

# Understanding Property Taxes in Ohio

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# Items to Discuss

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- General Comments
- Terminology
- Types of Levies
- Why are we always seeing new levies
- Exceptions to the rules
- Myths

# General Comments

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

# Basic Terminology

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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

$(\$100,000 * 35\% * 1 \text{ mill} / \$1000)$

# Types of Ballot Issues

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Additional – new levy generates additional revenue

Replacement – replaces an existing levy so that the effective rate of the levy reverts back to the voted rate

Renewal – continues an existing levy at its current effective tax rate

Note: Any additional levy passed or replaced after August 2013 does not qualify for the Non-business or Owner Occupancy Credit

# Types of Levies

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Inside

Fixed Sum

Fixed Rate

Substitute

# Types of Levies – Inside Millage

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Unvoted

Maximum of 10 mills within a taxing district

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

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

The rate is constant; the revenue and value are variable

# Types of Levies – Fixed Sum Levies

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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

If values increase 10% the rate will decrease so the levy generates the same revenue

The revenue is constant; the value and rate are variable



# Types of Levies – Fixed Rate Levies

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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
- Non-Reappraisal changes – valuing something that has changed (new construction)
  - As new construction occurs additional revenue is received
  - Rate remains constant; value and revenue are variable

Theory

- Just because the value of something increased does not mean it costs more to provide services
- New construction generally results in increased demand for services and thus generate more revenue

# Types of Levies – Substitute/Incremental Levies

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Only applicable to school district

Like a Fixed Sum Levy - guaranteed to generate at least the amount of money it did 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"> <li>• 10 mill limit</li> <li>• shared among political subdivisions</li> </ul>	<ul style="list-style-type: none"> <li>• Moves in direct proportion to value change</li> <li>• Value up 10% taxes up 10%</li> </ul>
Voted Fixed Sum Levies – Voted	<ul style="list-style-type: none"> <li>• Bond &amp; Emergency levies</li> <li>• Rate set to produce a specific dollar amount</li> </ul>	<ul style="list-style-type: none"> <li>• As values increase rate decreases resulting in no tax impact</li> </ul>
Fixed Rate Levies – Voted	<ul style="list-style-type: none"> <li>• Specific rate approved by the voters</li> <li>• Rate is adjusted for reappraisal changes</li> </ul>	<ul style="list-style-type: none"> <li>• As value increases due to reappraisal; rate is reduced resulting in no tax impact</li> <li>• Value increases due to new construction taxes increase</li> </ul>
Substitute Levies	<ul style="list-style-type: none"> <li>• Combination of Fixed Rate &amp; Fixed Sum Levies</li> <li>• Guaranteed the amount received in the prior year</li> </ul>	<ul style="list-style-type: none"> <li>• As value increases due to reappraisal; rate is reduced resulting in no tax impact</li> <li>• Value increases due to new construction taxes increase</li> </ul>

# Example With Value Increases

	<b>Inside Levies</b>	<b>Fixed Sum Levies</b>	<b>Substitute Levies</b>	<b>Fixed Rate Levies</b>	<b>Total</b>
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

	<b>Inside Levies</b>	<b>Fixed Sum Levies</b>	<b>Substitute Levies</b>	<b>Fixed Rate Levies</b>	<b>Total</b>
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
<b>Analysis of Changes</b>					
% 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?

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The largest portion of valuation changes are reappraisal changes

Property valuations are only updated 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

# Value Changes from our 2020 Reappraisal

Prior Year Value	561,845,680	
Reappraisal Change	59,519,570	10%
Non-Reappraisal Changes	14,729,260	3%
New Value	636,094,510	13%

## Watch what occurs to the rates and revenue

Levy Type	PY Rate	CY Rate	Change	% Change	PY Revenue	CY Revenue	\$ Change	% Change
Inside	4.5	4.5	0	0%	2,622,837	2,957,432	334,595	13%
Fixed Rate	31.05	27.99	(3.06)	(10%)	18,829,641	19,258,563	428,922	2%
Total	35.55	32.49	(3.06)	(9%)	21,452,478	22,215,995	763,517	4%

# Analyzing These Changes

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Overall revenues up 4%

- Values up 13%
- Inside Millage only makes up 13% of their operating levies

This was an update year which only occurs once every three years

- Based on these numbers, if there were no reappraisal change revenue would have increased 2-3%
- Would this keep up with inflation

New construction generally results in an increased demand for services

- Does the revenue produced from new construction keep up with the cost for the additional services



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

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

If a levy has an effective tax rate equal to the voted rate the effective rate cannot increase which results in a loss of revenue

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

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	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

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- Applies to School Districts (20 mill floor) and JVS (2 mill floor)
- If you have general fund levies in excess of the floor the effective rate of the general fund 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 reach the floor so you receive additional revenue from reappraisal changes
- 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

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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 resulting in additional millage being subject to a direct correlation with property values.

	<b>Millage</b>	<b>%</b>
Inside Millage	10.000000	18%
Fixed Rate Levies Act Like Inside Millage		
Xenia School District	15.700000	28%
Greene County Career Center	2.000000	3%
Total Millage Acts Like Inside Millage	27.700000	49%
Voted Millage Not Directly Correlated to Property Valuation Change	34.239644	51%
Total Effective Millage	56.906576	

# Why is the Floor Important

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## School District Floor Statistics

- 38% of school district are currently at the floor
- 23% of school district are within 5% of the floor

New levies may become increasingly more difficult to pass as more schools reach the floor resulting in greater tax increases every three years

# Common Myths #1

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My 1984 fire levy still produces the same amount of money it did in 1984.

Most likely false. New construction generates additional revenue. If your subdivision has not seen any new construction since 1984 it could be true.

# Common Myths #2

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When new construction occurs there is only a one year increase in the revenue.

- Not true. New construction comes on at the current effective tax rate and continues to bring in additional money through the life of the levy. This additional value increases the base revenue that the levy generates.
- The converse is also true non-reappraisal decreases in value result in a permanent loss in revenue.



# Common Myth #3

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If a levy is replaced it will continue to receive the rollback money based on the old effective tax rate.

- Not true. Any replacement or additional levy approved after August 2013 is not eligible for the owner occupancy or non-business credit. This applies to the entire levy not just the additional effective tax rate.
- Renewal of an existing levy that qualified for tax credits will continue to qualify
- Homestead applies to all levies regardless of when they were passed

# Common Myth #4

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When new construction is picked up it is taxed at the voted or full rate.

False. New construction is picked up at the effective rate in place for the tax year the new value was picked up. One effective rate applies to all property in a given property class regardless of when the new construction occurred.