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H.B. 186
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Fiscal Note & Local Impact Statement

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Version: As Introduced

Primary Sponsors: Reps. Hoops and D. Thomas

Local Impact Statement Procedure Required: Yes

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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 average rate of inflation. Under the bill, qualifying property owners will receive a credit for the excess amount of taxes charged and payable above the inflationary collections limit.
- LBO projects that property tax credits will total $41.9 million in TY 2025, increase to $64.4 million in TY 2026 when additional counties carry out their triennial valuation process, and remain constant in TY 2027 as inflation is expected to be greater than the increase in property values. The estimated credit amounts decrease to $23.3 million in TY 2028, as only business property values are expected to increase faster than inflation.
- The projected value of credits issued for TY 2025 through TY 2028 results in an estimated annual reduction in GRF reimbursement payments to school districts for property tax rollbacks by $2.7 million in FY 2026, $6.7 million in FY 2027, and $8.1 million in FY 2028.
- The bill may provide additional state foundation aid to school districts whose property tax revenues are lower than otherwise by decreasing a district's property valuation used for state funding purposes. While the amounts of additional state aid in FY 2027 and future years are indeterminate, they may not fully offset the foregone tax revenues.

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 vast 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. Credits are calculated separately for traditional 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.

Calculation of credit

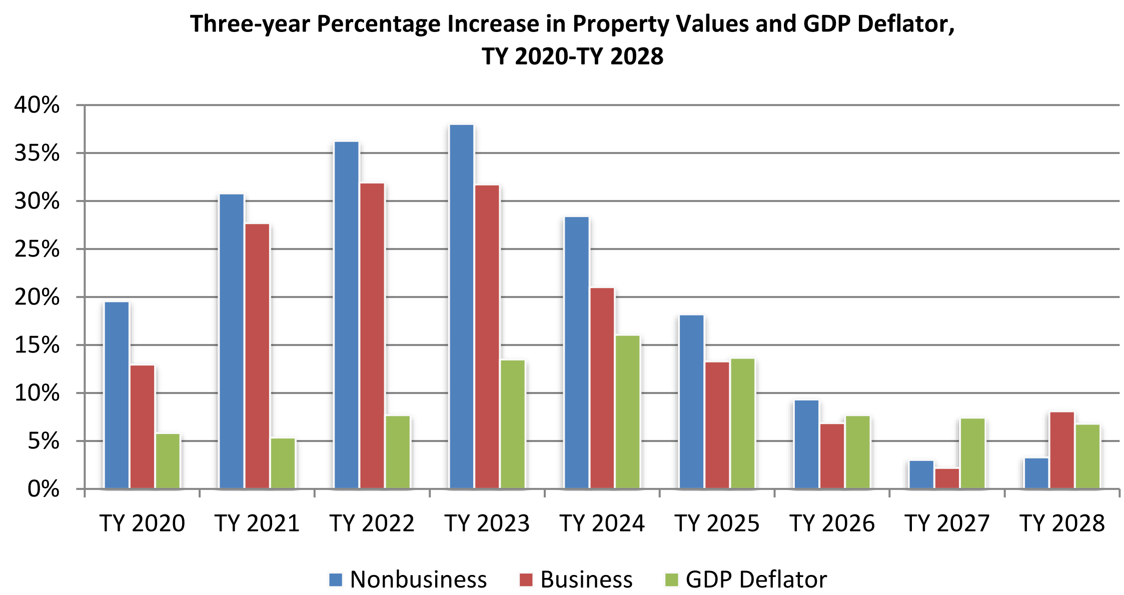
The bill applies the credit by first establishing a limit on collection of outside[2] mill current expense taxes charged and payable in a particular tax year on each class of property in a district on the 20-mill or 2-mill floor and that has undergone a reappraisal or update in that year. The bill sets 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.

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 years TY 2020 to TY 2025. 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 as that from three years prior to the concurrent year for years TY 2020 to TY 2024 and 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 28.4% increase in the home price index (labeled "Nonbusiness" in the chart) in TY 2024 is measured as the change from CY 2021 to CY 2024. 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 the state far exceeded that of inflation as measured by the GDP deflator from TY 2020 to TY 2024 and are expected to do so by a smaller margin in TY 2025. Projected valuation increases in TY 2026 and onward are much closer to the forecasted inflation measure. LBO would therefore only expect nonbusiness properties that reappraise in TY 2025 or TY 2026 and business properties that reappraise in TY 2028 to receive credits under the bill. Since neither category is projected to have a three-year value increase that outpaces inflation in TY 2027, LBO would not expect any property located in a county subject to reappraisal or triennial update in that year to receive any credits from TY 2027 to TY 2029.

Projection of credit amounts for property owners

Based on the projected values of inflation and property value increases, LBO expects the bill to generate $41.9 million in property owner credits in TY 2025. The projected credits are expected to increase to $64.4 million in TY 2026 when additional counties carry out their triennial reappraisal process. However, the value of projected credits awarded remains constant in TY 2027 as inflation is expected to be greater than the increase in property values. As such, no county reappraising in TY 2027 is projected to receive credits under the bill. In TY 2028, the same counties that reappraised in TY 2025 will do so again, albeit with only their business property values expected to increase faster than inflation. As such, LBO anticipates the value of credits to decrease in that year.

