House Ways and Means Committee
House Bill 1 – Opposition Testimony
March 28, 2023

Buckeye Association of School Administrators (BASA)
Ohio Association of School Business Officials (OASBO)
Ohio School Boards Association (OSBA)

Chair Roemer, Vice Chair Merrin, Ranking Member Troy, and members of the House Ways and Means Committee, thank you for the opportunity to provide testimony on House Bill (HB) 1. My name is Katie Johnson with the Ohio Association of School Business Officials. Joining me today for this testimony and in answering your questions are Paul Imhoff with the Buckeye Association of School Administrators and Jennifer Hogue with the Ohio School Boards Association.

Collectively, our organizations represent public school board members, superintendents, treasurers/CFOs and other school business officials from around the state. On behalf of our members, we are testifying in opposition of HB 1. We respectfully ask this committee to carefully consider the proposed property tax changes and their detrimental impact on property taxpayers, our school districts, and the students we serve.

We understand a goal of HB 1 is to implement a flat state income tax of 2.75%. We also understand that one way to fund the income tax cut is to eliminate the 10% rollback reimbursement from the state on residential and agricultural property. As has been discussed in committee, the elimination of the 10% rollback reimbursement means the residential and agricultural property taxpayer assumes the tax burden. To offset this immediate tax increase, the bill proposes to decrease the property tax assessment percentage from 35% to 31.5%.

However, as we will outline, because of various features of Ohio's property tax law, the decrease in the assessment percentage from 35% to 31.5% does not offset the 10% property tax increase that would result from the elimination of the rollback reimbursement. Instead, these changes result in a significant tax increase for residential and agricultural taxpayers, as well as a loss in local tax revenue for schools and local governments.

According to the fiscal note from the Legislative Service Commission (LSC), the following changes will occur from a statewide perspective as a result of HB 1:

- \$929 million annual **tax increase** for residential and agricultural property taxpayers;
- \$157 million annual **tax decrease** for business and commercial property taxpayers; and
- \$538 million annual **decrease in local tax revenues** for schools and local governments.

The specific fiscal impact on any school or local government and their taxpayers will depend on its mixture of inside millage, voted “fixed sum” levies, and voted “fixed rate” levies.

To provide context for the issues caused by the proposed changes in HB 1, it is helpful to connect the importance of property tax levies to the broader discussion of school funding. Ohio’s system of funding for K-12 education calls for a shared responsibility between the state and each local school district, per the Ohio Constitution. Each district’s state share is based on the wealth and capacity of the school district, considering the district’s assessed property valuation and resident income. The state share ranges from 5% for the highest-capacity school districts up to approximately 90%. This means local school districts must raise the remaining funds at the local level, with the highest-capacity school districts raising 95% of its funding locally.

To raise this constitutionally required local share, a school district is restricted to either levying a property tax or income tax, with every district generating local property taxes from “inside millage.” This millage represents a school district’s allocation of the 10 mills of unvoted property tax millage levied on property, per the Ohio Constitution, and shared between local government entities. Outside of these 10 mills, political subdivisions, including schools, must place levies on the ballot to raise the local funds necessary to meet the needs of their communities.

Voted property tax levies fall into one of two categories – “fixed sum” levies and “fixed rate” levies. Fixed sum levies are approved by the voters for a fixed dollar amount, and include bond, emergency, and substitute levies. The millage rate on these types of levies is adjusted as property values change to generate the voter-approved dollar amount.

In contrast, “fixed rate” levies are approved by the voters for a specific millage amount. In general, due to the operation of the tax reduction factors under Ohio law (often referred to as HB 920), the total amount of tax revenue generated from a voted “fixed rate” levy cannot increase or decrease from one year to the next as property values fluctuate. HB 920 applies to ensure the taxes charged and payable on a property remain at the approximate amount generated at the time the levy was originally imposed. Therefore, HB 920 operates to prevent automatic tax increases or decreases as aggregate property values fluctuate over time.

