



OHIO EDUCATION  
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INFORMING EDUCATION PUBLIC POLICY

**Joint Committee on Property Tax Review and Reform**  
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**Ohio Education Policy Institute**  
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Co-Chairs Blessing and Roemer and members of the Joint Committee on Property Tax Review and Reform, thank you for the opportunity to testify today. My name is Howard Fleeter and I am the research consultant for the Ohio Education Policy Institute (OEPI). For those of you who are not familiar with my background, I have PhD in Economics from the University of California, Berkeley, I spent 10 years as a Public Policy professor at The Ohio State University, and I have been researching school funding and education policy in Ohio for over 30 years. My career working with Ohio policymakers began when Governor Voinovich commissioned me to write my report “Equity, Adequacy and Reliability in Ohio Education Finance” which I completed in November 1992.

I am here to today to share my research and perspectives on Ohio’s property tax which has been the subject of much discussion, debate and scrutiny over the past couple of years. You have heard from many experts and interested parties over the past several months so I will try to focus my remarks on areas which have not been covered in great depth by others.

**I. H.B. 920: Limiting Local Revenue Growth from Reappraisal**

*HB 920 is the most restrictive property tax limitation in the country because it allows no inflationary growth on voted levies. It also is the primary reason that Ohio relies on local levies more than any other state. And after more than 18,5000 school levies since 1976, the statewide average Class I effective millage rate for schools has increased only slightly from 28.55 mills to 33.15 mills. This is proof of both the effectiveness of HB 920 protecting taxpayers but also of the burden placed on schools and local governments to maintain the adequacy of their revenue streams over time.*

As previous testimony has explained, Ohio’s current property tax structure was first defined in House Bill 920 (H.B. 920) passed in 1976, and later further codified in the Ohio Constitution in 1980. H.B. 920 provides for a system of “tax reduction factors” which applies separately to Real & Agricultural Real property (known as Class I property) and to all other business, commercial and industrial real property (known as Class II property). H.B. 920 was implemented in the mid-1970s amid an economic climate of high inflation and large increases in property values. This was a nationwide phenomenon and Ohio was not alone in acting to create a mechanism which would provide protection for homeowners and other property taxpayers when property values were increased after reappraisal.

What did distinguish Ohio's approach from that of other states, however, was the stringency with which H.B. 920 limits local revenue growth for Ohio's school districts, libraries, townships, municipalities, counties and other local governments with tax levying authority. As described in great detail by several others who have appeared before this Committee, H.B. 920 limits growth in voted property taxes by employing the tax reduction factors to effectively roll back millage rates in response to increases in property values as result of the reappraisal process (which includes both the sexennial reappraisal as well as the triennial statistical updates). In its simplest terms, if property values are increased by 10% in a community after the reappraisal or update process, voted property tax rates are reduced by roughly 10% so that the same amount of tax revenue is collected after reappraisal as was collected in the prior year from the same properties (these properties are collectively referred to as "carryover" property).<sup>1</sup>

Putting aside for now the 20 mill floor for school districts, there are two primary impacts of the H.B. 920 tax reduction factors:

- 1) Ohio's schools and local governments receive zero inflationary revenue growth from their voted levies assessed against real property.
- 2) Taxpayers whose properties have appreciated at the same rate as the overall average rate in each of the state's more than 4,000 taxing districts will pay the same amount of taxes on of their voted levies after reappraisal as they did prior to reappraisal.<sup>2</sup>

Based on research that I conducted in the early 1990s there were only 2 other states that had remotely similar property tax limitation provisions to Ohio. Both of these states (Michigan and Missouri) have since changed their systems. To the best of my knowledge, all states allow for some amount of growth in property tax revenue for local governments in the aftermath of property reappraisal. Two of the most well-known property tax limitation systems are Proposition 13 in California (enacted in 1978) and Proposition 2 ½ in Massachusetts (enacted in 1980).

Proposition 13 limits property valuation increases to 2% annually until a property is sold, at which point it increases to the market value. While Proposition 13 has been effective in limiting valuation increases – and hence property tax increases – for homeowners it does at the expense of creating large inequities in property taxes on otherwise similar properties based on their date of most recent sale.

Proposition 2 ½ in Massachusetts works by limiting the maximum property taxes can increase from year to year. Under Proposition 2 ½ each community has property tax limit which is allowed to increase by a maximum of only 2.5% annually, plus the amount of taxes generated by newly constructed properties. This effectively caps property tax growth on existing properties at

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<sup>1</sup> Note that Inside millage is exempted from the H.B. 920 reduction factors as are fixed sum (aka "Emergency") school levies which by their nature annually generate the same dollar amount of tax revenue as they did in the first year they were approved by voters. The school district "20 mill floor" also provides an exception to the functioning of H.B. 920. This topic is addressed in detail later in this testimony.

<sup>2</sup> Note, as discussed in previous testimony, taxpayers whose properties have increased more than the average in their taxing district will experience an increase in their property taxes and those whose properties have appreciated less than the average will experience a reduction their property taxes.

maximum of 2.5% per year, although many communities assess taxes below their levy limit amounts.

The point here is that even Proposition 13 and Proposition 2 ½ - which are widely regarded by economists as effectively protecting property taxpayers from inflationary growth in taxes - still allow annual growth in local tax revenues for local governments. Note that because Ohio reappraises property on a 3-year cycle, a 6% cap on property tax growth would be comparable to Proposition 13 and a 7.5% cap would be comparable to Proposition 2 ½.