Table 1. Projected Credits, GRF Savings, and School District Losses (millions)

Category	TY 2025	TY 2026	TY 2027	TY 2028
Taxpayer savings from credits	$41.9	$64.4	$64.4	$23.3
GRF savings from ALI 200903	$5.3	$8.1	$8.1	$2.9
Total School District Revenue Losses	**$46.7**	**$71.6**	**$71.6**	**$25.7**

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. These losses to local taxing authorities are reimbursed by the state GRF. The projected value of credits issued for TY 2025 through TY 2028, results in an estimated annual reduction in GRF reimbursement payments between $2.9 million and $8.1 million, as displayed in the above table. With the loss of tax revenue from the credits and GRF reimbursement, total school district losses, which include traditional and joint vocational school districts, are projected to range from $25.7 million to $46.7 million between TY 2025 and TY 2028. Future amounts will depend on the relative values of property value increases and inflation. Since the bill does not change effective tax rates, homestead exemption amounts will be unaffected.

The bill would reduce expenditures from appropriation item 200903, Property Tax Reimbursement – Education. Given the relationship between the tax year and fiscal year, the bill reduces estimated GRF expenditures by $2.7 million in FY 2026, $6.7 million in FY 2027, and $8.1 million in FY 2028.

School funding adjustment

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 adjusts the calculation of a district's property valuation for state funding purposes to provide it with additional state aid. Lower property valuations lead to lower local shares and correspondingly higher state shares, thus leading to higher state funding. Under the bill, the school funding formula must use the lesser of a district's three-year average "qualifying" valuation or its "qualifying" valuation in the most recent tax year. 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. The property value reductions are calculated by dividing the amount of property tax revenue the district lost in the previous year (for both nonbusiness and business property) by the district's effective tax rate.

The bill's effect on the state aid through the school funding formula is uncertain in future years. This is because the bill's provisions will first impact the school funding formula in FY 2027, and a school funding formula for years after FY 2025 has yet to be enacted. Nevertheless, LBO simulated the effect of the bill on state aid through the formula as though the bill were fully in

[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%.

effect for FY 2025 to gauge the extent to which state aid may offset the foregone school district revenues from the property tax credits.[4] We first estimated the tax credits to qualifying districts for TY 2021, TY 2022, and TY 2023 (the three years of property valuation used in the FY 2025 formula).[5] By TY 2023, the credits against traditional district property taxes reached a total of $282.7 million, including the continuing credits for property owners in districts that underwent triennial reappraisal in TY 2021 and TY 2022. This number is much higher than the credits estimated above for TY 2025 and future years given the recent historic rise in property values, particularly for school districts that underwent triennial reappraisal in TY 2023. To illustrate, we estimated total property tax credits of $38.9 million for TY 2021 and $91.9 million for TY 2022. As the chart above shows, property values and inflation are expected to grow at much slower rates in future years. Estimated credits against JVSD property taxes followed the same pattern, starting at $4.6 million for TY 2021 and growing to $9.2 million for TY 2022 and $40.0 million for TY 2023.[6]

LBO then calculated the adjustments to taxable property values based on the estimated value of the credits. The credits estimated for TY 2023 translate to a reduction in property valuation of $17.50 billion (4.5%) for traditional districts and $20.33 billion (8.4%) for JVSDs. To align with the cumulative effect of the tax credits over a three-year reappraisal cycle, this analysis applies the total TY 2023 reduction amounts to a district's local share valuation for FY 2025. In addition, the baseline state aid for this analysis assumes the formula in FY 2025 is fully phased in.

It appears that additional state aid through the school funding formula may not fully offset foregone tax revenues from the credits to property owners. In LBO's simulation, the valuation reductions lead to an increase in state aid to traditional school districts of $140.2 million before the formula's guarantee provisions are applied. However, the guarantee provisions dampen any effects of higher state shares. For example, if a district received a guarantee payment, their calculated funding after the property valuation reduction would have to increase past the amount of the guarantee payment before the district would actually receive any increase in state funding. Once the guarantee provisions are applied, the increase in state aid falls to $85.3 million, or about 30% of the foregone tax revenue for TY 2023. The result is a net reduction of total revenue to traditional school districts of $197.3 million in the simulation.

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[4] In practice, valuation reductions under the bill in FY 2027 will be limited to the districts that, in TY 2025, are on the 20-mill or 2-mill floor and undergo triennial reappraisal. Based on the LBO projections of tax credits above, the valuation reductions will grow for FY 2028 as additional counties carry out their triennial reappraisal process, and remain constant in FY 2029.

[5] Tax years are generally from January 1 to December 31, whereas state and school fiscal years are from July 1 to June 30. In addition, most property taxes for a given tax year are paid in the following tax year. As a result of these two factors, property values in a given tax year correspond to the fiscal year two years later for state funding purposes. For example, property values for TY 2023 are the most recent year used in the formula for FY 2025.

[6] The territory of a JVSD, which consists of the territory of its member traditional districts, may encompass multiple counties, some of which may have undergone triennial reappraisal in a given year and some of which may not have. For JVSD analysis purposes, the triennial reappraisal status and calculation of tax credits for a given year are based on the JVSD's primary county assigned by the Department of Education and Workforce.

JVSD state aid increases by $15.9 million. No JVSDs are on guarantees in the baseline simulation for FY 2025. The $15.9 million in additional state aid offsets about 40% of $40.0 million in estimated foregone TY 2023 tax revenue for JVSDs.

Table 2. Comparison of Estimated Tax Credits and Additional State Aid (in millions), FY 2025 (TY 2023)

District Type	Estimated Tax Loss Due to Credits TY 2023	Additional State Aid Before Guarantees (Fully Phased in) FY 2025	Additional State Aid After Guarantees (Fully Phased in) FY 2025	Net Difference (After Guarantees) FY 2025
Traditional	-$282.7	$140.2	$85.3	-$197.3
JVSD	-$40.0	$15.9	$15.9	-$24.1
Total	**-$322.7**	**$156.1**	**$101.3**	**-$221.4**

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