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Office of Research and Drafting

Legislative Budget Office

H.B. 186
(I_136_0063-10)
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 $432 million in tax year (TY) 2025, $608 million in TY 2026, and $633 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.
- The bill provides state payments to guarantee that districts affected by the temporary Inflation Cap Credit (those located in counties that underwent a reappraisal or triennial update in TY 2023 or TY 2024) receive for TY 2025 or TY 2026 at least the same amount of real property tax revenue as the district received for TY 2024. The state payments are funded by a cash transfer from the Expanded Sales Tax Holiday Fund (Fund 5AX1) to the School Revenue Temporary Offset Fund (Fund 7108) created by the bill. The bill appropriates the necessary amount in FY 2027 to make the payments for TY 2025.
- The bill prohibits an expanded sales tax holiday from occurring in August 2026.

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.

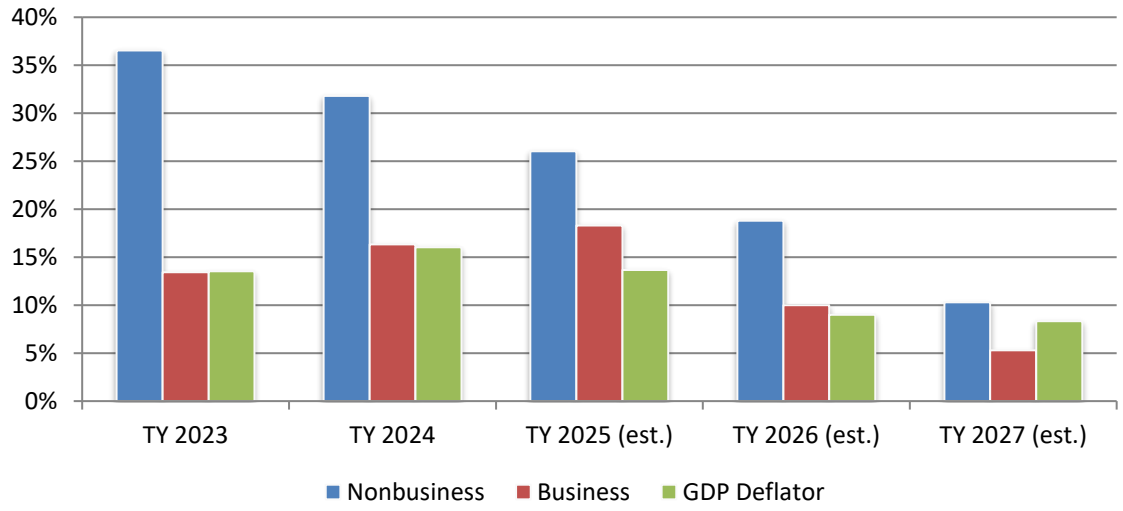
[1] LBO staff evaluated county auditor data in a handful of counties and observed that vacant land equals between 0.8% (Cuyahoga) and 5.2% (Washington) of all real property value. However, the presence of lakes and ponds cannot be determined by LBO when using the land use codes in Ohio Administrative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

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 a 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.

Three-year Percentage Increase in Property Values and GDP Deflator, TY 2023-TY 2027



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 $432 million in TY 2025, $608 million in TY 2026, and $633 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.

Temporary school guarantee subsidy

The bill provides state payments to prevent the Inflation Cap Credit from reducing the real property taxes charged and payable for TY 2025 or TY 2026 for eligible school districts from falling below the amount charged and payable for TY 2024. A school district or JVSD is eligible for the payments if it underwent a reappraisal or triennial update in TY 2023 or TY 2024. These districts receive the retrospective credit under Section 4 of the bill during the interim years (i.e., TY 2025 and TY 2026) preceding their next reappraisal or update based on circumstances relating to that prior revaluation.

The Tax Commissioner must calculate the payment amount for every district and certify those amounts to the Department of Education and Workforce (DEW). The Director of Budget and Management (OBM) must then transfer the amount certified from the Expanded Sales Tax Holiday Fund (Fund 5AX1) to the School Revenue Temporary Offset Fund (Fund 7108), which is created by the bill. The bill requires DEW to make payments to eligible districts in FY 2027 (by August 15, 2026) to mitigate the TY 2025 losses and again requires payments in FY 2028 (by August 15, 2027) to mitigate the TY 2026 losses. The bill appropriates the amount necessary to make the FY 2027 payments. There is no appropriation for the payments in FY 2028, which is outside of the current biennium.

Given the bill's transfer of cash in Fund 5AX1 for the guarantee payments, the bill also cancels any expanded sales tax holiday scheduled to occur in August 2026.

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.

[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%.

Synopsis of Fiscal Effect Changes

- The substitute bill (l_136_0063-10) adds the provision providing state payments to guarantee that districts affected by the temporary Inflation Cap Credit (those located in counties that underwent a reappraisal or triennial update in TY 2023 or TY 2024) receive at least the same amount of real property tax revenue as the district received in TY 2024.