

Opponent Testimony on Ohio House Bill 1
Jan Resseger, Heights Coalition for Public Education
Ohio House Ways and Means Committee, March 14, 2023

Chairman Roemer, Vice Chair Troy, and Members of the Committee:

House Bill 1---the proposed state income tax reduction to be accomplished by the transformation of Ohio's graduated income tax into a flat tax, followed by the elimination of the 10 percent rollback of property taxes is a threat to the adequate funding of public education in Ohio. I worry that the reduction of state revenue in this bill would very likely also be a threat to the full phase in of the Cupp-Patterson school funding plan.

The Ohio House says it will pay for its proposed statewide tax cut by eliminating a state property tax reimbursement to municipalities and school districts called the "10 percent rollback." The *Plain Dealer's* [Jeremy Pelzer explains](#): "HB1 would make up for the lost income-tax revenue by ending \$1.2 billion per year in state property tax rollbacks. That is state money given to local governments, such as school districts, cities, libraries...." Since 1972, the state has paid directly to school districts and other local government bodies an amount equal to 10% of property taxes owed for residential and agricultural properties. This reduces the amount owed by the taxpayers by that amount and currently results in annual direct state payments to local governments of \$1.2 billion of which \$800,000 is paid to local school districts.

Howard Fleeter, Ohio's school funding guru at the Ohio Education Policy Institute, recently published two short papers to explicate the details of the proposed new flat tax in HB 1. In the first of these publications, [Fleeter explains](#): "Because the 10% rollback means that the state pays roughly 10% of each residential and agricultural taxpayer's (local) property taxes, elimination of the rollback will automatically increase every residential and agricultural taxpayer's property taxes by the amount of their rollback."

However, given the Ohio Legislature's aversion to anything that would appear to be a tax increase, HB1 includes another tax policy gimmick. Property taxes are currently assessed based on 35% of market value. HB 1 would reduce this to 31.5% (a 10% reduction), thereby lowering the taxable value of each property by 10% and effectively offsetting for taxpayers most of the impact of the elimination of the tax rollback. The legislation's intent is clearly to shift the cost of paying for the income tax reduction from property taxpayers to local governments. Local school districts would lose \$800 million annually.

But the meaning of HB 1 is far more complicated and, in fact, not a bit clear without further analysis from experts on Ohio law. The most serious question is how HB 1 would intersect with the long-standing, residential and agricultural property tax reduction law, House Bill 920, which was embedded into the Ohio Constitution in 1980.

Fleeter explains further: "(T)he impact of HB 1 is clouded by the presence of the property tax limitation commonly known in Ohio as HB 920. In 1976... following very rapid inflation in home prices, Ohio enacted HB 920, one of the most stringent property tax limitations in the country. The goal of House Bill 920 was to insulate homeowners from the effects of inflationary increases in their property. House Bill 920 aspired to accomplish this goal by introducing 'tax reduction factors,' which were reductions in voted property tax rates designed to adjust the tax rate downward when property increased in value after property reappraisal... These adjusted tax rates are referred to as 'effective millage rates.'" Ohio parents walking the streets promoting local property tax operating levies for their school districts have memorized how to explain the need for yet another school levy: "House Bill 920 means that past levies will always produce the same revenue for our school district as on the day each levy passed. To enable our school district to keep up with inflation, we have to pass another levy."

In a second publication, [Fleeter examines](#) two possible results for school districts and for agricultural and residential property owners of the potential intersection of a new House Bill 1 with the old House Bill 920. Both scenarios will ultimately make school districts more reliant on local property taxes.

1. If "HB 920 does not apply... schools and local governments will lose local revenue... compromising their ability to provide local services." The full cost of the revenue loss will fall on the school districts and local governments. You in the Legislature will be forcing school districts, community colleges, local governments, and counties responsible for essential social services to ask voters to approve additional property tax levies to preserve existing levels of service.
2. House Bill 920 was embedded into the Ohio Constitution in 1980. If it is determined that HB 920 will in fact adjust the effective millage upward to assure that school districts' and local governments' revenues from residential and agricultural property taxes remain at the same level as on the date of levy passage, there will be no revenue loss to schools and local governments. However, as Fleeter explains, "property taxpayers will experience an (automatic) increase in taxes that will be roughly the same as that which would have occurred as a result of the elimination of the 10% rollback and which the reduction in the assessment percentage is trying to forestall." Do you, as Legislators, want to be blamed for burdening taxpayers with automatic (unvoted) tax increases?

In essence, either way, the Legislature will be replacing Ohio's graduated income tax with a flat tax and paying for the resulting loss of state revenue with higher local property taxes. There is considerable irony in this proposal. In Ohio, twenty-six years ago, the Ohio Supreme Court declared the state's school funding unconstitutional due to "overreliance on local property taxes," a condition which has left Ohio's property-poor school districts desperate for resources while their wealthy, exurban neighbors can fund their schools with ease. That condition remains and will only be exacerbated if HB 1 should be enacted by the legislature this year.