Tying these details together, the specific fiscal impact on any school district and its local residential and agricultural taxpayers will depend on its mixture of inside millage, voted “fixed sum” levies, and voted “fixed rate” levies.

- **Inside Millage** (unvoted 10 mills per the Ohio Constitution)
 - Schools typically receive 4-5 inside mills.
 - HB 920 **does not** apply to inside millage.
 - If the assessment percentage is reduced to 31.5%, resulting in a lower aggregate taxable value, the *tax revenues* from inside millage will be *reduced*.
- **Bond and Emergency Levies** (voted “fixed sum” levies)
 - Voters approve a dollar amount rather than a millage rate.
 - HB 920 **does not** apply to voted “fixed sum” levies; *however*, the millage rate on these types of levies is adjusted every year to ensure the voted dollar amount is generated.

- If the assessment percentage is reduced to 31.5%, resulting in a lower aggregate taxable value, the *tax rates will automatically increase* so that the tax revenue collected by these levies remains the same.
- **Operating and Permanent Improvement Levies** (voted “fixed rate” levies)
 - Voters approve a millage rate rather than a dollar amount.
 - HB 920 **does** apply to fixed rate levies.
 - When **property values increase**, the HB 920 tax reduction factors apply and **decrease the effective tax rates** in order to preserve property tax revenue at the prior level.
 - When **property values decrease**, the HB 920 tax reduction factors apply and **increase the effective tax rates** in order to preserve property tax revenue at the prior level.
 - Therefore, if the assessment percentage is reduced to 31.5%, resulting in a lower aggregate taxable value, the HB 920 tax reduction factors will apply and **increase the effective tax rates** to preserve property tax revenue at the previous level.

It is important to keep in mind that the decision to place a levy on the ballot is carefully considered by each school district and the community it serves. A ballot issue takes a lot of planning and community support to be successful. This support relies on a high level of trust between the community and school district. Historically, this trust has been built through a commitment to transparency, along with ongoing education to assure voters know how a proposed levy will impact each of them individually. Of course, the application of Ohio’s property tax laws and other policies are considered by the boards of education and their communities before moving forward with a levy. Communities carefully weigh their options for raising funds – including whether to place a fixed rate or fixed sum levy on the ballot, or whether it is a renewal or new money levy, for example. Subsequently changing certain assumptions used in that decision making undermines the careful planning by school communities and the agreement voted upon by its residents.

We have attached examples of the bill’s impact on local school districts to our testimony. These projections are based on a calculator developed by two school district treasurer/CFOs – Jared Bunting of Jackson City Schools and Matthew Bunting of Athens City Schools. Please note these projections are only estimates, but we believe they help to illustrate the varying impact of this legislation on school districts, which is based on their mixture of inside millage, voted “fixed sum” levies, and voted “fixed rate” levies. While the impact varies, one thing is certain – HB 1 results in a tax increase for residential and agricultural taxpayers and a decrease in tax revenue to our schools and local governments.

One final point related to the school funding formula – HB 1’s proposed changes would impact the state funding amount received by a local district. By reducing the assessment percentage from 35% to 31.5%, a district’s assessed property valuation decreases. This decrease impacts districts’ capacity calculation as previously mentioned. This change would result in certain districts receiving additional state funding under the school funding formula. However, any additional funding received by some school districts is highly unlikely to outweigh the negative impacts of the increasing property taxes on residential and agricultural property taxpayers and the loss of local revenue and student educational opportunities caused by the proposed changes in HB 1.

In summary, due to the system of school funding as prescribed by the Ohio Constitution and the Ohio Revised Code, schools rely on property taxes and their voters to pass levies to maintain their educational programming for students. This task will prove even more challenging after the property tax increase imposed as a result of by HB 1, as property taxpayers may be less inclined to approve new levies. In addition, districts will need to act to address the local revenue lost due to this bill. So, whether directly or indirectly, HB 1's proposed changes will negatively impact districts' ability to raise the necessary funds at the local level, which could have a devastating impact on our students, our schools, and ultimately, our communities.

