OHIO EDUCATION POLICY INSTITUTE
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Ohio Property Tax Trends
1975-2015

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Prepared for the Ohio Education Policy Institute

January 2017

Introduction

Ohio's property tax system has undergone significant change over the past 40 years. The purpose of this report is to analyze the extent to which these changes have impacted the property tax burden paid by different classes of taxpayers since 1975.

I. Summary of Property Tax Changes Since 1975

In 1975 there were 3 types of property subject to taxation:

1. Real property (residential, agricultural, and business land & buildings),
2. Business tangible personal property (inventory, machinery & equipment, furniture & fixtures)
3. Public Utility tangible personal property (primarily the transmission, distribution, and generation property of electricity, natural gas and telephone utilities)

In 1975, the taxable value of real property and business tangible personal property was set at less than 100% of the "true" (or "market") value. The assessment percentage that determined the taxable value of real property was 35% (i.e. a house with a market value of $100,000 would have a taxable value of only $35,000), while the assessment percentage was 45% for business inventory and 50% for all other business tangible property. Public utility property was assessed at 100% of true value with the exception of rural electric company property that was assessed at a 50% rate.

In 1975, the state provided a 10% tax credit (known as the "rollback") on real property taxes. This credit, established in 1971 when the state personal income tax was enacted, meant that the state paid this portion of the tax bill to each local taxing entity, reducing the real property tax bill for residential, agricultural, and business property owners by 10% without costing schools and other local governments any local revenue. An additional 2.5% "homestead exemption" was also provided beginning in 1971 to elderly and permanently disabled homeowners with incomes below a set threshold. In 1979, a 2.5% homestead rollback was added for owner-occupied residential property, meaning that most homeowners have $1/8^{th}$ of their property taxes paid by the state. (Note that the homestead rollback is often confused with the homestead exemption.)

In 1975 all property in a given local taxing district, regardless of type, was subject to the same common tax rate, determined by each locality.

The first major change to Ohio's property tax system came in 1976 with the passage of H.B. 920. Reacting to large inflationary increases in home values, H.B. 920 created a mechanism of "tax reduction factors" that reduced real property tax rates in the aftermath of increases in property values due to property reappraisal. The primary objective of HB 920 was to maintain taxes at roughly constant levels for a taxpayer whose property increased at the average rate of inflation in the school district. In the first few years that HB 920 took effect it soon became clear that residential and agricultural real property increased in value at a different (typically higher) rate than did business and commercial

real property. As a result, a Constitutional Amendment was approved by statewide vote creating two classes of real property (Class 1: Residential & Agriculture real property, and Class 2: Business & Commercial real property) to which separate tax reduction factors were applied. As a result of H.B. 920 and the subsequent constitutional amendment, most localities in Ohio after 1980 now had three different property tax rates:

1. The Class 1 effective tax rate (after the HB 920 reduction factors)
2. The Class 2 effective tax rate (after the HB 920 reduction factors)
3. The voted tax rate applied to business and public utility tangible personal property (to which HB 920 did not apply)

The next set of major changes to Ohio's property tax also began in 1976, with legislation aimed at lowering the assessment percentage on business tangible personal property (TPP). The assessment rate on business TPP was first lowered to 35%, and then to 25% by 1993. Additionally, in 1989 the assessment rate on most public utility TPP was reduced from 100% to 88%. Next in 2001, after the deregulation of electricity and natural gas, Senate Bill 3 reduced the assessment percentage on electricity generation property and all natural gas property from 88% to 25%.

In 2005 the passage of sweeping tax reform measures in H.B. 66 included the complete phase-out of the business tangible personal property tax by tax year 2010 (with a small amount of telephone personal property not phased out until 2011). HB 66 also reduced the assessment percentage on electricity transmission and distribution property from 88% to 85% and the rate on generation property from 25% to 24%. The final aspect of HB 66 relating to the property tax was the elimination of the 10% property tax rollback on Class 2 real property.

II. Analysis of Property Tax Trends from 1975-2011

The above summary of changes to Ohio's property tax, while not exhaustive, still clearly suggests that it is highly unlikely that the proportion of property taxes paid by different types of taxpayers would remain constant over time. Consequently, the objective of this analysis is to examine the extent to which Ohio's property tax burden has changed since 1975. The analysis here begins with property tax data for Tax Year 1975, the year prior to the adoption of HB 920, and continues at 8-year intervals in 1983, 1991, 1999, 2007, and 2015. Tax Year 2015 is the most recent year for which detailed property tax information by class of property is available on the Ohio Department of Taxation website. This analysis also includes TY 2011 because that year reflects the end of the phase-out of the general business tangible personal property tax.

