



Members Brief

An informational brief prepared by the LSC staff for members and staff of the Ohio General Assembly

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School District Local Operating Revenue

The primary local funding source for schools is locally voted property taxes, which account for approximately 95% of local operating revenue, excluding the portion of property taxes paid by the state (property tax rollbacks and homestead exemption). The other 5% comes from school district income taxes. In tax year (TY) 2023, school districts levied a total of \$14.20 billion in property tax, mostly for operating expenses. In the same year, joint vocational school districts levied an additional \$594.0 million in property tax. Of the total taxes charged, the state paid \$1.25 billion through property tax rollbacks and reimbursements for the homestead exemption. School district income taxes totaled \$679.5 million in FY 2024.

Contents

Property taxes.....	2
Assessed or taxable property value	2
School district taxable property value composition	3
School district value per pupil.....	3
Local property tax levy rates and H.B. 920 tax reduction factors.....	4
Inside mills and voted (outside) mills.....	4
H.B. 920 tax reduction factors.....	4
H.B. 920 20-mill floor	5
Summary of local tax levies and H.B. 920	7
School district income tax.....	8
Summary of school district effective operating tax rates.....	10
School district operating tax revenue by levy type	10
Joint vocational school district tax revenue	11

Locally voted property taxes are the primary local funding source for schools, accounting for approximately 95% of local operating revenue, excluding the portion of property taxes paid by the state (property tax rollbacks and homestead exemption). The other 5% comes from school district income taxes. For tax year (TY) 2023, traditional school districts levied a total of \$12.48 billion in property tax for operating purposes and an additional \$1.72 billion for permanent improvements, debt service, and other purposes. The same year, joint vocational

school districts (JVSDs) levied a total of \$544.6 million in property tax for operating purposes and an additional \$49.3 million for permanent improvements and debt service. The state paid \$1.25 billion of locally levied property tax through property tax rollbacks and reimbursements for the homestead exemption. School district income taxes totaled \$679.5 million in FY 2024. Additional details are provided below.

Property taxes

Assessed or taxable property value

Property taxes are calculated on a property’s assessed or taxable value, which is a percentage of fair market value. This percentage is called the assessment rate. Property value in Ohio is divided into three major categories with different assessment rates:

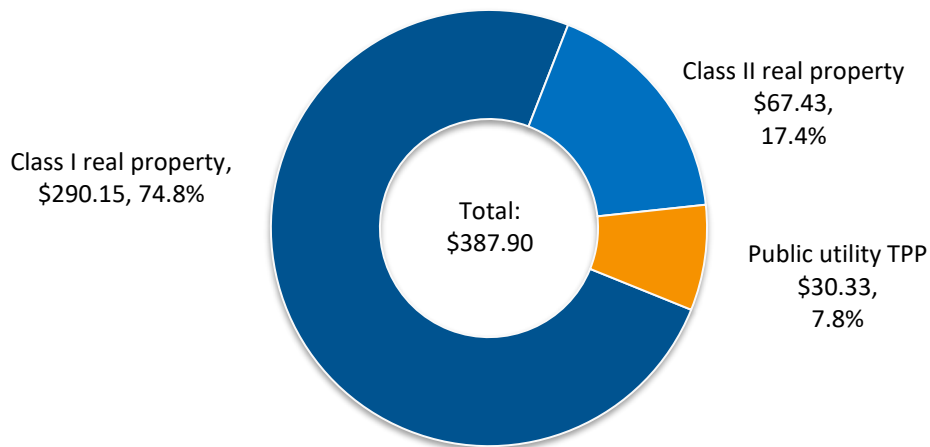
- Class I real property (residential and agricultural);
- Class II real property (commercial, industrial, and mineral); and
- Public utility tangible personal property.

Real property is generally assessed at 35% of true value, as determined by the county auditor. For example, if the auditor appraises a home’s true value as \$100,000, that home’s taxable property value would be \$35,000 ($\$100,000 \times 0.35$).

Public utility tangible personal property (TPP) is assessed at rates ranging from 24% to 88% of true value, which is self-reported by businesses based on certain approved methods. Chart 1 shows the statewide total taxable property value composition based on the three property categories for TY 2023. Class I real property makes up three-quarters of total taxable property value, followed by class II real property, and then public utility tangible personal property.

