

Understanding Property Taxes and Proposed Solutions to the Property Tax Problem

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Items to Discuss

- General Comments
- Terminology
- Types of Levies
- How Revenues are Impacted by Valuation Changes
- Exceptions to the rules
- Understanding and Solving our Property Tax Problems

General Comments

- Property taxes are not fair:
 - Based on value of what you own not what you can afford to pay
 - You cannot control always control your property value and thus your taxes
 - Property taxes for a specific purpose may not directly benefit you
- Property taxes are confusing it's not just: $\text{value} * \text{rate} = \text{tax}$
- Why property taxes then, Property taxes produce a stable source of income that does not fluctuate as dramatically with the economy as sales and income taxes

Basic Terminology

Appraised/Market Value – What the property is expected to sell for at a given point in time

Assessed/Taxable Value – 35% of the appraised/market value for real property

Full/Voted Tax Rate – rate established by law or by voters

Effective Tax Rate – the rate actually paid by the tax payer

Rollbacks/Credits – portion of property tax paid by state on behalf of property owners

Millage – term used to express tax rate (equals \$1 per \$1000 of assessed value)

So a one mill levy would cost the owner of a home appraised for \$100,000, \$35 per year

$(\$100,000 * 35\% * \$1 / \$1000)$

Types of Levies

Inside

Charter Millage

Fixed Sum

Fixed Rate

Hybrid Substitute/Incremental

Types of Levies – Inside Millage

Unvoted – established by the constitution

Maximum of 10 mills within a taxing district

Share by subdivisions in the district with a guarantee based on 1933 millage

Can only be adjusted by the Budget Commission or the Courts

Makes up a relatively small portion of the total millage in a taxing district

The rate is constant; the revenue and value are variable

As value changes, regardless of why, revenue changes by an equal percentage

Types of Levies – Charter Millage

Municipal charters can include a property tax levy

Levy works similar to Inside Millage but it does not count against the 10 mill limitation

The rate is constant; the revenue and value are variable

As value changes, regardless of why, revenue changes by an equal percentage

Types of Levies – Fixed Sum Levies

Levy voted to generate a specific amount of revenue

Limited to Bond and Emergency levies

Rate set each year by the Budget Commission to generate required revenue

A change in value, regardless of the reason, has an inverse effect on the rate

The revenue is constant; the value and rate are variable

If values increase the rate will decrease so the levy generates the same revenue

Types of Levies – Fixed Rate Levies

Most popular type of levy

Why value changes determines the impact on revenue and the tax rate:

- Reappraisal value changes – revaluing something that previously existed
 - Rate is adjusted to generate the same amount of revenue as the prior year
 - Revenue remains constant; value and rate are variable
 - Creates an effective tax rate
- Non-Reappraisal changes – valuing something that has changed (new construction)
 - As new construction occurs additional revenue is received at the adjusted rate
 - Rate remains constant; value and revenue are variable

Theory

Fixed Rate Levy Example

	Reappraisal Change	Non-Reappraisal Change
Assessed Value	\$500,000	\$500,000
Tax Rate	2.00	2.00
Estimated Revenue	\$1,000	\$1,000
Value Change (1%)	\$5,000	\$5,000
New Value	\$505,000	\$505,000
New Effective Tax Rate	1.98	2.00
New Revenue	\$1,000	\$1,010

Types of Levies – Substitute/Incremental Levies

Only applicable to school district

Like a Fixed Sum Levy - guaranteed to generate at the amount of revenue it was intended to generate in the previous year regardless of value change

Like a Fixed Rate Levy - allows for additional revenue to be realized

- Incremental Levy – incremental increases are established in ballot language to provide guaranteed growth
- Substitute Levy – allows revenue growth for non-reappraisal changes (new construction)

