



# 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) 2020, school districts levied a total of \$12.64 billion in property tax, mostly for operating expenses. In the same year, joint vocational school districts levied an additional \$488.3 million in property tax. Of the total taxes charged, \$1.17 billion was paid by the state through property tax rollbacks and reimbursements for the homestead exemption. School district income taxes totaled \$522.1 million in FY 2021.

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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) 2020, traditional school districts levied a total of \$11.06 billion in property tax for operating purposes. An additional \$1.58 billion was levied for permanent improvements and debt service. In TY 2020, joint vocational school districts (JVSDs)

levied a total of \$439.6 million in property tax for operating purposes and an additional \$48.7 million for permanent improvements and debt service. The state paid \$1.17 billion of locally levied property tax through property tax rollbacks and reimbursements for the homestead exemption. School district income taxes totaled \$522.1 million in FY 2021. Additional details are provided below.

## Property taxes

### Assessed or taxable property value

Property taxes are calculated on the assessed or taxable property 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.

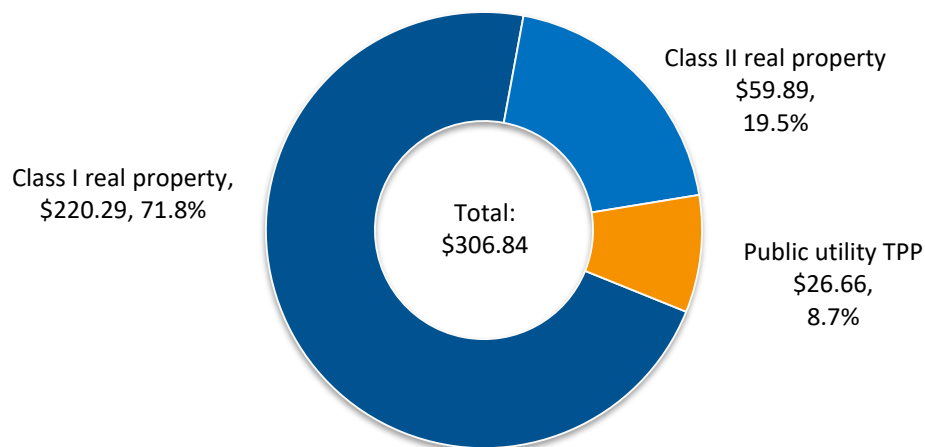
Real property is generally assessed at 35% of true value, which is determined by the county auditor. This means that if the auditor appraises a home's true value as \$100,000, for example, that home's taxable property value would be \$35,000 ( $\$100,000 \times 0.35$ ). Public utility tangible personal 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 2020. It can be seen from the chart that class I real property makes up the bulk of total taxable property value, followed by class II real property, and then public utility tangible personal property.

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About 72% of state taxable property value is residential and agricultural real property.

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Chart 1: Taxable Property Value (\$ in billions), TY 2020



### School district taxable property value composition

Chart 1 gives the taxable property value composition in TY 2020 for the state. However, the composition for each individual district varies widely across the state. Table 1 shows the minimum, median, and maximum ranges for each category.

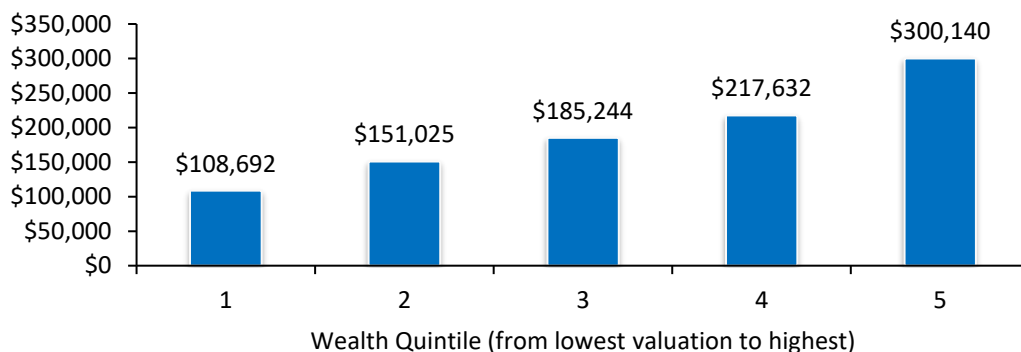
Table 1. Taxable Property Value Composition, TY 2020			
Category	Minimum	Median	Maximum
Class I real property	20.3%	76.7%	96.1%
Class II real property	1.0%	12.9%	70.0%
Public utility TPP	0.6%	6.9%	72.4%

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. It can be seen from the chart that values per pupil average about \$109,000 in the lowest wealth districts and more than \$300,000 in the highest wealth districts. The statewide weighted average is about \$193,000 per pupil and the statewide median is about \$175,000 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 303<sup>rd</sup> district out of 606, excluding three outlier districts). Values per pupil for about two-thirds (404 or 66.7%) of school districts range from \$124,000 to \$256,000.