About 75% of state taxable property value is residential and agricultural real property.

Chart 1: Taxable Property Value (\$ in billions), TY 2023



School district taxable property value composition

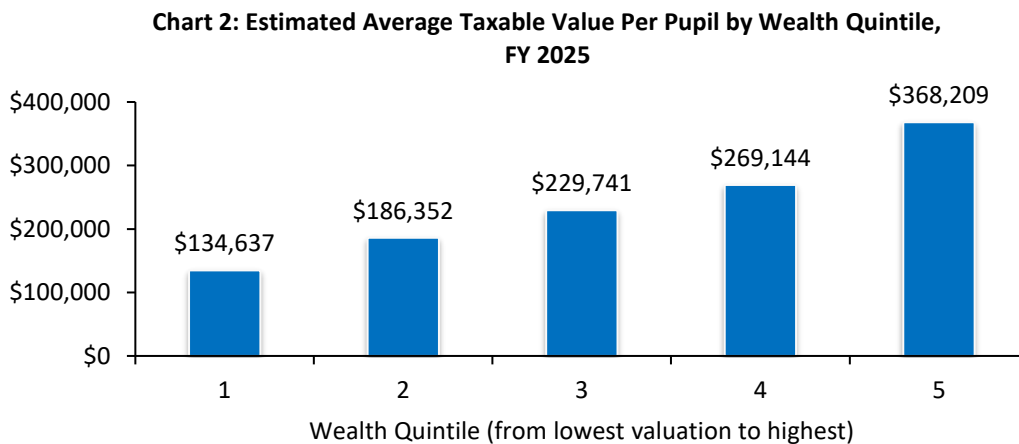
The composition of taxable property value can vary widely from district to district. Table 1 shows the minimum, median, and maximum share that each category comprises for an individual school district. Class I real property comprised between 23.0% and 97.0% of individual district valuations in TY 2023, while class II real property made up between 0.6% and 69.2%, and public utility tangible personal property made up between 0.6% and 69.0%.

Category	Minimum	Median	Maximum
Class I real property	23.0%	78.2%	97.0%
Class II real property	0.6%	11.6%	69.2%
Public utility TPP	0.6%	6.4%	69.0%

A change in the taxable value of a particular category of property through changes in the economy or changes in tax policy generally has an uneven impact on districts due to the variation in property composition across districts.

School district value per pupil

Value per pupil is the most important indicator of each district’s ability to raise local revenues. Due to the uneven distribution of taxable property, value per pupil varies widely across school districts. In Chart 2, school districts are ranked from lowest to highest property value per pupil and separated into five quintiles with roughly the same number of students. Districts in quintile 1 have the lowest taxable value per pupil while districts in quintile 5 have the highest. Values per pupil average about \$135,000 in the lowest wealth districts and about \$368,000 in the highest wealth districts. The statewide weighted average is about \$238,000 per pupil and the statewide median is about \$216,000 per pupil. The weighted average represents a per-pupil



based ranking, which takes into account the size of school districts. The median represents a district ranking, which is represented by the middle district (the 305th district out of 609).

The variation in per-pupil value impacts each individual district's ability to raise local revenue. The same one-mill property tax levy generates \$135 per pupil for a district with a value per pupil of \$135,000 and \$368 per pupil for a district with a value per pupil of \$368,000.

Local property tax levy rates and H.B. 920 tax reduction factors

Generally, school districts have the option to use five different types of levies: inside mills, current expense levies, emergency levies, permanent improvement levies, and bond levies. Inside mills can be used for any purposes designated by school boards of education. The vast majority of school districts use inside mills for current (operating) expenses. Current expense and emergency levies are used for operating expenses. The revenue from permanent improvement levies and bond levies is used for permanent improvements and debt service. Current expense and permanent improvement levies are fixed-rate levies – voters vote for a certain millage rate that is applied to the taxable property value to calculate the tax each year (subject to tax reduction factors, which are discussed below). Emergency and bond levies are fixed-sum levies – voters vote for a certain amount of tax revenue to be collected each year regardless of taxable property value.