## **II. H.B. 920: Impact of the Number of Property Tax Levies**

The most obvious implication of H.B. 920's failure to allow for any growth in property tax revenue from voted levies after property reappraisal is that Ohio's schools, libraires, townships, municipalities, counties, and other taxing entities are left with no choice but to place additional property tax levies on the ballot in order to simply keep up with inflation.

Appendix Tables A1 and A2 at the end of this testimony provide year by year historical tabulations of the number of school levies on the ballot in Ohio. Table A1 shows the number of school operating levies on the ballot from 1976 through 2023.<sup>3</sup>

- There has been a total of **12,711 school operating levies on the ballot from 1976 through 2023**. This is an average of 265 per year with an overall average passage rate of 53.0%.

Table 2 shows school operating and capital levies from 1984 through 2023. Capital levies include bond levies, permanent improvement levies (both property tax and income tax) and bond combination levies.

- **Since 1984 there have been a total of 15,922 school operating and capital levies placed on the ballot**. This is **an average of 398 school levies per year**, with an overall average passage rate of 54.9%.

Since 1984 school operating levies have passed 54.2% of the time while capital levies have passed 56.0% of the time.

While there is no central source for school levy data across the states, my 30+ years of experience researching K-12 education along with my extensive contacts with school finance researchers across the country, have left no doubt that **Ohio votes far more often on school levies than anywhere else in the nation**. Also remember that the data cited immediately above only includes school levies and does not include library, township, municipality, county and county service organization levies that have been placed on the ballot. And to reiterate, **the primary cause of Ohio's heavy reliance on local levies is that Ohio's property tax, uniquely in the nation, allows no growth in tax revenue when real property increases in value due to reappraisal**.

One other important note about Ohio school levies is that new school levies pass at a much lower rate than do renewal and replacement levies. **Table A3 shows that from 1994 through 2023 new**

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<sup>3</sup> Operating levies are defined to include conventional current expense levies, fixed sum (aka emergency) levies, incremental property tax levies, school safety and security levies, educational technology levies and school district income tax levies for operating purposes.

*school levies passed only 36.7% of the time while renewal and replacement school levies passed 86.4% of the time.* This disparity in levy passage rates for new vs. renewal and replacement levies also explains why school operating levies in Ohio (as seen in Tables A1 and A2) have passed at a historically high rate since 2014. The higher levy passage rate in recent years is primarily the result of a much higher percentage of school operating levies now being renewal levies rather than new levies. From 1994-1997, 82.3% of school operating levies were new or replacement levies. However, this percentage has steadily declined since then. Over the last 10 years (2014-2023) only 30.6% of school operating levies were new or replacement levies. This data is shown in Table A4.

### **III. Reappraisal Increase Trends**

*Recent reappraisal increases are far outside historical norms. The 2023 reappraisal and update increase is 7.3 times as large as the prior reappraisal and update increase for the same counties in 2017. The recent rapid increase in housing values is best viewed as a historically anomalous short-term issue.*

Tables 1 and 2 below provide some insight on patterns of reappraisal increases from 2005 through 2023. The 5 years shown in the table are all property reappraisal or statistical update years for the same group of 41 counties. These 41 counties are listed in Appendix Table A5.

A list of when each county goes through reappraisal and update is available on the Ohio Department of Taxation website at: <https://tax.ohio.gov/government/real-state/reappraisal-and-triennial-update>

Table 1 compares the total reappraisal and update increases in Class I residential and agricultural real property value with the total increase in Class I property value from the preceding year (the other primary factor in valuation increases from one year to the next is new construction). The data in Table 1 clearly shows how unusual a year 2023 was in terms of reappraisal increases. Class I reappraisal and update increases totaled \$44.769 billion in 2023. This is 93.6% of the total increase in Class I value from FY22. Three years earlier in 2020, reappraisal increases were only \$13.706 billion and were 88% of the total Class I valuation increase. In 2008 reappraisal increases were \$2.099 billion and were responsible for only 57% of the total \$3.680 increase in Class I value. Note that the negative increase in 2011 reflects the impact of the housing market decline brought on by the 2008-09 recession.

**Table 1: Class I Reappraisal Increase Compared to Total Valuation Increase**

<b>Year</b>	<b>Class I Residential &amp; Agricultural Reappraisal Increase</b>	<b>Class I Residential &amp; Agricultural Total Increase in Valuation</b>	<b>Reappraisal % of Total Increase in Class I Value</b>
2005	\$10.496 Billion	\$13.986 Billion	75.0%
2008	\$2.099 Billion	\$3.680 Billion	56.8%
2011	-\$5.276 Billion	-\$5.032 Billion	105%
2014	\$3.123 Billion	\$3.817 Billion	82.0%
2017	\$6.056 Billion	\$7.296 Billion	83.0%
2020	\$13.706 Billion	\$15.548 Billion	88.2%
2023	\$44.769 Billion	\$47.836 Billion	93.6%

Table 2 provides a second perspective on reappraisal increases. Table 2 shows Class I reappraisal increases and compares to the prior year Class I valuation figure to compute a percentage increase in valuation due to reappraisal. Note that the data in Table 2 is only for counties undergoing reappraisal and update in each of the 6 years included in the table. Table 2 clearly shows that the 34.7% increase in reappraisal value in 2023 is far higher than that in any of the other years in which these counties underwent reappraisal or statistical update. This again reinforces the extent to which 2023 was an outlier in terms Class I property reappraisal increases.