Chart 2: Estimated Average Taxable Value Per Pupil by Wealth Quintile, FY 2022



The variation in per-pupil value impacts each individual district's ability to raise local revenue. The same one-mill property tax levy generates \$109 per pupil for a district with a value per pupil of \$109,000 and \$300 per pupil for a district with a value per pupil of \$300,000.

### **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 local 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, which are generally used for operating expenses. 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 inside mills. 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. Without the H.B. 920 limitations, a 10% increase or decrease in a district's real property value would result in a 10% increase or decrease in real property tax revenue from fixed-rate levies for the district even without new levies. With the H.B. 920 limitations, however, a 10% increase or decrease in real property generally leads to a much smaller change 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 a constitutional 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. 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. Since 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. As indicated earlier, inside mills are not affected by the tax reduction factors either. So, H.B. 920 tax reduction factors apply only to current expense and permanent improvement levies on existing real property.

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

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After tax reduction factors are applied, 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.

### **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. School district income tax levies are not included in the 20-mill floor determination and neither are 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. The 20-mill floor determination includes only inside mills used for operating expenses and current expense levies.

A total of 267 districts (44%), excluding three outlier districts, were at the H.B. 920 20-mill floor in at least one class of real property in TY 2020. These 267 floor districts tend to be smaller than average and represent only 35.4% of statewide average daily membership (ADM).<sup>1</sup> Of the 267 floor districts in TY 2020, 42 districts were at the floor in both class I and class II real property, 203 districts were in class I only, and the other 22 districts were in class II only.

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 Ohio Department of Education (ODE) based on districts' demographic characteristics. It can be seen from the table that the H.B. 920 floor district percentages for rural districts (types 1 and 2) and small town districts (types 3 and 4) tend to be higher than the others, ranging from 41.6% (type 4) to 63.6% (type 3). In fact, 225 (83.3%) of the floor districts in TY 2020 are rural or small town districts.

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<sup>1</sup> For purposes of this analysis, we use "base cost enrolled ADM" for FY 2022. 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. Number and Percentage of H.B. 920 Floor Districts by District Type, TY 2020**

District Type	Description	Total Districts	Floor Districts	% Districts on Floor
Type 1	Rural – High poverty & small student population	123	65	52.8%
Type 2	Rural – Average poverty & very small student population	106	53	50.0%
Type 3	Small town – Low poverty & small student population	110	70	63.6%
Type 4	Small town – High poverty & average student population	89	37	41.6%
Type 5	Suburban – Low poverty & average student population	77	26	33.8%
Type 6	Suburban – Very low poverty & large student population	46	8	17.4%
Type 7	Urban – High poverty & average student population	47	7	14.9%
Type 8	Urban – Very high poverty & very large student population	8	1	12.5%
Type 0	Outliers – Island districts	3	3	100.0%
<b>Total</b>		<b>609</b>	<b>270</b>	<b>44.3%</b>

Since tax reduction factors do not apply to a district at the 20-mill floor, once a district reaches the floor it begins 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. In fact, of the 267 floor districts in TY 2020, 212 districts (79.4%) had either emergency or substitute levies or school district income taxes. Table 3 shows that 57.0% of districts with emergency or substitute levies and 52.9% 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 267 floor districts was 32.6 mills in TY 2021, compared to an average of 40.7 mills for non-floor districts and an average of 37.8 mills for all districts.

**Table 3. H.B. 920 Floor District Supplemental Levies, TY 2020**

Type of Levy	Total Districts	Floor Districts	% Districts on Floor
Emergency or Substitute Levies	263	150	57.0%
School District Income Tax (FY 2021)	208	110	52.9%

## Summary of local tax levies and H.B. 920

Table 4 summarizes the above discussion on which levies and which properties are 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