Inside mills and voted (outside) mills

The Ohio Constitution prohibits governmental units from levying property taxes that in the aggregate exceed 1% of the true value of the property in their district unless the voters approve them. Ohio statute is more restrictive, limiting unvoted taxes to no more than 1% of taxable value. This is known as the ten-mill limitation and these unvoted ten mills are called inside mills. The ten inside mills are shared by three levels of government: counties, school districts, and cities or townships. School districts determine the purposes of their inside mills. The majority of inside mills (90.0%) are levied for general operating expenses, but inside mills may also be used for permanent improvements, debt service, classroom facilities, and library support. Overall, total inside mills for school districts range from three mills in some districts to nearly seven mills in some others. On average, school districts have approximately 4.7 total inside mills. Operating inside mills range from 0.2 to 6.9 mills, with an average of 4.4 mills, among the 589 districts that levy them (20 districts do not levy inside mills for operating expenses). All levies other than inside mills need to be approved by the voters and are referred to as voted or outside mills. While voted current expense mills are subject to H.B. 920 tax reduction factors, inside mills are not (see below).

H.B. 920 tax reduction factors

H.B. 920 is a tax policy that was enacted in 1976. It limits changes in revenue from property taxes on existing real property (real property that has previously been taxed). The effect of this policy, in general, is to require taxing jurisdictions, including school districts and JVSs, to periodically ask the voters for approval of new levies if they want to collect revenue beyond the H.B. 920 limitations. For example, without the H.B. 920 limitations, a 10% increase in a district's real property value would result in a 10% increase in real property tax revenue from fixed-rate levies without having to approve any new levies. With the H.B. 920 limitations, however, a 10%

increase in real property generally leads to a much smaller increase in real property tax revenue for the district unless voters approve new levies.

H.B. 920 tax reduction factors were put into the Ohio Constitution in 1980 through an amendment that also created the two separate classes of real property. Separate tax reduction factors are applied to each class of real property. However, not all property value and not all tax levies are subject to H.B. 920 tax reduction factors. Tax reduction factors apply only to current expense and permanent improvement levies on existing real property. New construction (real property that did not exist in the prior year) and tangible property are not affected by the tax reduction factors; taxes on these two types of property will grow at the same rate as property values grow. Because emergency levies and bond levies are fixed-sum levies (they are designed to raise the same amount of tax revenue every year), there is no reason to apply tax reduction factors to them. Finally, tax reduction factors do not apply to inside mills. After applying the tax reduction factors, the millage rate actually charged on each class of real property falls below the voted millage rate. This lower millage rate is commonly called the “effective millage rate.” It can be calculated by dividing the actual taxes charged by the taxable property value for each class of real property. In times of falling real property values, effective mills may increase, but they will never go above the voted millage rate.

Inside mills are not subject to voter approval or to H.B. 920 tax reduction factors.

H.B. 920 20-mill floor

While H.B. 920 limits the tax revenue growth on existing real property, it does not allow a school district’s combined real property millage (from current expense levies and inside mills for operating expenses) to fall below 20 effective mills. This provision of H.B. 920 is referred to as the 20-mill floor. Under H.B. 920, if a school district’s combined real property millage falls to 20 effective mills, tax reduction factors no longer apply. Real property taxes based on these 20 mills will grow at the same rate as real property values grow. The 20-mill floor determination includes only inside mills used for operating expenses and current expense levies. It does not include school district income tax levies or emergency levies, although these levies are generally used for operating expenses. Permanent improvement levies and bond levies are also not included in the H.B. 920 20-mill floor determination.

A total of 418 districts (68.6%) were at the H.B. 920 20-mill floor in at least one class of real property in TY 2023. These 418 floor districts tend to be smaller than average and represent 48.7% of statewide average daily membership (ADM).¹ Of the 418 floor districts in TY 2023, 248 (59.3%) were at the floor for class I real property only, 159 (38.0%) districts were at the floor for both class I and class II real property, and the other 11 (2.6%) districts were at the floor for class II only.

¹ For purposes of this analysis, we use “base cost enrolled ADM” for FY 2025. Base cost enrolled ADM is the current school funding formula’s measure of enrollment for purposes of determining each school district’s per-pupil local capacity amount.

