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Bill Analysis

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SUMMARY

- Authorizes a property tax credit for the owners of property located in a school district on the 20-mill floor property tax floor, with the goal of limiting a district's total property tax revenue growth from the floor to the rate of inflation.
- Adjusts the calculation of a school district's or JVSD's real property valuation under the school financing system to partially offset any reductions in a district's property tax revenue as result of the bill.

DETAILED ANALYSIS

Tax credit for property in school districts on 20-mill floor

Background on 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 emergency fixed-sum levies.[1]

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

[1] Article XII, Section 2a, Ohio Constitution.

levy collections to 20 mills – once that "floor" is reached in a school district, the reduction factor cannot reduce effective 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 could have a significant impact.

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

Property tax credit

The bill would authorize a property tax credit for property owners located in a school district or JVSD on the 20-mill or two-mill floor, respectively. The goal of the credit is to limit the increase in tax revenue that the district would receive as a result of the floor. If the floor would result in collections exceeding a specified inflation rate, each property owner is granted a credit so that the district's revenue from 20 mills (or two mills) does not exceed that rate.

The credit is re-calculated every three years, when a county undergoes a reappraisal or triennial update. A district's revenue growth from the 20-mill or two-mill floor in one of those years may not exceed the rate of inflation over the preceding three years. To measure inflation, the bill compares the district's tax collections from the floor to increases in the GDP deflator, a national measurement of inflation in the prices of all goods and services published by the United States Bureau of Economic Analysis.

Example

To illustrate the operation of the bill's credit, consider a local school district that is on the 20-mill floor. Of this 20-mill floor, there are **five mills** of inside millage, which cannot be reduced by the tax reduction factor, and **15 mills** of outside millage. Assume that the total taxable value of all property in the district in tax year 2025 is **$1 billion**. In 2026, due to a reappraisal, that total taxable value increases to **$1.5 billion**.

Under current law, the 20-mill floor ensures that the taxes collected for operating expenses would equal **$20 million** in 2025 (2% of $1 billion) − **$5 million** from inside millage and **$15 million** from voter-approved millage. In 2026, collections would normally increase to **$30 million** (2% of $1.5 billion).

The bill would limit this increase with respect to the district's voter-approved millage (i.e., the millage subject to both the tax reduction factor and 20-mill floor). Assume that, over the three years before the 2026 reappraisal, the inflation rate is **20%**. When compared to the previous year's tax collections, the bill would apply a collections limit for 2026 of **$25.5 million** ($7.5 million from inside millage (5 mills x $1.5 billion), plus $15 million increased by 20%).

The bill achieves this limit by calculating a tax credit amount for each property. A property's credit will be based upon a "tax credit factor," which equals one minus the result obtained by dividing the inflation-limited collections (**$25.5 million**) by the collections that would be received under the 20-mill floor (**$30 million**). In this case, the factor would be **0.15**.

To calculate each property's tax credit, the property's tax liability is multiplied by this credit factor. Assume that, without the reduction, a home with an appraised value of **$200,000** would have a property tax liability of **$1,400**. Under the bill, this property would receive a credit equal to **$210** ($1,400 x 0.15).

This credit amount would be re-calculated every three years, when the county undergoes a reappraisal or triennial update. If, in any of those years, the district's growth from the 20-mill floor is less than the rate of inflation of the preceding three years, properties in that district would not receive a tax credit for that reappraisal or update cycle.

Total credit computation

The bill requires separate tax credit calculations for two groups of property – "nonbusiness property," which includes residential and agricultural property, other than ponds and lakes, and "business property" which includes all other property, except for vacant property. Both calculations only take into account property that was taxable in the district for the most recent appraisal or triennial update, not new construction.

These classes are similar, but not identical, to the Class I (residential/agricultural) and Class II (other) property classifications used when applying the tax reduction factor. Under continuing law, the reduction factor and 20-mill floor adjustment are applied separately to Class I and Class II property. Consequently, a district may be on the 20-mill floor with respect to one class, but not the other. The bill uses slightly different categories because the Ohio Constitution specifies that property can only be divided into those two classifications for purposes of the tax reduction factor.[2]

Under the bill, separate credit amounts are also calculated for JVSDs, because of their separate two-mill floor.[3]

School funding adjustment

The bill adjusts the calculation of a school district's or JVSD's real property valuation under the school financing system to offset any reduction in a district's property tax revenue resulting from the bill.

As a general matter, that financing system is a partnership between school districts, which contribute local revenue raised primarily through property tax levies, and the state, which provides funding to equalize the amount of funding between wealthy and less wealthy districts (i.e., districts that have a greater capacity to raise revenue and those that do not). Notably, the amount of state funding a district receives is not based on its actual local tax revenue generated, but rather on only its *capacity* to do so, which is calculated based on its real property tax valuations and some other measures of the income of district residents. Therefore, while the tax

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[2] *Id.*

[3] R.C. 319.301, 319.303, 323.08, 323.152, 323.155, 323.158, 4503.06, 4503.065, and 4503.0610.

credit established under the bill could impact the ability of affected districts to raise revenue, any losses would not automatically be offset by increased funding from the state.

To address this issue, the bill modifies the way in which a district's real property valuation is determined for the purposes of the school financing system. Under current law, the financing system uses the lesser of the district's most recent real property valuation or the average of the three most recent valuations as a factor in determining a district's capacity to raise revenue. Instead, under the bill, the system must use the lesser of a district's three-year average *qualifying* valuation or its *qualifying* valuation in the most recent tax year.[4] Under the bill, a district's qualifying valuation is determined by subtracting the total property value reductions resulting from the bill from the district's total taxable value for a tax year, as determined by the Department of Education and Workforce.[5] The property value reductions are calculated by dividing the amount of property tax revenue the district lost in the previous year (for both "nonbusiness property" and "business property") by the district's effective tax rate.

In short, if a district is impacted by the bill's reduction in property tax revenue, the value of a district's taxable property will be artificially reduced, so that the district will appear to have less capacity to raise revenue under the school financing system and, thus, the state will partially compensate the district for its loss in local revenue.

Application date

The bill applies beginning in tax year 2025, in the case of real property, and tax year 2026, in the case of manufactured and mobile homes that are taxed like real property. The first adjustment in school funding would apply to fiscal year 2027.[6]

HISTORY

Action	Date
Introduced	03-19-25

ANHB0186IN-136/ts

[4] R.C. 3317.017(A)(1)(a) and 3317.16(A)(1)(a).

[5] R.C. 3317.02(JJ) and 3317.021(A)(7).

[6] Section 3.