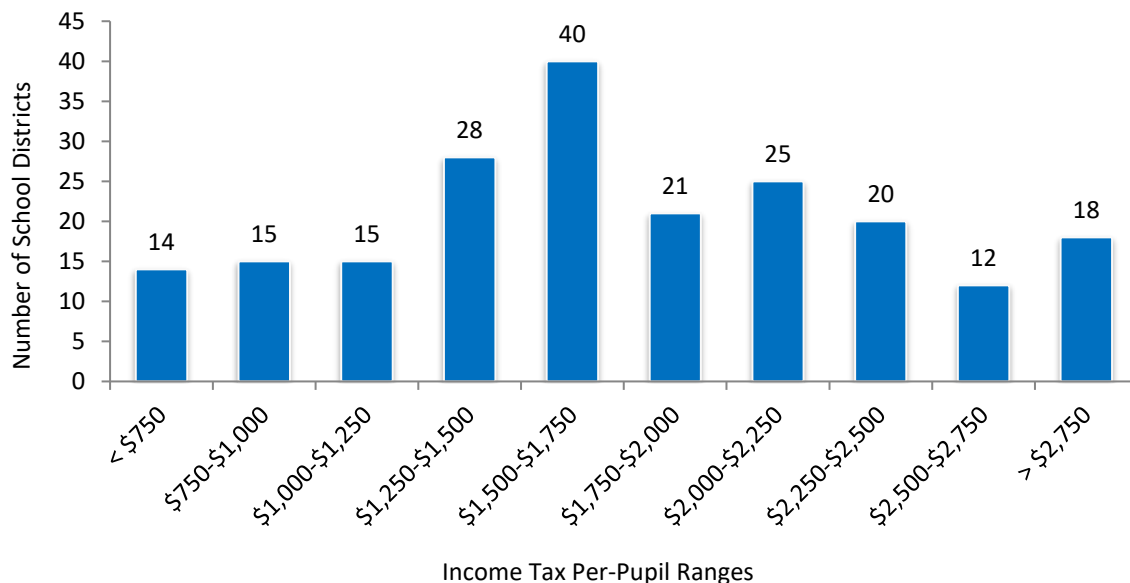
The school district income tax is paid by residents of the school district regardless of where they work. Nonresidents working in the district and corporations are not taxed. A total of \$522.1 million in school district income taxes was collected by 208 (34.3%) school districts in FY 2021, the most recently completed fiscal year.<sup>2</sup> As shown in Table 3, 52.9% of these are

<sup>2</sup> Five school districts collected negligible amounts of income tax in FY 2021 from expired levies and thus are not considered a district with an income tax for purposes of this analysis.

H.B. 920 20-mill floor districts. Districts with an income tax tend to be smaller than average and represent approximately 20.0% of statewide ADM. These districts have an average ADM of approximately 1,450 students compared to an average ADM of approximately 3,000 students for the other 398 districts.

Chart 3 shows the distribution of income tax revenues per pupil for the 208 districts with such revenues in FY 2021. Per-pupil school district income tax collections range from less than \$100 to \$5,400 with an average of about \$1,740 per pupil for these 208 districts. Per-pupil amounts of less than \$100 often indicate the beginning or ending of a tax levy.

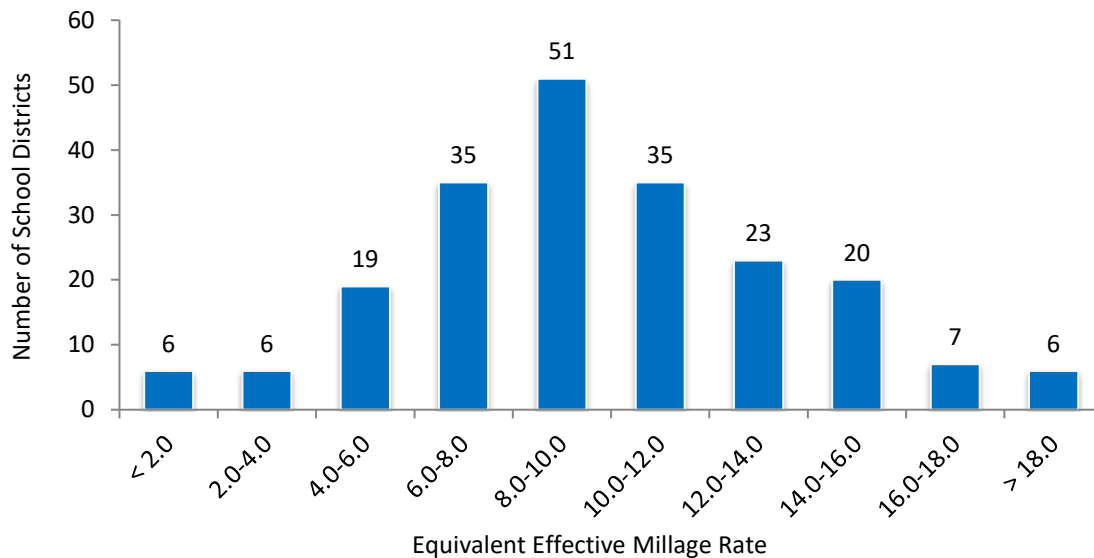
**Chart 3: Distribution of Income Tax Per Pupil, FY 2021**



By dividing income tax revenue into total property value, the equivalent effective millage rate is calculated. Chart 4 shows the distribution of income tax equivalent effective millage rates for the 208 districts with income tax revenues in FY 2021. Effective millage rates range from less than one mill to 23.4 mills with an average of 9.1 mills for these 208 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.