Table 2 shows the number and percentage of school districts at the H.B. 920 floor by district type. These types were developed by the Department of Education and Workforce (DEW) based on district demographic characteristics. In general, the percentage of districts on the floor is higher for rural (types 1 and 2) and small town districts (types 3 and 4) than for other types. The 355 rural and small town districts on the floor comprise a large majority (84.9%) of all 418 floor districts in TY 2023.

District Type	Description	Total Districts	Floor Districts	% Districts on Floor
Type 1	Rural – High poverty & small student population	123	105	85.4%
Type 2	Rural – Average poverty & very small student population	106	100	94.3%
Type 3	Small town – Low poverty & small student population	110	89	80.9%
Type 4	Small town – High poverty & average student population	89	61	68.5%
Type 5	Suburban – Low poverty & average student population	77	34	44.2%
Type 6	Suburban – Very low poverty & large student population	46	9	19.6%
Type 7	Urban – High poverty & average student population	47	16	34.0%
Type 8	Urban – Very high poverty & very large student population	8	1	12.5%

Because tax reduction factors do not apply to a district at the 20-mill floor, a district that reaches the floor will begin to receive greater increases in revenue when real property values increase due to reappraisals and updates without having to ask voters to approve additional levies. Most districts, however, do not choose to limit local operating revenue to 20 mills; districts on the floor tend to supplement their current expense millage and inside millage with emergency levies and school district income tax levies, which are not included in the floor calculation. Of the 418 floor districts in TY 2023, 326 districts (78.0%) had either emergency or substitute levies or active school district income taxes. Table 3 shows that 79.5% of districts with emergency or substitute levies and 90.6% of districts with school district income taxes are floor districts. Floor districts tend to have lower operating tax rates even when taking all taxes into account. The average effective operating tax rate (including both property taxes and school district income taxes) for the 418 floor districts was 30.7 mills in TY 2023, compared to an average of 36.9 mills for nonfloor districts and an average of 33.9 mills for all districts.

Table 3. H.B. 920 Floor District Supplemental Levies, TY 2023			
Type of Levy	Total Districts	Floor Districts	% Districts on Floor
Emergency or Substitute Levies	263	209	79.5%
School District Income Tax (FY 2024)	212	192	90.6%

Summary of local tax levies and H.B. 920

Table 4 summarizes the levies and properties subject to H.B. 920 reduction factors as well as which levies are included in the 20-mill floor determination.

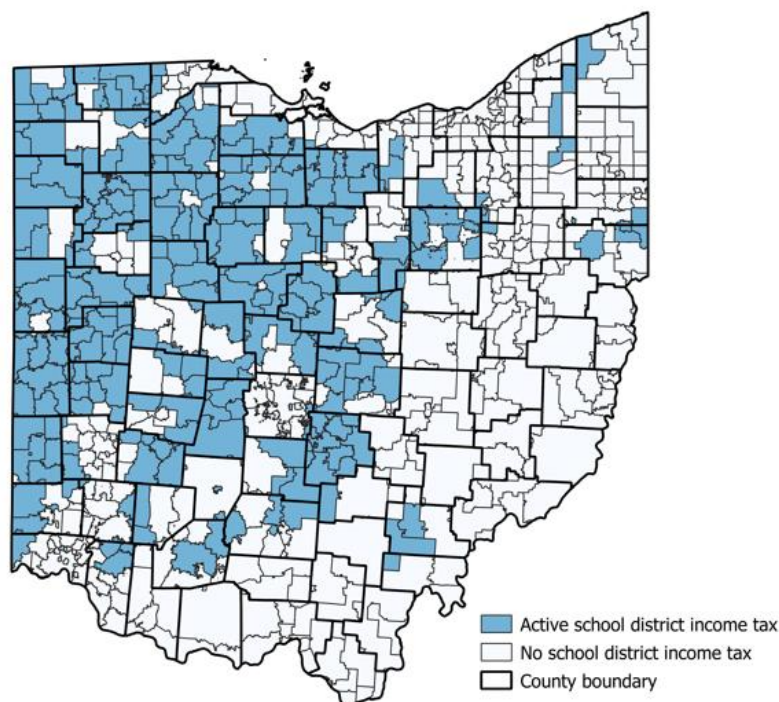
Table 4. Summary of Local Tax Levies and H.B. 920 Tax Reduction Factors			
Type of Levy	Purpose of Levy	Subject to H.B. 920 Tax Reduction Factors	Included in H.B. 920 20-Mill Floor Determination
Inside mills	Designated by school boards – generally operating	No	Yes – if designated as operating
Current Expenses	Operating	Yes	Yes
Emergency	Operating	No	No
Income Tax	Operating	No	No
Permanent Improvement	Permanent improvements or items with at least five years of useful life	Yes	No
Bond	Debt service	No	No

