Ohio Legislative Service Commission

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Office of Research and Drafting

Legislative Budget Office

S.B. 66
136th General Assembly

Fiscal Note & Local Impact Statement

Click here for S.B. 66's Bill Analysis

Version: As Introduced

Primary Sponsors: Sens. O'Brien and Lang

Local Impact Statement Procedure Required: Yes

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Highlights

- The bill modifies the school district 20-mill floor calculation, resulting in slower annual property tax revenue growth for an estimated 416 school districts in the bill's first three years, which LBO assumes to begin in calendar year (CY) 2027 for property taxes levied for tax year (TY) 2026.
- Assuming the bill's change is in effect for TY 2026 through TY 2028, a full three-year property tax reappraisal or update cycle, and voted property tax rates and income tax equivalent millage remain unchanged, school district revenue losses statewide are estimated to be $126 million for TY 2026, $152 million for TY 2027, and $174 million for TY 2028. These losses increase each year as more school districts go through a reappraisal or update.
- Property taxes are largely paid by property owners, but a small portion is reimbursed by the state through property tax rollbacks and the homestead exemption. The estimated school district revenue losses result in an estimated $14 million, $17 million, and $19 million reduction in GRF reimbursement payments for the state and $112 million, $135 million, and $155 million in tax savings for property owners in TY 2026, TY 2027, and TY 2028, respectively.
- The bill has no effect on state aid to school districts through the school funding formula as presently designed.

Detailed Analysis

Change in school district floor calculation

The bill changes the calculation of effective mills on outside (voter approved) fixed-rate levies of school districts and joint vocational school districts (JVSDs).[1] Under continuing law, effective tax rates on outside fixed-rate levies are set by calculating the percentage reductions required in order to levy the same amount of taxes for current expenses in the current year as in the prior year on carryover property.[2] However, these effective tax rates, when combined with inside general fund millage, cannot go below a floor: 20 mills for school districts and 2 mills for JVSDs.[3] For districts that are at the floor, therefore, increases in taxable property value lead to commensurate increases in property tax revenue on carryover property from outside fixed-rate levies as the rates on those levies may not be reduced.

While current law only adds general inside millage to the millage of a school district's fixed-rate levies when determining if a district is below the 20-mill floor, the bill includes millage from other sources in the calculation. In addition to general inside millage and the millage of a school district's fixed-rate levies, the bill includes inside millage levied for nongeneral revenue purposes, millage from emergency and substitute levies, and school district income tax rates in the 20-mill floor calculation.

Since income taxes are not levied on property, school district income tax rates must first be converted to a comparable millage rate. This is accomplished by dividing the school district income tax collections by one mill of the total taxable value of property, both real and public utility personal property, in the school district. For example, if a district with $100 million of taxable property value collected $600,000 in income taxes, the comparable millage rate for the income tax would be 6 mills.[4] Under the bill, this rate would be added to all inside millage (i.e., regardless of whether the school district utilizes it for current expenses) and the millage from all fixed-rate, emergency, and substitute levies to determine whether the district is at the 20-mill floor.

The bill's effect on school districts that use inside millage for nongeneral purposes, or impose emergency or substitute levies, or an income tax is to increase the total millage that is evaluated for the 20-mill floor. School districts that are at the floor under current law, where an increase in taxable value spurs revenue growth on 20 mills of taxation, may no longer be at the

[1] Millage can be "inside" or "outside." Inside mills are the first ten mills (1%), which taxing authorities are allowed to levy administratively without seeking voter approval. Outside mills, those in addition to the first ten mills, must be submitted for approval by voters.

[2] Carryover property is property taxed in the same class in both the current and prior tax years. The two classes of real property are Class 1 which includes residential and agricultural land and improvements, and Class 2 which includes all other real property. Separate effective tax rates are figured for each class.

[3] An exception for school districts applies if the effective tax rate needed to reach the floor would be higher than the rate approved by voters. The effective rate cannot be raised above the voted rate. As of TY 2024, only ten school districts are under this exception.

[4] Aggregate property value in a school district includes the taxable value of all Class 1, Class 2, and public utility tangible personal property.

floor under the bill if they utilize such levies or income taxes. Consequently, their fixed-rate levy millage will be reduced, resulting in a loss of tax revenue that they would have otherwise received. The bill slows the growth of school district property tax receipts; it does not cause negative growth for any school district.

The bill provides for similar calculations for JVSDs, adjusting the percentage reduction if necessary, so that taxes charged and payable for current expenses would be at the 2-mill floor. Although JVSDs are permitted to have either emergency levies or substitute levies, tax rate abstracts published by the Department of Taxation do not show either type of levy used by JVSDs in TY 2024.[5] Based on this, the bill appears to have no effect on JVSDs.

Local school district revenue effects

Estimated local revenue losses from the bill are approximately $126 million in TY 2026 and are expected to increase over time as fewer school districts will be able to collect additional revenues from the increase in taxable property values. Since real property taxes are paid in arrears, the revenue effects listed above will be realized by school districts in CY 2027, CY 2028, and CY 2029, respectively. The table below displays the projected number of school districts that will have decreased revenues along with the amount of total revenue loss in the first three years of the bill.