We wish to thank Representative Mathews for his willingness to work with all parties to address the issues in this bill.

Mr. Chairman, this concludes our testimony. Thank you for your consideration. We are happy to address your questions.

House Bill 1 - As Introduced

	Property Value	Assessed Rate
Full Class 1 Value	1,177,145,571	
Full Class II Value	586,826,429	
Full PUPP Value	163,940,457	
Current Class I Assessed Value	412,000,950	35.0%
Current Class II Assessed Value	205,389,250	35.0%
Current PUPP Assessed Value	57,379,160	35.0%
HB1 Class I Assessed Value	370,800,855	31.5%
HB1 Class II Assessed Value	184,850,325	31.5%
HB1 PUPP Assessed Value	57,379,160	35.0%

Projections based on current bill language as of March 02, 2023

* A levy year of 9999 indicates Inside Millage.
 ** Increase to Class I Taxpayers is accounting for the reduction in the 10% rollback if the levy is eligible. This does not increase the revenue to the district.

2.5% Non Business Tax Credit is assumed to be net zero due to lack of available data to compute this change.

*Levy Year	Levy Name	Full Rate	Class I Effective Rate	Class II Effective Rate	Eligible for Rollbacks	HB1 Class I Millage Adjustment	HB1 Class II Millage Adjustment	HB1 PUPP Millage Adjustment	**Increase to Class I Taxpayers due to HB920 Adjustment	Gross Revenue Loss
9999	GENERAL FUND	1.38	1.380000	1.380000	Y	-	-	-	-	(85,200)
9999	PERMANENT IMPROVEMENT	2.62	2.620000	2.620000	Y	-	-	-	-	(161,756)
1976	CURRENT EXPENSE	2.20	0.833124	0.830090	Y	0.092570	0.092235	-	34,325	-
1976	CURRENT EXPENSE	3.80	1.439033	1.433793	Y	0.159893	0.159312	-	59,288	-
1976	CURRENT EXPENSE	4.10	1.552641	1.546987	Y	0.172517	0.171885	-	63,969	-
1976	CURRENT EXPENSE	4.30	1.628379	1.622450	Y	0.180932	0.180273	-	67,089	-
1976	CURRENT EXPENSE	5.10	1.931334	1.924301	Y	0.214591	0.213813	-	79,571	-
1976	CURRENT EXPENSE	5.80	2.196419	2.188421	Y	0.244047	0.243157	-	90,493	-
1976	CURRENT EXPENSE (#2)	3.80	1.439033	1.433793	Y	0.159893	0.159312	-	59,288	-
1980	CURRENT EXPENSE	5.50	2.212952	2.171224	Y	0.245883	0.241247	-	91,174	-
1984	CURRENT EXPENSE	3.00	1.338108	1.326690	Y	0.148679	0.147411	-	55,130	-
1990	CURRENT EXPENSE	6.50	3.120669	3.281239	Y	0.346742	0.364581	-	128,572	-
1999	BOND (\$16,400,000)	1.19	1.190000	1.190000	Y	0.119846	0.119846	0.119846	44,439	-
1999	CURRENT EXPENSE	1.50	0.929488	0.982977	Y	0.103277	0.109220	-	38,295	-
2012	SUBSTITUTE RC 5705.199	5.45	5.450000	5.450000	Y	0.548875	0.548875	0.548875	203,523	-
2018	BOND (\$60,500,000)	4.19	4.190000	4.190000	N	0.421979	0.421979	0.421979	(16,158)	(1)
2018	CLASSROOM FACILITIES	0.50	0.465716	0.446346	N	0.034284	0.049596	-	(6,475)	(6,475)
Total Projected Change due to HB1										(253,432)

Sources:
 Property Values pulled from ABS22SD - ODT
 PUPP Values from SD1CY21 - ODT
 Tax Rates from RATES22 - ODT

TRADITIONAL SCHOOL DISTRICT STATEWIDE TOTALS	1,718.66	1,908.01	383.12	638,940,910	(177,625,380)
	4,009.79				

