Fiscal Note & Local Impact Statement

122 nd General Assembly of Ohio

BILL: **H.B. 708** DATE: **March 18, 1998**

STATUS: **As Introduced** SPONSOR: **Rep. Mottley**

LOCAL IMPACT STATEMENT REQUIRED: **No**

CONTENTS: **Allows school districts to impose, with voter approval, up to five mills not subject to tax reduction factors.**

State Fiscal Highlights

STATE FUND	FY 1999	FY 2000	FUTURE YEARS
General Revenue fund			
Revenues	- 0 -	- 0 -	- 0 -
Expenditures	- 0 -	Potential Increase	Potential Increase

- By allowing school districts to levy up to five mills of property taxes not subject to tax reduction factors, future GRF expenditures to reimburse local school districts for real property tax relief programs will probably increase. The amount of the increase will be dependent on the number of districts that adopt such levies, the rate of inflationary growth in real property values, and changes in tax levy behavior as a result of this change.

Local Fiscal Highlights

LOCAL GOVERNMENT	FY 1999	FY 2000	FUTURE YEARS
Local School Districts			
Revenues	- 0 -	Potential Gain	Potential Gain
Expenditures	- 0 -	- 0 -	- 0 -

- By allowing school districts to levy up to five mills of property taxes not subject to tax reduction factors, local school district real property tax revenue will probably increase. The amount of the increase will be dependent the rate of inflationary growth in real property values and changes in tax levy behavior by voters and school districts as a result of this change.

Detailed Fiscal Analysis

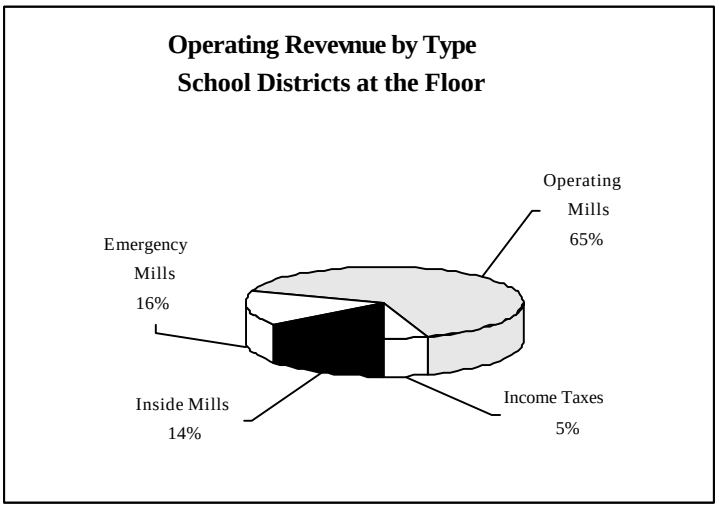
Under current law, school district current operating millage, levied on real property and adopted with voter approval, is subject to tax reduction factors that limit growth in real property tax revenue to the growth resulting from increases in the number of properties subject to taxation. Inflationary increases in the value of existing property will not generate additional revenue. The bill would allow school districts to levy, with voter approval, up to five mills that would be exempt, in whole or in part, from tax reduction factors resulting in revenue growth with inflationary increases in the value of real property.