Summary of Types of Tax Levies

Levy Type	Description	Impact of Value Change
Inside – Unvoted	<ul style="list-style-type: none"> • 10 mill limit • shared among political subdivisions 	<ul style="list-style-type: none"> • Moves in direct proportion to value change • Value up 10% taxes up 10%
Voted Fixed Sum Levies – Voted	<ul style="list-style-type: none"> • Bond & Emergency levies • Rate set to produce a specific dollar amount 	<ul style="list-style-type: none"> • As values change rate decreases resulting in no tax impact
Fixed Rate Levies – Voted	<ul style="list-style-type: none"> • Specific rate approved by the voters • Rate is adjusted for reappraisal changes • Revenue changes with non-reappraisal changes (new construction) 	<ul style="list-style-type: none"> • As value change due to reappraisal; rate is adjusted resulting in no tax impact • Value change due to non-reappraisal changes taxes increase/decrease
Substitute Levies	<ul style="list-style-type: none"> • Combination of Fixed Rate & Fixed Sum Levies • Guaranteed the amount received in the prior year 	<ul style="list-style-type: none"> • As value changes due to reappraisal; rate is reduced resulting in no tax impact • Value changes due to non-reappraisal changes taxes increase/decrease with value change

Example With Value Increases

		Inside Levies	Fixed Sum Levies	Substitute Levies	Fixed Rate Levies	Total
Assessed Value		\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000
Effective Tax Rate		10.00	8.00	4.00	50.00	72.00
Tax Revenue		\$ 1,000	\$ 800	\$ 400	\$ 5,000	\$ 7,200
Reappraisal Change (10%)		\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000
New Construction (2%)		\$ 2,000	\$ 2,000	\$ 2,000	\$ 2,000	\$ 2,000
New Value (12% Higher)		\$ 112,000	\$ 112,000	\$ 112,000	\$ 112,000	\$ 112,000
New Effective Tax Rate		10.00	7.14	3.64	45.45	66.23
New Taxes		\$ 1,120	\$ 800	\$ 407	\$ 5,091	\$ 7,418
Analysis of Changes						
% Change in Value		12%	12%	12%	12%	12%
% Change in Taxes		12%	0%	2%	2%	3%
% Change in Tax Rate		0%	-11%	-9%	-9%	-8%

Example With Value Decreases

	Inside Levies	Fixed Sum Levies	Substitute Levies	Fixed Rate Levies	Total
Assessed Value	\$100,000	\$100,000	\$100,000	\$100,000	\$100,000
Effective Tax Rate	10.00	8.00	4.00	50.00	72.00
Tax Revenue	\$1,000	\$800	\$400	\$5,000	\$7,200
Reappraisal Change (-10%)	(\$10,000)	(\$10,000)	(\$10,000)	(\$10,000)	(\$10,000)
Demolition (-2%)	(\$2,000)	(\$2,000)	(\$2,000)	(\$2,000)	(\$2,000)
New Value (8% Lower)	\$88,000	\$88,000	\$88,000	\$88,000	\$88,000
New Effective Tax Rate	10.00	9.1	4.55	55.68	79.33
New Taxes	\$880	\$800	\$400	\$4,900	\$6,981
Analysis of Changes					
% Change in Value	-12%	-12%	-12%	-12%	-12%
% Change in Taxes	-12%	0%	0%	-2%	-3%
% Change in Tax Rate	0%	14%	14%	11%	10%

Why are we constantly seeing additional levies?

The largest portion of valuation changes are reappraisal changes

Property valuations are reappraised every three years

- Reappraisal occur once every six years
- Triennial updates at the mid point of the reappraisal cycle

Most levies supporting government operations do not allow for revenue growth from reappraisal changes

Revenue growth occurring due to new construction generally result in an increase in demand for services and do not keep up with inflation

New Jasper Township

Changes from 2023 Triennial Update

	Values	
Tax Year 2022 Value	77,485,860	
Reappraisal Change	29,658,230	38%
Non Reappraisal Change	779,860	1%
Tax Year 2023 Value	107,923,950	39%

	General	Road	Fire	Total
TY22 Revenue	135,327	220,580	471,051	826,958
TY23 Revenue	187,661	267,791	475,725	931,177
\$ Change	52,334	47,211	4,674	104,219
% Change	39%	21%	1%	13%

Exceptions to the Fixed Rate Levy Rules - When Voted Rate Equals the Effective Rate

The effective tax rate cannot exceed the voted rate for a fixed rate levy

- As reappraisal values decrease the effective tax rate is increased so the levy generates the same amount of revenue as the prior year.
- This effective rate cannot exceed the voted rate which may result in a loss of revenue.