Type of Property	Purpose of Levy	Subject to H.B. 920 Tax Reduction Factors	Included in H.B. 920 20-Mill Floor Determination
Existing Real Property	N/A	Yes	N/A
New Construction – Real Property	N/A	No	N/A
Tangible Personal Property	N/A	No	N/A

School district income tax

The school district income tax is paid by residents of the school district regardless of where they work. Nonresidents working in the district and corporations are not taxed. Districts with an income tax tend to be smaller than average and represent 20.6% of statewide ADM. These districts have an average ADM of approximately 1,420 students compared to an average ADM of approximately 2,915 students for the other districts. In general, school districts with income tax levies tend to have relatively low business property wealth. Farming communities predominate on the list of school districts with income tax levies. In addition, these districts tend to be concentrated in western Ohio, as shown in the map below. Districts with an active income tax in FY 2024 are shaded in blue.

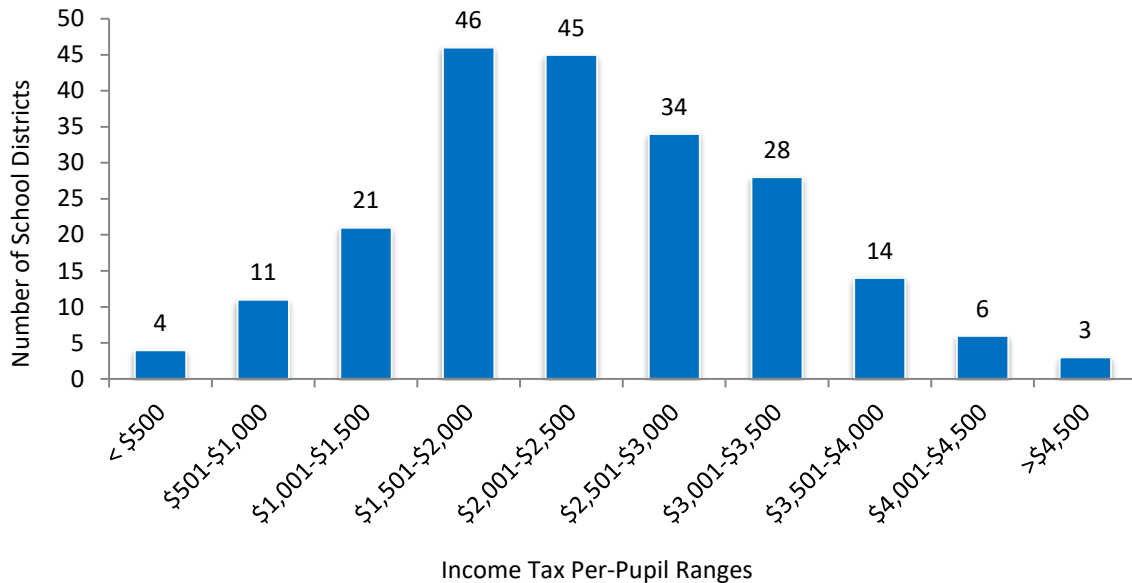
School Districts by Income Tax Status, FY 2024



In FY 2024, the 212 (34.8%) school districts with active income tax levies collected a total of \$679.5 million in revenue from those levies.² As shown in Table 3, 90.6% of these are H.B. 920 20-mill floor districts. Chart 3 shows the distribution of income tax revenues per pupil for the 212 active income tax districts in FY 2024. Per-pupil school district income tax collections for districts whose tax began prior to 2024 ranged from over \$450 to \$7,430 with an average of \$2,262 per pupil.