**Table 2: Class I Reappraisal Increase as a Percentage of Prior Year Class I Valuation - Only Counties Going Through Reappraisal or Update**

Year	Class I Residential & Agricultural Reappraisal Increase	Class I Residential & Agricultural Total Valuation in Prior Year	Reappraisal Increase as Percentage of Prior Year Class I Value
2005	\$10.178 Billion	\$81.975 Billion	12.4%
2008	\$1.968 Billion	\$97.796 Billion	2.0%
2011	<b>-\$5.301 Billion</b>	\$100.788 Billion	<b>-5.3%</b>
2014	\$2.892 Billion	\$95.922 Billion	3.0%
2017	\$5.963 Billion	\$100.563 Billion	5.9%
2020	\$13.519 Billion	\$109.168 Billion	12.4%
2023	\$44.058 Billion	\$127.095 Billion	34.7%

Note that this data only includes reappraisal increases in school districts whose home counties underwent reappraisal or update. Figures vary slightly from those in Table 1 because of school districts with territory in more than one county.

**IV. 20 Mill Floor Analysis**

*Only half of the districts at the Class I 20 mill floor in 2023 utilize emergency and/or substitute levies. As a result, modifications to the definition of the 20 mill floor to include emergency and substitute levies would have no impact on 203 of the districts currently at the Class I floor.*

*84% (345 out of 409) of school districts at the 20 mill floor in 2023 are rural or small town school districts. These districts typically have much lower voted millage rates than urban and suburban districts which places them closer to the 20 mill floor to begin with.*

Table 3 on the following page provides a summary of the number of school districts at the 20 mill floor for both Class 1 (Residential & Agricultural) and Class 2 (Commercial & Industrial) property from 2001-2023.

Table 3 shows that the number of districts at the 20 mill floor for both classes of property has fluctuated significantly over the last 23 years. From 2001 through 2005 the number of districts at the Class 1 20 mill floor increased modestly each year. Then from 2005 through 2012 the number of districts at the Class 1 20 mill floor decreased every year, reaching a low 105 districts in 2012. From 2013 through 2017 the number of districts at the Class 1 floor fluctuated up and down before increasing for each of the last 6 years, reaching 343 districts in 2022 and further increasing to 409 districts in 2023 after 2023 property reappraisals were completed. When districts at the 20 mill floor for Class 2 property are considered, 420 districts are currently at the 20 mill floor for one or both types of real property.

*Perhaps the most important conclusion from the data presented in Table 1 is that the most significant determinant of the number of districts at the 20 mill floor is underlying economic conditions, not school district behaviors.* The 2008-09 recession which led to housing value decline is the reason that the number of school districts on the 20 mill floor declined so precipitously from 2009 through 2012 (because HB 920 works in reverse to raise effective millage rates when property values decline after reappraisal). And the economic and housing market conditions which began in 2019 and accelerated after the onset of the COVID pandemic in 2020 have led to significant increases of housing prices in the last 5 years which have lowered effective millage rates through the functioning of the H.B. 920 tax reduction factors.

**Table 3: # of Ohio School Districts at the 20 Mill Floor from 2001-2023**

Year	# of Districts at Class 1 20 Mill Floor	# of Districts at Class 2 20 Mill Floor	# of Districts at Class 1 OR Class 2 Floor
2001	277	131	287
2002	278	124	293
2003	290	117	306
2004	298	129	310
<b>2005</b>	<b>330</b>	<b>165</b>	<b>347</b>
<b>2006</b>	<b>311</b>	<b>150</b>	<b>326</b>
<b>2007</b>	<b>305</b>	<b>135</b>	<b>319</b>
2008	299	128	331
2009	177	80	212
2010	166	66	187
2011	165	54	177
<b>2012</b>	<b>105</b>	<b>44</b>	<b>122</b>
2013	158	42	171
2014	215	45	223
2015	205	41	211
2016	235	56	241
2017	165	58	182
2018	168	59	186
2019	207	67	224
2020	249	69	272
2021	279	75	293
<b>2022</b>	<b>343</b>	<b>108</b>	<b>352</b>
<b>2023</b>	<b>409</b>	<b>172</b>	<b>420</b>

Source: Ohio Department of Taxation school district millage rate files.  
 Tabulations based on number of districts at < 20.01 mills.

Table 4 shows the number of districts at the Class 1 20 Mill Floor in 2023 by typology group.

**Table 4: # of Ohio School Districts at the Class 1 20 Mill Floor in 2023 By Typology**

Typology	# of Districts	# of Districts At Class 1 20 Mill Floor	% of Districts At Class 1 20 Mill Floor	% of All Districts at the Floor	Average Voted Millage Rate
Poor Rural	123	102	82.9%	<b>24.9%</b>	<b>37.62</b>
Rural	106	95	89.6%	<b>23.2%</b>	<b>35.38</b>
Small Town	110	89	80.9%	<b>21.8%</b>	<b>46.20</b>
Poor Small Town	89	59	66.3%	<b>14.4%</b>	<b>50.10</b>
Suburban	77	33	42.9%	8.1%	69.05
Wealthy Suburban	46	9	19.6%	2.2%	90.81
Urban	47	16	34.0%	3.9%	66.95
Major Urban	8	1	12.5%	0.2%	76.19
Outliers	5	5	100.0%	1.2%	19.49
<b>Total</b>	<b>611</b>	<b>409</b>			<b>51.17</b>