Example – Exceptions for Fixed Rate Levies - Effective Rate Equals Voted Rate

		Previous Example	When Voted Rate = Effective Rate
	Assessed Value	\$100,000	\$100,000
	Voted/Effective Rate	50	50
	Tax Revenue	\$5,000	\$5,000
	Reappraisal Change (-10%)	(\$10,000)	(\$10,000)
	Demolition (-2%)	(\$2,000)	(\$2,000)
	New Value	\$88,000	\$88,000
	New Effective Tax Rate	55.68	50
	New Taxes	\$4,900	\$4,400
Analysis of Changes			
	% Change in Value	-12%	-12%
	% Change in Taxes	-2%	-14%
	% Change in Tax Rate	11%	0%

Exceptions to the Fixed Rate Levy Rules - The 20/2 Mill Floor

- Applies to School Districts (20 mill floor) and JVS (2 mill floor)
- If school districts have current expense levies in excess of the floor the effective rate of the current expense levies cannot go below the floor
- Excludes Emergency, Incremental, Substitute, Bond, Permanent Improvement and Class Room Facilities Levies
- If reappraisal changes would cause your rate to decrease below the floor the rate is adjusted upwards to the floor so the district receives additional revenue from reappraisal increases
- The floor adjustment is annual and not cumulative
 - Value increases from reappraisal changes increase the base revenue that the voted fixed rate levies will produce
 - If values decrease in the future due to reappraisal changes the base revenue will not decrease, instead the effective tax rate will increase to produce that base revenue

20 Mill Floor Example

		With Floor			Without Floor		
		Inside	Fixed Rate	Total	Inside	Fixed Rate	Total
Year 1 - Base Year							
	Effective Rate	4.00	16.00	20.00	4.00	16.00	20.00
	Assessed Value	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000
	Revenue	\$ 400	\$ 1,600	\$ 2,000	\$ 400	\$ 1,600	\$ 2,000
Year 2 - 10% Reappraisal Increase							
	Reappraisal Change	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000
	New Value	\$ 110,000	\$ 110,000	\$ 110,000	\$ 110,000	\$ 110,000	\$ 110,000
	Effective Tax Rate	4.00	16.00	20.00	4.00	14.55	18.55
	New Revenue	\$ 440	\$ 1,760	\$ 2,200	\$ 440	\$ 1,600	\$ 2,040
Year 3 - \$10,000 Reappraisal Decrease							
	Reappraisal Change	\$ (10,000)	\$ (10,000)	\$ (10,000)	\$ (10,000)	\$ (10,000)	\$ (10,000)
	New Value	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000
	Effective Tax Rate	4.00	17.60	21.60	4.00	16.00	20.00
	New Revenue	\$ 400	\$ 1,760	\$ 2,160	\$ 400	\$ 1,600	\$ 2,000

Impact of the Floor on Revenue

Remember we said only inside millage moves directly with property value, but if a school district is at the 20 mill floor the floor acts like inside millage when reappraisal increase occur resulting in additional millage being subject to a direct correlation with property values.

	Millage	%
Inside Millage	10.000000	18%
Fixed Rate Levies Act Like Inside Millage		
School District	15.700000	28%
JVS	2.000000	4%
Total Millage Acts Like Inside Millage	27.700000	50%
Millage Not Directly Correlated to Property Valuation Change	27.516804	50%
Total Effective Millage	55.216804	

- Without the floor if values were to increase 30% and only 18% of the levies were directly correlated with valuation change we would expect to see an increase of 5% in revenues generated.
- With the floor now 50% of the levies are directly correlated with reappraisal increases meaning that 30% reappraisal increase will generate 15% more revenue.

Equalization

Update property valuation to current market conditions

Rates are set based on the revenue to be generated not the impact on individual tax payers