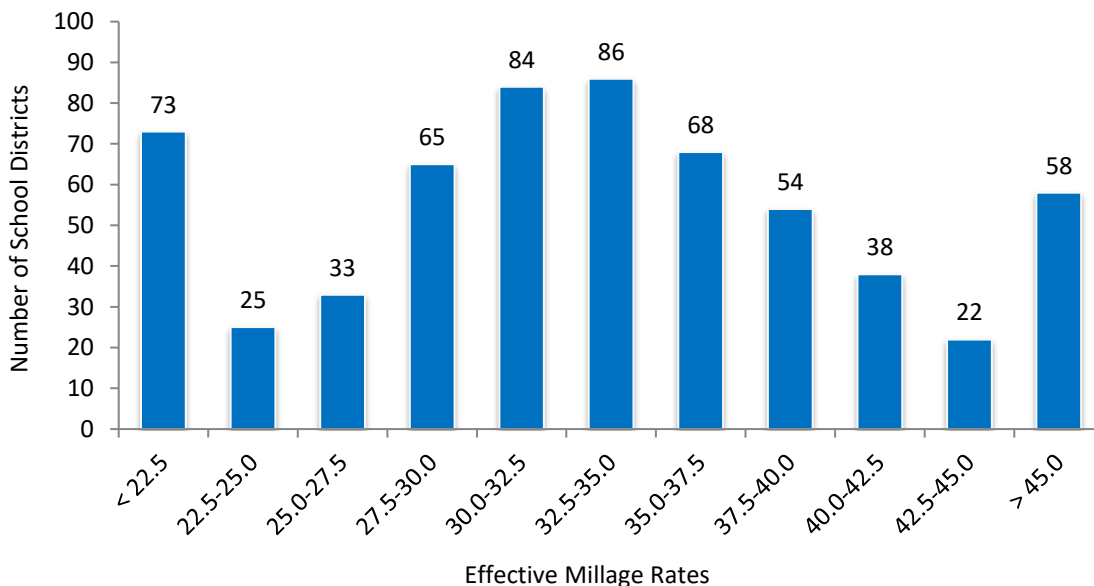
**Chart 4: Distribution of School District Income Tax Equivalent Effective Millage Rates, FY 2021**



### Summary of school district effective operating tax rates

By combining revenues received from all operating tax levies, including the school district income tax, it is possible to calculate overall effective operating tax rates. In TY 2020, these range from 20 mills or less in the bottom ten districts to about 60 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 90.4 mills, 83.0 mills, and 81.4 mills, respectively. The statewide average is 37.8 mills and the statewide median is 33.1 mills. Chart 5 shows the distribution of overall effective operating tax rates. The chart shows that the equivalent overall effective rates for 357 school districts (58.9%) range from 27.5 mills to 40.0 mills.

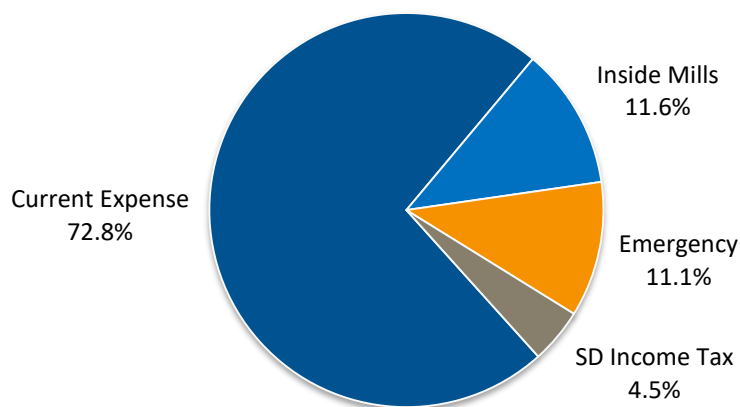
**Chart 5: Distribution of Overall Effective Operating Tax Rates, TY 2020**



## School district operating tax revenue by levy type

School districts collected a total of \$11.58 billion in operating taxes in TY 2020, 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, representing 72.8% of total operating tax revenues, were the largest component. Inside millage generated 11.6%, emergency and substitute levies 11.1%, and school district income tax levies 4.5%.

Chart 6: School District Operating Tax Revenue by Levy Type, TY 2020



## Summary of joint vocational school district tax revenue

There are 49 joint vocational school districts (JVSDs). Like a regular school district, each JVSD has its own taxing authority. In TY 2020, the 49 JVSDs levied a total of \$439.6 million in local operating revenue and an additional \$48.7 million in nonoperating local revenue, for a total of \$488.3 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 2020, average value per pupil for all JVSDs is approximately \$4.5 million.

JVSDs do not have inside mills and they do not levy emergency levies or income tax levies. For operating revenues, therefore, JVSDs are restricted to 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.