Table 4 shows that more than 80% of rural, poor rural, and small town districts and nearly 2/3<sup>rd</sup>s of poor small town districts were at the 20 mill floor for Class I property in 2023. At the same time well less than half of the districts in the suburban and urban typology groups are at the Class 1 floor. 84% (345 of 409) of districts currently at the Class I 20 mill floor in 2023 are rural or small town school districts. The final column of Table 4 provides some insight into why this is as the average voted millage rate (the property tax rate prior to the HB 920 millage rate rollbacks) is much lower in rural and small town school districts than it is in suburban and urban school districts in Ohio. This means that when property values increase from reappraisal rural and small town districts began the process much closer to the 20 mill floor than is the case in urban and suburban districts.

School district fixed sum or “emergency” levies have been the topic of much discussion before this committee. Emergency levies are not included in the calculation that determines whether or not a school district has reached the 20 mill floor. Because an emergency levy is for a fixed amount of revenue the H.B. 920 millage rate reductions are not applied as the millage rate of an emergency levy automatically adjusts each time that the property tax base increases or decreases, for any reason (reappraisal changes, new construction, annexation, property demolition, etc..). Thus, there is a certain logic to not including emergency (and now substitute levies) in the calculation of the 20 mill floor.

Examination of the 409 school districts at the Class I 20 mill floor in 2023 shows that 206 (50.3%) of these districts have emergency and/or substitute levy millage. This of course also means that **203 (49.7%) of the 409 school districts at the Class I 20 mill floor in 2023 do not utilize emergency or substitute levies.**

Furthermore, there are a total of 263 districts currently utilizing emergency and/or substitute levies. Clearly, not all districts at the 20 mill floor employ emergency and substitute levies and not all districts that employ emergency and substitute levies are at the 20 mill floor.

Another way to examine the role that emergency levies play with regard to the 20 mill floor is to look at the district which are newly on the Class I 20 mill floor in 2023. By my calculations the number of districts at the Class I 20 mill floor increased from 343 in 2022 to 409 in 2023 – a net increase of 66 districts. This includes 102 districts that were not at the floor in 2022 but also includes 36 district that were at the floor in 2022 and are now just above the floor in 2023 (none of these districts is located in a county which underwent reappraisal or update in 2023 so presumably this has something to do with changes in value of small amounts of property located in neighboring counties).

In any event, ***of the 102 new school districts at the Class I 20 mill floor in 2023, only 34 have emergency and/or substitute millage.***

Furthermore, ***91 of the 102 new Class I 120 mill floor districts went through reappraisal or update in 2023*** (and 7 of the 11 that did not were at less than 20.1 mills so they were very close in 2022 and were likely pushed to the floor by property in a neighboring county that did undergo reappraisal or update).

When talking these findings together, it seems clear that while employment of emergency and/or substitute levies likely plays a role for some districts at the 20 mill floor, ***the predominant force behind the recent increase in 20 mill floor districts is clearly rising property values.***

#### **V. Changes in Ohio’s Property Tax Base Since 1975**

*In 1975 residential and agricultural taxpayers paid 46.1% of property taxes. In 2022 they paid 66.1% reflecting a shift over time in tax burdens from businesses to homeowners and farmers. This shift is predominantly the result of state tax policy changes which eliminated the business tangible personal property tax and significantly reduced the public utility tangible personal property tax.*

When evaluating the current state of Ohio’s property tax it is imperative to also understand how the state’s property tax base has changed over time. My report “Ohio Property Tax Trends 1975-2022”, prepared for the Ohio Education Policy Institute and most recently updated in February of this year discusses this issue in depth. The report can be found on the OEPI website at: <http://www.oepiohio.org/index.php/research-reports/>

Two tables from the OEPI Property Tax trends report provide a succinct summary of how Ohio’s property tax base has changed over time, and along with it the distribution of property taxes across businesses and persons.



**Table 5: Percent of Total Property Value by Type of Property, 1975-2022**

Type of Property	1975	1983	1991	1999	2007	2011	2015	2022
Class 1 (Res/Ag) Real % of Total Valuation	<b>46.0%</b>	53.4%	53.9%	61.1%	71.8%	74.3%	<b>73.9%</b>	<b>72.5%</b>
Class 2 (Comm./Ind.) % of Total Valuation	18.3%	18.5%	21.1%	19.6%	20.1%	21.5%	20.5%	18.7%
Total TPP % of Total Valuation	35.7%	28.1%	25.1%	19.3%	8.1%	4.2%	5.6%	8.8%
Business TPP % of Total Valuation	23.2%	18.1%	14.7%	12.2%	4.9%	0.0%	0.0%	0.0%
Public Utility TPP % of Total Valuation	12.6%	10.1%	10.4%	7.1%	3.2%	4.2%	5.6%	8.8%
Total Business Property % of Valuation	<b>54.0%</b>	46.6%	46.1%	38.9%	28.2%	25.7%	<b>26.1%</b>	<b>27.5%</b>

Note: this table is Table 2 in the OEPI Property Tax Trends report

Table 5 shows that in 1975 residential and agricultural real property comprised 46.0% of total property value in Ohio, while business real property comprised 18.3% and business and public utility tangible personal property (TPP) comprised a combined 35.7%. However, by 2022, business tangible personal property comprised only 8.8% of the total property tax base while residential and agricultural property had increased to 72.5% of the tax base while business real property had increased only slightly to 18.7% of the tax base. Put another way, *the overall (real + personal property) business share of the Ohio property tax base has fallen by almost half from 54.0% in 1975 to 27.5% in 2022.* One of the primary reasons for this shift in the tax base is the elimination of the business tangible personal property tax from 2005 to 2009 and significant results in the assessment percentages applied to public utility tangible personal property resulting from utility deregulation in the early 2000s. Again, the result is that the property of homeowners and farmers now comprises a significantly higher fraction of the state’s property tax base than it did in 1975.