Values do not change by equal percentage

Ensures distribution of taxes based on relative wealth

Equalization at Work

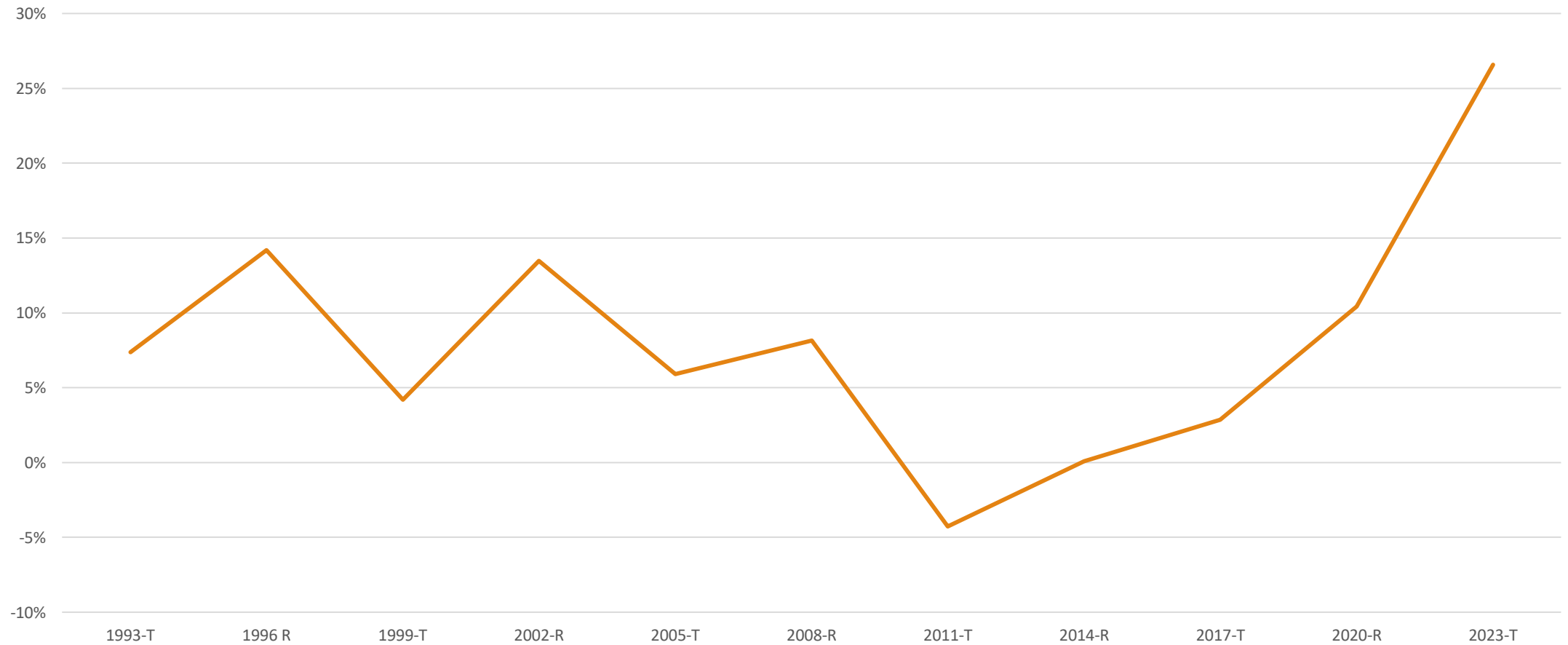
	Owner A	Owner B	Total
Appraised Valuation	100,000	100,000	200,00
Effective Tax Rate	62.00	62.00	
Cost	2,170.00	2,170.00	4,340.00
Reappraisal Change	30,000	25,000	55,000
New Valuation	130,000	125,000	255,000
New Rate	48.63	48.63	48.63
New Tax	2,212.55	2,127.45	4,340.00
Change in Tax			
\$	43	(43)	0
%	2%	(2%)	0%

Solving the Property Tax Problem – Why Now

The problem isn't new so why is there a big push now

- Unprecedented Valuation Increases
 - Normal increase 5-15%
 - Recent increases in excess of 25%
- Number of schools at the floor
 - 2000 – 226
 - 2010 – 133
 - 2023 – 390
- 60-65% over property tax dollars go to fund schools

Greene County Reappraisal Change



What Caused the Problem

20 and 2 mill floor circumventing HB920

School funding – the DeRolph Case

Increased demand for services

Declining Revenue Sources

Homestead (tax credits for seniors) has declined as values have increased

The Problem - 20 Mill and 2 Mill Floor

As we saw earlier the floors allow revenue related to floor millage to grow significantly resulting in significant tax revenue increases for school districts

- School districts at the floor in Greene County saw an increase of their total property tax revenue between 15 and 30%
- School District not at the floor saw a 5% increase in total revenues

As we saw earlier this is a permanent increase for fixed rate levies subject to the floor since it increases the base revenue for these levies

DeRolph Decision

Ruled that funding of schools was overly reliant on property taxes

Poorer school districts were entitled to a greater share of State funding based on their inability to increase local revenues due to wealth factors including both property value and local income

In Greene County, our wealthiest school district receives approximately 10% of the base cost to educate a student while the poorest school district receives in excess of 70%.