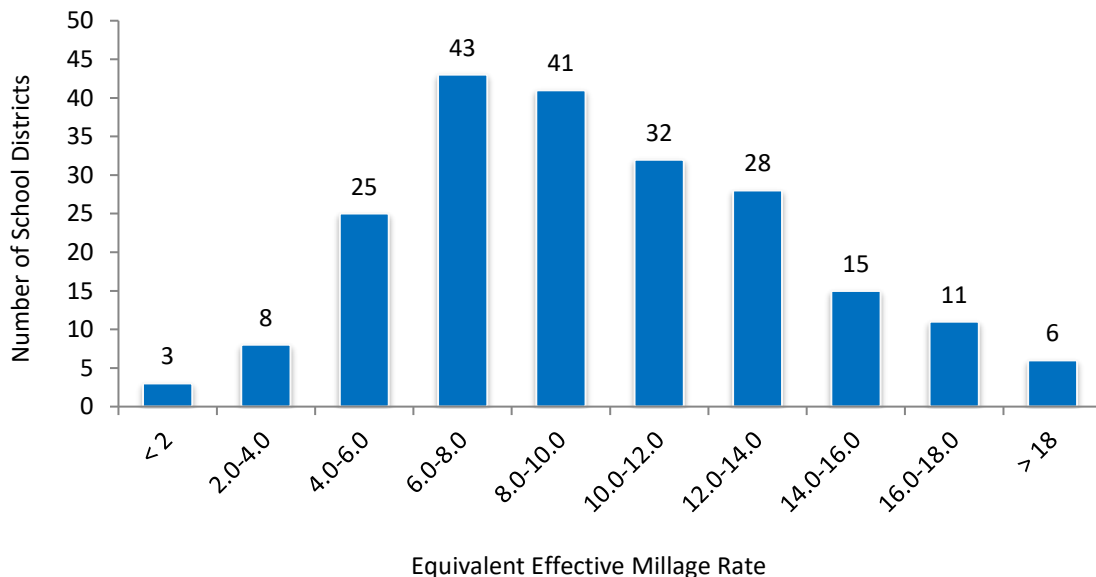
² Eight additional school districts collected a total of about \$1.0 million of income tax in FY 2024 from expired levies. These districts are not considered a district with an active income tax for purposes of this analysis.

Chart 3: Distribution of Income Tax Per Pupil, FY 2024



The equivalent effective millage rate of a district’s income tax can be calculated by dividing income tax revenue into total property value. Chart 4 shows the distribution of income tax equivalent effective millage rates based on TY 2023 values for the 212 income tax districts in FY 2024. The equivalent effective millage rate for most (144 or 67.9%) districts falls between six and 14.0 mills. Effective millage rates range from 1.9 mills to 21.8 mills with an average of 9.0 mills.

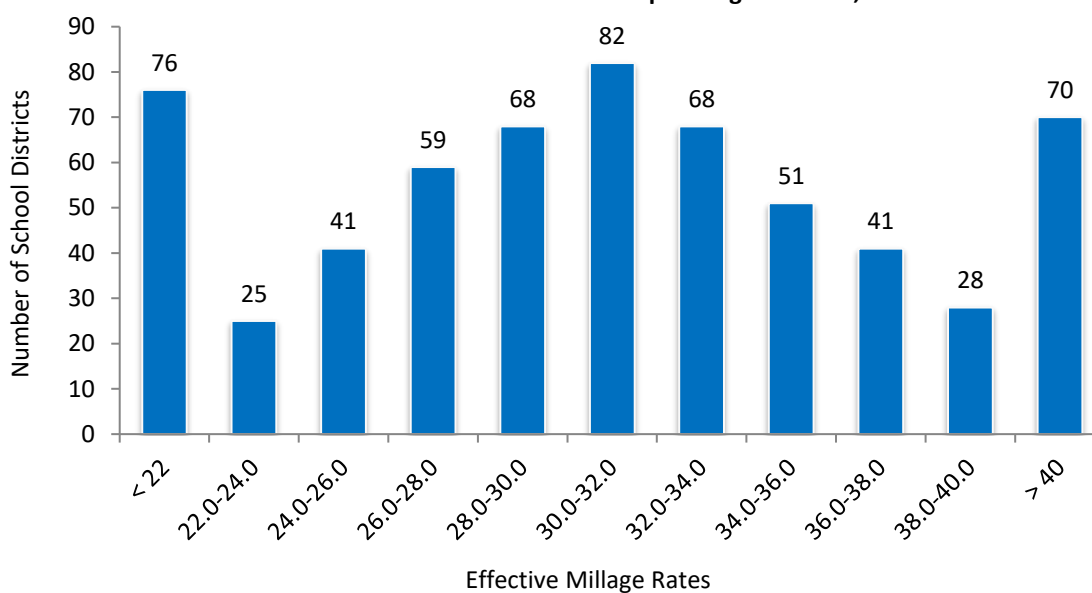
Chart 4: Distribution of School District Income Tax Equivalent Effective Millage Rates, FY 2024