Table 6 shows similar data for the distribution of property taxes paid across residential & agricultural real property, business real property and public utility tangible personal property. Table 6 shows that the pattern of the share of property taxes paid by each class of property has changed over time in a similar fashion to that of property valuation shown in Table 5. Residential & Agricultural (Class 1) real property is responsible for 66.1% of property tax revenues in 2022, up from contributing 46.1% of property tax revenues in 1975. Meanwhile, Business real and personal property taxes comprised 53.9% of school district property tax revenues in 1975 but provide only 33.9% of property tax revenues in 2022.

**Table 6: Percent of Total School Property Taxes by Type of Property, 1975-2022**

Type of Property	1975	1983	1991	1999	2007	2011	2015	2022
Class 1 Real % Taxes	<b>46.1%</b>	47.1%	47.5%	52.4%	65.0%	69.9%	<b>69.0%</b>	<b>66.1%</b>
Class 2 Real % Taxes	18.8%	18.6%	20.4%	20.3%	22.3%	24.3%	23.7%	22.0%
Total TPP % Taxes	35.1%	34.4%	32.1%	27.3%	12.7%	5.7%	7.3%	11.9%
Business TPP % Taxes	23.2%	22.3%	19.2%	17.7%	8.0%	0.0%	0.0%	0.0%
PU TPP % Taxes	11.9%	12.0%	13.0%	9.6%	4.7%	5.7%	7.3%	11.9%
Total Business Property % Taxes	<b>53.9%</b>	52.9%	52.5%	47.6%	35.0%	30.1%	<b>31.0%</b>	<b>33.9%</b>

Note: this table is Table 5 in the OEPI Property Tax Trends report

Finally, Table 7 from the OEPI Property Tax Trends report shows how school property tax rates on different classes of property have changed since 1975.

**Table 7: Average School Millage Rates by Type of Property, 1975-2022**

Type of Property	1975	1983	1991	1999	2007	2011	2015	2022
Class 1 Effective Tax Rate	28.55	24.68	28.66	29.16	29.81	34.11	36.00	<b>33.15</b>
Class 2 Effective Tax Rate	28.55	28.13	31.67	35.19	36.41	40.95	44.68	<b>42.89</b>
TPP (Voted) Tax Rate	28.55	34.20	41.95	48.24	51.77	49.39	50.61	<b>49.12</b>
Overall Average Effective Tax Rate	28.55	28.00	32.74	34.02	32.91	36.23	38.60	<b>36.38</b>

Note: this table is Table 3 in the OEPI Property Tax Trends report

In 1975 (prior to H.B. 920) all property was taxed at the same rate which average 28.55 mills across the state. *However, in 2022, after nearly 13,000 operating levies and more than 18,500 total school levies, the average effective property tax rate on residential and agricultural property has risen by only 4.6 mills; from 28.55 mills to 33.15 mills.* This relatively modest increase in millage over 47 years shows the extent to which H.B. 920 has been successful in protecting residential and agricultural taxpayers from property tax increases by keeping effective tax rates at relatively similar levels over time.

## **VI. Interaction Between Property Values and the School Funding Formula**

*The interaction between property value increases and the state school funding formula will continue to be an issue so long as the school funding formula continues to reflect valuation increases rather than property tax revenue increases. This is because the H.B. 920 rollbacks mean that increases in real property values due to reappraisal do not always translate into local tax revenue increases.*

One issue that Ohio school districts face that is not shared by other local governments is the interaction between changes in property values and the school funding formula. Because the funding formula has been based since at least 1985 on school district property values not property taxes, an increase in a school district's property valuation from one year to the next will typically trigger a reduction in state aid (the exact impact depends on how much – if any – the funding formula parameters increase and if the district is on the guarantee or not). The reason for this is that the school district essentially “looks wealthier” to the school funding formula by virtue of having a higher property valuation, regardless of whether the property value increase generates any additional tax revenue.

The problem occurs when the property value increase is the result of reappraisal or update. In this case, as the discussion earlier in this testimony explained is that H.B. 920 rolls back voted millage rates in response to reappraisal increase, thereby significantly limiting the amount of additional tax revenue a school district receives from their higher real property valuation. In the 1990s this phenomenon was commonly referred to as “phantom revenue”, the idea being that the district appeared to be wealthier when in fact their only increase in revenue would be that deriving from their inside millage. In this instance school districts argued that they fell victim to a “double whammy”; first they did not receive growth in tax revenue when their property valuation increased due to reappraisal and second, they were then negatively impacted by the school funding formula.

