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Bill Analysis

Version: As Introduced

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SUMMARY

- Requires that emergency and substitute tax levies, school district income taxes, and all inside millage be included in the calculation of a school district's 20-mill floor or a joint vocational school district's 2-mill floor for property tax purposes.

DETAILED ANALYSIS

The bill modifies the calculation of the 20-mill floor that guarantees school districts a certain level of property tax revenue. Specifically, the bill adds three previously excluded revenue sources to the calculation of the floor: inside millage levied for purposes other than current expenses, emergency and substitute levies, and school district income taxes.

Changes to school district 20-mill floor

Continuing property tax law applies a "tax reduction factor" to real property, with the goal of preventing property taxes from increasing at the same rate as property values. Basically, each year when property values increase, property tax collections are adjusted downward so that taxing districts receive the same amount of revenue they received in the previous year. These reductions are converted to an "effective tax rate."

The tax reduction factor, under the Ohio Constitution, cannot apply to unvoted, or "inside" millage, or certain other types of operating levies, like fixed-sum levies, i.e., levies intended to raise a fixed amount of revenue each year.¹ Examples of the most common voter-approved fixed-sum levies include two that may be levied by school districts – emergency and substitute levies. Emergency levies allow a school district to collect a fixed amount of money every year. Substitute levies collect a fixed sum in their first year, and then collect increasingly

¹ Ohio Constitution, Article XII, Section 2a; R.C. 319.301.

more in each later year based on the district's increased valuation due to new construction and improvements.

There are some exceptions to the tax reduction factor – one of which is the 20-mill floor, which guarantees that a school district's effective tax rate for operating expense levies cannot fall below 20 mills. Instead, the tax reduction factor can only reduce a school district's operating levy collections to 20 mills – once that "floor" is reached in a school district, the reduction factor cannot reduce effective tax rates any further. Consequently, any growth in property tax values will produce a corresponding increase in taxes from those 20 mills. If property values increase 35% in a school district that is "on" the 20-mill floor, homeowners will generally see a larger tax increase than in other districts that are not on the 20-mill floor. The tax increase will very likely be less than 35%, since the tax reduction factor will still apply to other local tax levies (e.g., county and township levies), but since school district levies typically make up a majority of a homeowner's property taxes, the 20-mill floor will have a significant impact.

Under continuing law, a similar 2-mill floor applies to joint vocational school districts (JVSDs).

The bill

Under current law, the calculation of a school district's 20-mill floor includes only inside millage used for operating expenses and voted, fixed-rate operating expense levies. Fixed-sum levies are not included in the calculation, even if the revenue from those levies is used for operating expenses.

The bill expands the types of levies included in the floor calculation. The effect of these changes, for school districts that impose one or more of these levies, is to increase the total millage that is compared to the 20-mill floor. If the district was previously on the floor, the new calculation may push the district above the floor, with the result that the district will not see full revenue growth from its voted property tax levies that are affected by the tax reduction factor until the district falls back to the 20-mill floor.

The bill's millage floor changes apply to tax years beginning on and after the bill's 90-day effective date.²

Inside millage

Under the Ohio Constitution, property taxes must generally be approved by voters, with certain exceptions. One of these exceptions is that taxing authorities may, collectively, levy unvoted property taxes that do not exceed ten mills of a property's taxable value.³ Typically referred to as inside millage, these taxes may be levied for one or more of several purposes, including operating expenses, permanent improvements, debt, and certain special purposes.⁴

² Section 3.

³ Ohio Const., art. XII, sec. 2.

⁴ R.C. 5705.04, 5705.05, and 5705.06, not in the bill.

Under current law, the calculation of a school district's 20-mill or 2-mill floor includes only inside millage used for operating expenses. This limitation complies with a provision in the Ohio Constitution that specifically prescribes and limits the manner in which the General Assembly may authorize millage floors against the tax reduction factors. Specifically, it authorizes the 20-mill floor as an exception to the tax reduction factors, but only with respect to "taxes charged **for current expenses** against the land and improvements [in the subdivision]."⁵

In contrast with this constitutional requirement, the bill requires that all of a district's inside millage – including millage used for permanent improvements or debt – be included in the applicable floor calculation.

Emergency and substitute levies

The bill also requires that emergency and substitute levies be included in a school district's 20-mill floor calculation. These levies will continue to be excluded from the tax reduction factors, since that mechanism cannot reduce the amount of money raised from such levies. JVSDs are also authorized to levy an emergency or substitute levy, even though it appears that currently none of them do. Regardless, the bill also includes any emergency or substitute levies in the computation of a JVSD's 2-mill floor.

Under the bill, three other types of less common fixed-sum school district levies continue to be excluded from the computation of the 20-mill floor:

- A growth levy, which collects a fixed amount in its first year, and then an additional percentage or amount of revenue in each following year.
- A property tax that collects a fixed amount each year, levied in combination with a school district income tax. The school district income tax is included in the floor, as discussed below.
- A conversion levy, which may no longer be submitted to voters after 2014, though existing levies may be renewed. This levy allowed school districts above the 20-mill floor to repeal and re-levy their taxes in excess of the floor as a single fixed-sum levy, with the express purpose of dropping the district onto the 20-mill floor.

School district income taxes

Finally, the bill requires that all school district income taxes be included in a district's 20-mill floor calculation. Under continuing law, school districts, though not JVSDs, may levy an income tax for a variety of purposes with the approval of voters.

An adjustment is required to include income taxes in the floor calculation. Since the floor is a guaranteed property tax millage rate, the bill requires that a school district income tax be converted to a property tax mill "equivalent." This equivalent rate is computed by dividing the school district's income tax collections by one mill of the district's taxable property value.

⁵ Ohio Const., art. XII, sec. 2a(D).

As noted above, the Ohio Constitution specifies that a floor can be established with respect to the “taxes charged for current expenses **against the land and improvements** [in the subdivision].”⁶ This suggests that the 20-mill floor calculation may only take into account property taxes, and income taxes are not levied against land and improvements.⁷

HISTORY

Action	Date
Introduced	02-04-25

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⁶ Ohio Const., art. XII, sec. 2a.

⁷ R.C. 319.301.