Summary of school district effective operating tax rates

A district’s overall effective operating tax rate represents the combined effective millage from all its operating tax levies, including property and income taxes. In TY 2023, these range from 20 mills or less in the bottom ten districts to about 51 mills or more in the top ten districts. The Shaker Heights City School District (SD) (Cuyahoga County), the Cleveland Heights-University Heights City SD (Cuyahoga County), and the Ottawa Hills Local SD (Lucas County) have the highest overall effective operating tax rates of 88.3 mills, 75.1 mills, and 73.3 mills, respectively. The statewide average is 33.9 mills and the statewide median is 30.8 mills. Chart 5 shows the distribution of overall effective operating tax rates. The equivalent overall effective rates for 410 school districts (67.3%) range from 24.0 mills to 38.0 mills.

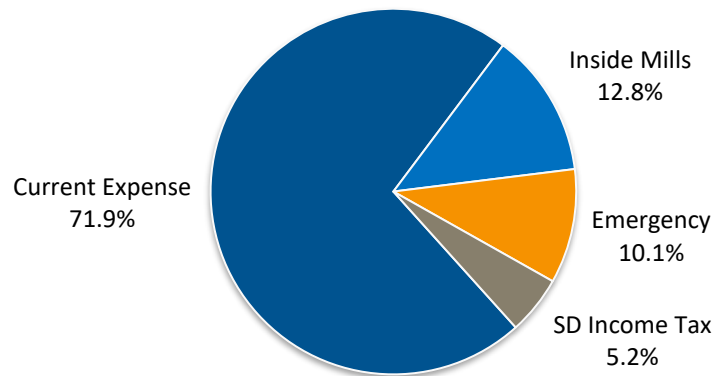
Chart 5: Distribution of Overall Effective Operating Tax Rates, TY 2023



School district operating tax revenue by levy type

School districts collected a total of \$13.16 billion in operating taxes in TY 2023, including the portion paid by the state through property tax rollbacks and the homestead exemption. Chart 6 shows school district operating tax revenues by levy type. Current expense levies were the largest component, with 71.9% of total operating tax revenues. Inside millage generated 12.8%, emergency and substitute levies 10.1%, and school district income tax levies 5.2%.

**Chart 6: Share of School District Operating Tax Revenue by Levy Type,
TY 2023**



Joint vocational school district tax revenue

Like a regular school district, each joint vocational school district (JVSD) has its own taxing authority. In TY 2023, the 49 JVSDs levied a total of \$544.6 million in local operating revenue and an additional \$49.3 million in nonoperating local revenue, for a total of \$594.0 million. Levies need to be approved by taxpayers in all associate districts and the same JVSD millage rate applies to all associate districts within a JVSD. Since a JVSD may include several traditional school districts, its tax base is generally much larger. In TY 2023, average value per pupil for all JVSDs is approximately \$4.8 million.

JVSDs do not have inside mills and they do not levy emergency levies or income tax levies. Therefore, their operating revenues consist of voted current expense levies. As with regular school districts, JVSDs' current expense and permanent improvement levies are subject to H.B. 920 tax reduction factors. The floor on effective current expense millage for JVSDs is two mills, although several JVSDs are below this millage rate because they have not had levies approved by voters for more than this amount.