The obvious exception to the phantom revenue situation is when a district is at the 20 mill floor. In this case the district would receive 20 mills worth of growth in tax revenue after a reappraisal increase in their real property value. In light of this, there were multiple school funding reform proposals floated in the 1990s and early 2000s which featured 20 inside mills for all school districts. While some of these proposals would have required a constitutional change, others were based on the premise that the constitution actually allows 28.57 inside mills rather than the current (and commonly interpreted) 10 inside mills. The logic for this is that the constitution specifically allows unvoted (aka “inside”) millage of “1% of true value” (note that since a mill is 1/10<sup>th</sup> of a percent, 10 mills = 1 percent). However, the taxable value of real property in Ohio is defined as 35% of true value. Thus, taking into account the 35% assessment percentage, 28.57 mills at 35% of true value is equivalent to 10 mills at 100% of true value. More simply, 10 divided by .35 = 28.57.

Under this line of thinking, school districts would be allocated 20 inside mills while the remaining 8.57 inside mills would be split across all other taxing jurisdictions. It is important to note that the 28.57 inside mills theory has never been legally tested and would almost certainly have been legally challenged had one of the plans that advocated this approach been implemented. The point of mentioning this, however, is that it has long been understood that the

lack of local revenue growth when properties were reappraised was problematic for school districts and that one solution to this problem would be to get to the 20 mill floor.

Today the state/local share calculation in the school funding formula is based on a mixture of property wealth and district income and there is no longer a specific millage “chargeoff” amount. As a result, phantom revenue in its original direct form no longer exists. However, the problem of increasing valuation interacting with the formula while resulting in little to no local revenue growth persists as long as the formula uses property valuation as its basis.

Two examples illustrate this point. First, testimony two weeks ago by Northmont City schools illustrated that a 36% increase in their property values increased property tax revenue by \$1,518,000 (from their inside millage – they are not at the 20 mill floor). However, their estimated FY25 state aid is projected to decrease by \$1,183,000, in effect negating 78% of their increased local revenue.

A second example is derived from the recently released DEW FY25 state aid calculator tool. The DEW calculator currently estimates the total cost to the state of the FY25 foundation formula is \$8.084 billion. This is \$196 million less than the LSC estimated cost of \$8.280 billion at the end of last year’s FY24-FY25 budget process. The primary difference in the two figures is the use of updated valuation and income data in the DEW calculator compared to the figures used in the LSC budget estimate.

## **VII. Summary and Conclusions**

Below is a brief summary of the key points from my testimony.

1. HB 920 is the most restrictive property tax limitation in the country because it allows no inflationary growth on voted levies.
2. HB 920 is the primary reason that Ohio relies on local levies more than any other state. And after more than 18,500 school levies since 1976, the statewide average Class I effective millage rate for schools has increased only slightly from 28.55 mills to 33.15 mills. This is proof of both the effectiveness of HB 920 protecting taxpayers but also of the burden placed on schools and local governments to maintain the adequacy of their revenue streams over time.
3. Recent reappraisal increases are far outside historical norms. The 2023 reappraisal and update increase is 7.3 times as large as the prior reappraisal and update increase for the same counties in 2017. The recent rapid increase in housing values is best viewed as a historically anomalous short-term issue.
4. Only half of the districts at the Class I 20 mill floor in 2023 utilize emergency and/or substitute levies. As a result, modifications to the definition of the 20 mill floor to include emergency and substitute levies would have no impact on 203 of the districts currently at the Class I floor.
5. 92% (378 out of 409) of school districts at the 20 mill floor in 2023 are rural or small town school districts. These districts typically have much lower voted millage rates than urban and

suburban districts which places them closer to the 20 mill floor to begin with.

6. In 1975 residential and agricultural taxpayers paid 46.1% of property taxes. In 2022 they paid 66.1% reflecting a shift over time in tax burdens from businesses to homeowners and farmers. This shift is predominantly the result of state tax policy changes which eliminated the business tangible personal property tax and significantly reduced the public utility tangible personal property tax.

7. The interaction between property value increases and the state school funding formula will continue to be an issue so long as the school funding formula continues to reflect valuation increases rather than property tax revenue increases. This is because the H.B. 920 rollbacks mean that increases in real property values due to reappraisal do not always translate into local tax revenue increases.

Thank you for the opportunity to provide testimony here today. I am happy to answer any questions that you may have.

**Appendix Table A1: Ohio School Operating Levies 1976-2023**

<b>Year</b>	<b>Total</b>	<b># Passed</b>	<b># Failed</b>	<b>% Passed</b>
1976	364	174	190	47.8%
1977	422	238	184	56.4%
1978	347	142	205	40.9%
1979	240	109	131	45.4%
1980	301	164	137	54.5%
1981	358	155	203	43.3%
1982	301	131	170	43.5%
1983	187	103	84	55.1%
1984	197	104	93	52.8%
1985	250	129	121	51.6%
1986	289	159	130	55.0%
1987	319	132	187	41.4%
1988	386	169	217	43.8%
1989	342	147	195	43.0%
1990	410	161	249	39.3%
1991	420	184	236	43.8%
1992	408	184	224	45.1%
1993	325	121	204	37.2%
1994	336	164	172	48.8%
1995	321	168	153	52.3%
1996	279	153	126	54.8%
1997	227	132	95	58.1%
1998	174	113	61	64.9%
1999	186	117	69	62.9%
2000	214	149	65	69.6%
2001	171	111	60	64.9%
2002	201	122	79	60.7%
2003	270	145	125	53.7%
2004	435	188	247	43.2%
2005	362	179	183	49.4%
2006	282	144	138	51.1%
2007	247	127	120	51.4%
2008	255	133	122	52.2%
2009	251	159	92	63.3%
2010	317	167	150	52.7%
2011	275	140	135	50.9%
2012	244	137	107	56.1%
2013	237	139	97	58.6%
2014	207	143	64	69.1%
2015	149	132	17	88.6%
2016	136	106	30	77.9%
2017	135	104	31	77.0%
2018	187	124	63	66.3%
2019	179	139	40	77.7%
2020	158	114	44	72.2%
2021	120	89	31	74.2%
2022	139	98	41	70.5%
2023	151	101	50	66.9%
<b>Totals</b>	<b>12,711</b>	<b>6,743</b>	<b>5,967</b>	<b>53.0%</b>
<b>Averages</b>	<b>265</b>	<b>141</b>	<b>124</b>	<b>53.0%</b>