The amount of loss experienced by each school district depends on how close to the 20-mill floor the district is, the district's nongeneral purpose inside millage, emergency levy millage, substitute levy millage, the district's income tax rate, and the change in the district's real property values over time. School districts without nongeneral inside mills, emergency or substitute levies, or income taxes will not incur losses from the bill. Revenues of districts that are well above the 20-mill floor under current law will also be unaffected by the bill. Some districts whose gross millage is less than 20 mills (i.e., the ten aforementioned school districts) will also be unaffected by the bill if consideration of the additional levies does not put the district over the floor.

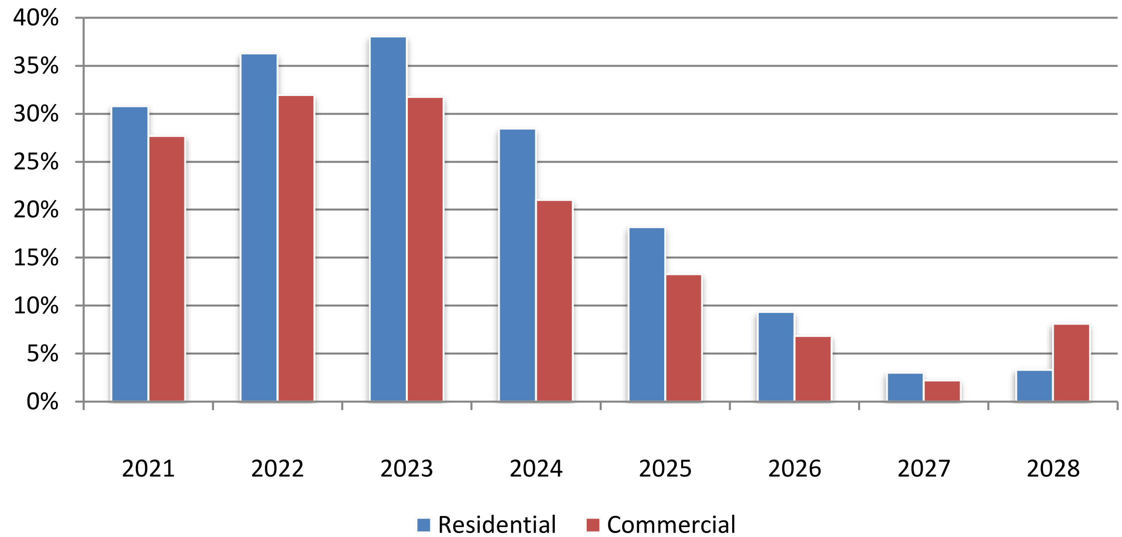
Tax Savings, Revenue Losses, and Affected School Districts				
Tax year	Affected School Districts	Taxpayer Savings (millions)	GRF Reimbursement Savings (millions)	Total School District Revenue Loss (millions)
2026	207	$112	$14	$126
2027	318	$135	$17	$152
2028	416	$155	$19	$174

The projected residential and commercial real property values used in calculating the figures in the above table were obtained from an Ohio-specific forecast by Moody's Analytics. The estimated change in assessed values is illustrated in the following chart for Ohio's residential and commercial real property along with the forecasted growth rates through TY 2028. The

[5] R.C. 5705.194 through 5705.197 and R.C. 5705.199, unchanged by the bill.

growth rates reflect the three-year change in property values resulting from an applicable county's reappraisal or triennial update. The rates at which real property values are projected to increase in the future are far below what the state has experienced in recent years. As such, school districts at the 20-mill floor are expected to receive smaller revenue gains from property value increases in upcoming reappraisals and updates. LBO also expects it to be less likely for districts currently above the floor to have their millage reduced to the point where they would reach the floor in the near future.

Percent Change in Real Property Values, TY 2021-TY 2028, per Moody's Analytics



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. Slower growth in school district revenues implies lesser rollbacks on qualifying levies, including the 10% nonbusiness tax reduction and the 2.5% tax reduction for owner-occupied homes. Also, lower school district effective tax rates imply smaller homestead exemption reductions, the amounts of which are based on local tax rates as well as the amounts of taxable value exempted. The associated losses to local taxing authorities for these policies are fully reimbursed by the state GRF. The estimated school district revenue losses from the bill result in an estimated $14 million, $17 million, and $19 million reduction in GRF reimbursement payments for the state in TY 2026, TY 2027, and TY 2028, respectively.

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 $7 million in FY 2027, $15.5 million in FY 2028, and $18 million in FY 2029.

Impact to the school funding formula

While the bill affects property tax revenues to school districts, it has no effect on the state's current formula for funding public schools. This is because the amount of state aid that a traditional school district receives depends not on the district's local tax revenues, but on measures of the district's capacity to raise those revenues. These measures include the taxable value of the property in the district as well as measures of its residents' incomes. However, the current school funding formula is effective only through FY 2025. The formula or formulas for FY 2026 and beyond will be calculated in ways yet to be determined.

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