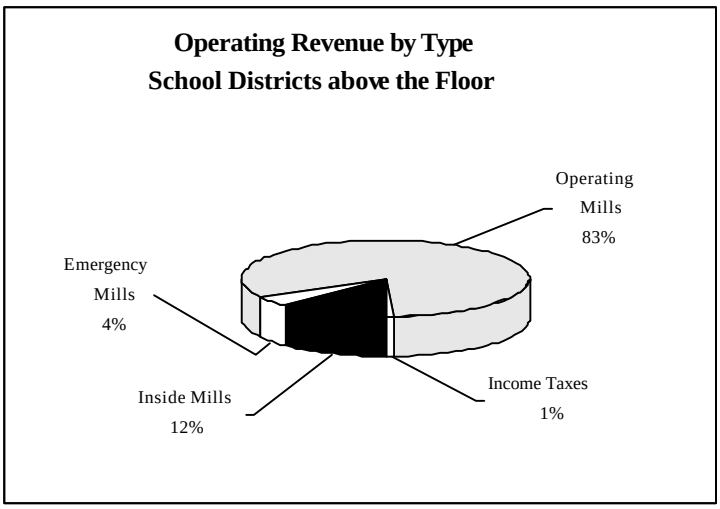
School district property taxes arise form both voted and unvoted (inside) millage. Inside millage is not subject to tax reduction factors and may be used for current operating expenses, permanent improvements, or debt reduction. Voted levies may take the form of current operating, emergency, permanent improvement, or bond levies. Tax reduction factors are applied to current operating and permanent improvement levies but are not applied to emergency and bond levies which will raise a fixed amount of revenue each year regardless of changes in property values. Tax reduction factors are limited in their application to insure that school districts will raise at least 20 mills for current operating expenses on the value of real property by class. This limitation is referred to as the 20-mill floor and will include only those levies that are defined as current operating levies. Therefore, emergency, permanent improvement, and bond levies are not included in the floor. In addition, any inside millage dedicated to permanent improvement or debt service is also excluded from the floor.

Allowing school districts to levy an additional five mills that are not subject to tax reduction factors and will not be included in the floor will provide school districts the opportunity to receive larger increases in tax revenues when the value of existing property increases. On average, school district voters have approved 39.37 mills for current operating expenses and an additional 4.5 inside mills are levied. However, after the application of tax reduction factors, the effective rate of real property tax levies dedicated to current operating expenses is 28.54 mills, a reduction of approximately 27%. Since real property tax collections account for approximately 66% of all tax collections, the reduction in tax rates requires districts to pass additional levies to obtain sufficient growth in revenues to meet increasing operating costs.

Districts may be able to better meet the pressures of increasing costs by structuring their tax collections in a manner to maximize the amount of revenue that is outside the operation of tax reductions factors. One way to do this is to rely on income taxes and emergency levies for a portion of current operating levies, while allowing the remaining millage to fall to the floor. The following two charts illustrate the differences in the revenue sources for districts that are at the floor as compared to those above the floor[1].

[1] While this reference to the floor implies that a single floor exists, separate floors are calculated for the two classes of real property. Therefore, a district may be at the floor for Class I (residential and agricultural) property and may be above for the floor for Class II (commercial and industrial) property. For the purpose of comparisons contained in this note, a district is said to be at the floor when the effective rate for either class of property has fallen to 20 mills.





Districts at the floor have a higher reliance on revenue sources not included in the floor. For these districts, only emergency millage does not increase as the wealth of the district increases; therefore on average, only 14% of their revenue growth is restrained. In comparison, 87% of the revenue for districts not at the floor will not increase as the value of existing property increases. It is important to note that of the approximately 400 districts that are not at the floor, 174 of the districts are within five mills of the floor. For these districts, voter approval to replace up to 5 current operating mills with the voted inside millage will move these districts to the floor and provide the equivalent of 25 inside mills. Likewise, for districts at the floor, if they have voted millage in excess of 20 mills from current operating levies or emergency levies, replacing that millage with the voted inside millage will provide the equivalent of 25 inside mills. In addition, some districts have begun to shift inside millage from operating revenue to permanent improvement or debt service revenue; in this case, it may be possible for a district to have the equivalent of 30 inside mills.

The ability of a district to take advantage of this legislation will be dependent on voter behavior – how willing will the electorate be to impose a property tax levy that will result in an increasing tax bill? This questions can not be answered with confidence – the factors influencing voter behavior are varied and frequently unmeasurable. While school districts at the floor stand to gain the most from passage of a levy of this type, it may be more difficult for that district to convince its voters of the need for an even larger growing revenue base. Therefore, districts above the floor may be more likely to pass a levy of this type. In addition, it is important to consider the impact of this measure over time. If a district is able to levy 25 to 30 mills exempt from tax reduction factors, it may result in the need for less levy proposals, resulting in the easier passage of new levies. The determination of this bill's final impact will be dependent on the interaction of many factors.

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