**Appendix Table A2: Ohio School Operating Levies 1976-2023**

Year	Total Number of Issues	Total Number Passing	Total Percent Passing	Number of Operating Issues	# of Operating Issues Passing	% of Operating Issues Passing	Number of Capital Issues	# of Capital Issues Passing	% of Capital Issues Passing
1984	356	191	53.7%	197	104	52.8%	159	87	54.7%
1985	382	196	51.3%	250	129	51.6%	132	67	50.8%
1986	456	247	54.2%	289	159	55.0%	167	88	52.7%
1987	427	192	45.0%	319	132	41.4%	108	60	55.6%
1988	541	255	47.1%	386	169	43.8%	155	86	55.5%
1989	493	238	48.3%	342	147	43.0%	151	91	60.3%
1990	568	245	43.1%	410	161	39.3%	158	84	53.2%
1991	<b>617</b>	273	44.2%	420	184	43.8%	197	89	45.2%
1992	576	268	46.5%	408	184	45.1%	168	84	50.0%
1993	527	217	41.2%	325	121	37.2%	202	96	47.5%
1994	554	282	50.9%	336	164	48.8%	218	118	54.1%
1995	468	262	56.0%	321	168	52.3%	147	94	63.9%
1996	458	237	51.7%	279	153	54.8%	179	84	46.9%
1997	449	244	54.3%	227	132	58.1%	222	112	50.5%
1998	398	229	57.5%	174	113	64.9%	224	116	51.8%
1999	447	276	61.7%	186	117	62.9%	<b>261</b>	159	60.9%
2000	446	310	69.5%	214	149	69.6%	232	161	69.4%
2001	339	216	63.7%	171	111	64.9%	168	105	62.5%
2002	374	221	59.1%	201	122	60.7%	173	99	57.2%
2003	432	225	52.1%	270	145	53.7%	162	80	49.4%
2004	<b>616</b>	277	45.0%	<b>435</b>	188	43.2%	181	89	49.2%
2005	515	265	51.5%	362	179	49.4%	153	86	56.2%
2006	430	226	52.6%	282	144	51.1%	148	82	55.4%
2007	412	208	50.5%	247	127	51.4%	165	81	49.1%
2008	428	227	53.0%	255	133	52.2%	173	94	54.3%
2009	378	229	60.6%	251	159	63.3%	127	70	55.1%
2010	429	228	53.1%	317	167	52.7%	112	61	54.5%
2011	366	189	51.6%	275	140	50.9%	91	49	53.8%
2012	339	192	56.6%	244	137	56.1%	95	55	57.9%
2013	352	202	57.4%	237	139	58.6%	115	63	54.8%
2014	317	207	65.3%	207	143	69.1%	110	64	58.2%
2015	217	184	84.8%	149	132	88.6%	68	52	76.5%
2016	232	168	72.4%	136	106	77.9%	96	62	64.6%
2017	223	160	71.7%	135	104	77.0%	88	56	63.6%
2018	270	185	68.5%	187	124	66.3%	83	61	73.5%
2019	260	195	75.0%	179	139	77.7%	81	56	69.1%
2020	217	151	69.6%	158	114	72.2%	59	37	62.7%
2021	173	130	75.1%	120	89	74.2%	53	41	77.4%
2022	199	137	68.8%	139	98	70.5%	60	39	65.0%
2023	241	150	62.2%	151	101	66.9%	90	49	54.4%
<b>Totals</b>	<b>15,922</b>	<b>8,734</b>	<b>54.9%</b>	<b>10,191</b>	<b>5,527</b>	<b>54.2%</b>	<b>5,731</b>	<b>3,207</b>	<b>56.0%</b>
<b>Averages</b>	<b>398</b>	<b>218</b>	<b>54.9%</b>	<b>255</b>	<b>138</b>	<b>54.2%</b>	<b>143</b>	<b>80</b>	<b>56.0%</b>

Note: Operating Levy Totals Include Emergency, School Safety & Technology Levies  
 Capital Levies Include all Bond, Permanent Improvement, and Combined Bond, PI, or Facilities Levies