Any proposed solution to address the property tax issue must take school funding into consideration

Declining Revenue Sources

State cuts to funding

- 50% cut to local government funds
- Elimination of the personal property tax
- Public utility deregulation

Expanded exemptions

- Court cases further eroding tax base
- State laws providing greater flexibility to local governments to exempt development properties

Homestead

Prior to 2023 the value exempt from taxation for homestead recipients was \$25,000

- As values increased effective tax rates were reduced reducing the benefit homestead recipients received.

In 2024 this \$25,000 was tied to an index which increased the exemption amount to \$26,200, or 5%. This did not keep up with the near 30% valuation increase most properties received.

Proposed Solutions - Homestead

- **Increase both the dollar amount subject to exemption and the income level to qualify**
- Prohibit any future tax increases for individuals eligible for homestead
- Freeze property values for homestead recipients by exempting their value increases over the base year value
- Eliminate property taxes for all seniors

Proposed Solutions – 20 Mill and 2 Mill Floors

- **Cap growth in revenue increases from the 20 mill and 2 mill floor by creating a property tax credit that would apply to fixed rate floor millage.**
- Eliminate the floors so that fixed rate levies for school district were treated the same as all other taxing authorities
- Subject all school district levies to the floor calculation, including income tax levies, instead of just current expense levies
- Subject inside millage to effective rate calculations required by HB920

Restructure Property Tax Credits

- Apply Non-Business (10%) and Owner Occupancy Credit (2.5%) to all levies not just those passed prior to August 2013.
- **Eliminate the Non-Business Credit and make the Owner Occupancy Credit a meaningful fixed dollar amount.**
 - Currently residential rental properties and agricultural properties receive the Non-Business Credit when they are clearly a business operation.
 - The benefit under both of these programs is based on a percentage of property taxes which means higher valued properties receive a larger dollar benefit. By making this amount a fixed dollar amount it provides greater assistance as a percentage of the tax liability to lower valued properties thus making home ownership more affordable for lower income individuals.
- Likely a blend of the current percentage of tax approach with a fixed amount component will be more acceptable.

Targeted Tax Relief

Tax relief based on eligibility criteria including age and/or income:

- Residential Stability Zones – works like a CRA for long-time residents whose values have increased due to economic pressures by exempting valuation increases
- Tax Deferral Programs – Creates a State loan program similar to a reverse mortgage
- Circuit Breaker – would limit how much taxes could increase by offering a State income tax credit for increases over a certain percentage
- Direct Limit on Annual Tax Increases – State would subsidize shortages in revenue, taxes would increase each year until shortage is eliminated

Other Proposals

Constitutional amendment limiting annual tax increases on an individual property to 4% per year excluding the impact of new construction.

Altering how auditor's appraise values by requiring them to average sales over the valuation update period

Annual updates to property valuations

Annual updates to CAUV value

Do nothing this was an anomaly and isn't likely to occur again in the future

How Would the CAAO Proposals Impact a Property Owner

	Tax Year 2022	Tax Year 2023 Current Law	Tax Year 2023 With Cap	TY 2023 W/Cap & OOC Change
Assessed Value	32,930	46,560	46,560	46,560
Effective Tax Rate	55.216107	48.075149	48.075149	48.075149
Taxes Before Credits	1,818	2,238	2,238	2,238
NBC	(166)	(209)	(209)	
OOC	(42)	(52)	(52)	(750)
Homestead	(428)	(389)	(389)	(441)
School Floor Credit			(162)	(162)
Net Taxes	1,183	1,587	1,425	885
\$ Change		405	243	(297)
% Chg from 2022		34%	21%	(25%)

How Would CAAO Proposal Impact School District Revenue

	Tax Year 2022	Tax Year 2023 Current Law	Tax Year 2023 With Cap
Assessed Valuation	653,745,960	887,147,040	887,147,040
Effective Tax Rate	20	20	20
Tax Revenue	13,074,919	17,742,941	17,742,941
School Floor Credit			(2,781,290)
Tax Revenue After Credit	13,074,919	17,742,941	14,961,651
\$ Change		4,668,022	1,886,732
% Change		36%	14%