**Appendix Table A3: New, Replacement & Renewal Operating Levy Passage Rates, 1994-2023**

Year	All New Operating Levies			All Renewal & Replacement Levies			All Operating Levies 1994-2023		
	Number	Pass	Percent	Number	Pass	Percent	Number	Pass	Percent
1994	281	122	43.4%	55	42	76.4%	336	164	48.8%
1995	262	116	44.3%	59	52	88.1%	321	168	52.3%
1996	205	91	44.4%	74	62	83.8%	279	153	54.8%
1997	161	74	46.0%	66	58	87.9%	227	132	58.1%
1998	92	46	50.0%	82	67	81.7%	174	113	64.9%
1999	105	50	47.6%	81	67	82.7%	186	117	62.9%
2000	96	43	44.8%	118	106	89.8%	214	149	69.6%
2001	82	35	42.7%	89	76	85.4%	171	111	64.9%
2002	107	42	39.3%	94	80	85.1%	201	122	60.7%
2003	169	67	39.6%	101	78	77.2%	270	145	53.7%
2004	313	95	30.4%	122	93	76.2%	435	188	43.2%
2005	255	84	32.9%	107	95	88.8%	362	179	49.4%
2006	184	64	34.8%	98	80	81.6%	282	144	51.1%
2007	121	27	22.3%	126	100	79.4%	247	127	51.4%
2008	131	29	22.1%	124	104	83.9%	255	133	52.2%
2009	119	40	33.6%	132	119	90.2%	251	159	63.3%
2010	173	45	26.0%	144	122	84.7%	317	167	52.7%
2011	168	44	26.2%	107	96	89.7%	275	140	50.9%
2012	138	46	33.3%	106	91	85.8%	244	137	56.1%
2013	135	49	36.3%	102	91	89.2%	237	140	59.1%
2014	67	20	29.9%	140	123	87.9%	207	143	69.1%
2015	26	17	65.4%	123	115	93.5%	149	132	88.6%
2016	33	15	45.5%	103	91	88.3%	136	106	77.9%
2017	37	14	37.8%	98	90	91.8%	135	104	77.0%
2018	78	24	30.8%	109	100	91.7%	187	124	66.3%
2019	63	31	49.2%	116	108	93.1%	179	139	77.7%
2020	55	21	38.2%	103	93	90.3%	158	114	72.2%
2021	31	9	29.0%	89	80	89.9%	120	89	74.2%
2022	37	13	35.1%	102	87	85.3%	139	100	71.9%
2023	43	9	20.9%	108	92	85.2%	151	101	66.9%
<b>1994-2023 Total</b>	<b>3767</b>	<b>1382</b>	<b>36.7%</b>	<b>3078</b>	<b>2658</b>	<b>86.4%</b>	<b>6845</b>	<b>4040</b>	<b>59.0%</b>



**Appendix Table A4: # of New, Replacement and Renewal Operating Levies 1994-2023**

Year	# of New Operating Levies	# of Replacement Operating Levies	# of Renewal Operating Levies	Total # of Operating Levies	# of New + Replacement Operating Levies	% New + Replacement Operating Levies
1994	281	1	54	336	282	83.9%
1995	262	16	43	321	278	86.6%
1996	205	14	60	279	219	78.5%
1997	161	17	49	227	178	78.4%
1998	92	10	72	174	102	58.6%
1999	105	17	64	186	122	65.6%
2000	96	12	106	214	108	50.5%
2001	82	16	73	171	98	57.3%
2002	107	15	79	201	122	60.7%
2003	169	23	78	270	192	71.1%
2004	313	25	97	435	338	77.7%
2005	255	13	94	362	268	74.0%
2006	184	13	85	282	197	69.9%
2007	121	19	107	247	140	56.7%
2008	131	11	113	255	142	55.7%
2009	119	12	120	251	131	52.2%
2010	173	13	131	317	186	58.7%
2011	168	4	103	275	172	62.5%
2012	138	3	103	244	141	57.8%
2013	135	3	99	237	138	58.2%
2014	67	3	137	207	70	<b>33.8%</b>
2015	26	2	121	149	28	<b>18.8%</b>
2016	33	1	102	136	34	<b>25.0%</b>
2017	37	1	97	135	38	<b>28.1%</b>
2018	78	1	108	187	79	<b>42.2%</b>
2019	63	1	115	179	64	<b>35.8%</b>
2020	55	0	103	158	55	<b>34.8%</b>
2021	31	0	89	120	31	<b>25.8%</b>
2022	37	1	101	139	38	<b>27.3%</b>
2023	43	0	108	151	43	<b>28.5%</b>

From **1994-1997 82.3%** of operating levies were new or replacement levies

From **1998-2006 67.4%** of operating levies were new or replacement levies

From **2007-2013 57.5%** of operating levies were new or replacement levies

From **2014-2023 30.6%** of operating levies were new or replacement levies

## **Appendix Table A5: 2023 Sexennial Reappraisal and Triennial Update Counties**

### **2023 Reappraisal Counties (N=28)**

Auglaize, Clinton, Darke, Defiance, Delaware, Franklin, Gallia, Geauga, Hamilton, Hardin, Harrison, Henry, Jackson, Licking, Mahoning, Mercer, Morrow, Perry, Pickaway, Pike, Preble, Putnam, Richland, Seneca, Shelby, Trumbull, Van Wert, Wood

### **2023 Update Counties (N=13)**

Ashland, Ashtabula, Athens, Butler, Clermont, Fulton, Greene, Knox, Madison, Montgomery, Noble, Summit, Wayne

Note that the list above is exactly the same for the years 2005, 2011 and 2017. And in 2008, 2014 and 2020 the counties undergoing reappraisal in 2023 experienced the statistical update while the counties undergoing the update went through full reappraisal.