This analysis examines how property values, property tax revenues, and property tax rates have changed over time across each of the 4 main classes of property in place in Ohio over the time period under study here. Once again, the 4 main property classes are:

- Class 1 Real Property (Residential & Agricultural property)
- Class 2 Real Property (Commercial, Industrial, & Mineral Property)

- General Business Tangible Personal Property (Machinery & Equipment, Inventory, Furniture & Fixtures) – this property is no longer taxable after 2010
- Public Utility Tangible Personal Property (Utility Transmission, Distribution, and Generation property)

This study will first chronicle changes in the property tax base from 1975 to 2015, then examine millage rates by property class, and finally focus on property taxes generated by each class of property from 1975 to 2015.

Table 1 shows total property valuation by type of property for each of the 6 selected years. Table 1 shows that Class 1 value is nearly 7.5 times greater in 2015 than in 1975 while Class 2 value has increased by a factor 5. Meanwhile, total Tangible Personal Property (TPP) value in 2015 is roughly 70% what it was in 1975. Overall, total property wealth in Ohio in 2015 is more than 4.5 times what it was in 1975.

Table 1: Property Valuation by Type of Property, Selected Years 1975-2015 ($ in Billions)

Type of Property	1975	1983	1991	1999	2007	2011	2015
Class 1 (Res/Ag) Valuation	$24.871	$50.171	$71.835	$118.605	$184.061	$179.400	$183.601
Class 2 (Comm. & Industrial) Valuation	$9.892	$17.357	$28.097	$37.979	$51.632	$51.978	$50.856
General Business TPP Valuation	$12.535	$16.967	$19.647	$23.650	$12.461	$0.000	$0.000
Public Utility TPP Valuation	$6.804	$9.483	$13.813	$13.730	$8.232	$10.174	$13.881
Total Valuation	**$54.103**	**$93.979**	**$133.391**	**$193.964**	**$256.387**	**$241.552**	**$248.339**

Considering the effects of both inflation and population growth, it is not surprising that total property valuation in Ohio has increased markedly since the mid-1970s. Table 2, however, provides a different perspective, showing the composition of property wealth in percentage terms for each class of property from 1975 to 2015. The data in Table 2 show that Class 1 (Residential & Agricultural) real property comprised 46.0% of total property valuation in 1975 and comprises 73.9% of total value in 2015. Total tangible personal property (business + public utility) represented 35.7% of the tax base in 19975, but is only 5.6% of the tax base in 2015. While business Class 2 (Commercial & Industrial) real property has stayed at a relatively stable percentage over time (18.3% vs. 20.5%), ***the overall (real + personal property) business share of the Ohio property tax base has fallen by more than half from 54.0% in 1975 to 26.1% in 2015.***

Table 2: Percent of Total Property Value by Type of Property, 1975-2015

Type of Property	1975	1983	1991	1999	2007	2011	2015
Class 1 (Res/Ag) Real % of Total Valuation	**46.0%**	53.4%	53.9%	61.1%	71.8%	74.3%	**73.9%**
Class 2 (Comm./Ind.) % of Total Valuation	18.3%	18.5%	21.1%	19.6%	20.1%	21.5%	20.5%
Total TPP % of Total Valuation	35.7%	28.1%	25.1%	19.3%	8.1%	4.2%	5.6%
Business TPP % of Total Valuation	23.2%	18.1%	14.7%	12.2%	4.9%	0.0%	0.0%
Public Utility TPP % of Total Valuation	12.6%	10.1%	10.4%	7.1%	3.2%	4.2%	5.6%
Total Business Property % of Valuation	**54.0%**	46.6%	46.1%	38.9%	28.2%	25.7%	**26.1%**

Table 3 provides information about average tax rates for each of the 4 main classes of property in Ohio from 1975 to 2015. Prior to the enactment of HB 920 in 1976, all property was subject to the same rate of taxation. As described above, after the adoption of HB 920, tax reduction factors were applied to real property after inflationary increases due to reappraisal or update. In 1980, a Constitutional amendment was approved by Ohio voters that separated real property into the two Classes discussed above (this was done because business and residential real property often appreciate at different rates). The result is that the typical Ohio school district now has three different rates of property taxation: the full voted rate for tangible personal property, Class 1, and Class 2 effective tax rates based on the HB 920 reduction factors for each class of real property.

Table 3: Average School Millage Rates by Type of Property, 1975-2015

Type of Property	1975	1983	1991	1999	2007	2011	2015
Class 1 Effective Tax Rate	28.55	24.68	28.66	29.16	29.81	34.11	36.00
Class 2 Effective Tax Rate	28.55	28.13	31.67	35.19	36.41	40.95	44.68
TPP (Voted) Tax Rate	28.55	34.20	41.95	48.24	51.77	49.39	50.61
Overall Average Effective Tax Rate	28.55	28.00	32.74	34.02	32.91	36.23	38.60

Table 3 shows that the average effective Class 1 (Res/Ag) school district millage rate has increased from 28.55 mills in 1975 to 36.00 mills in 2015. Meanwhile, the average effective Class 2 (business real property) school millage rate has increased from 28.55 mills to 44.68 mills over the same time period. The larger increase in Class 2 effective tax

rates is because the HB 920 reduction factors have been larger for Class 1 property (larger inflationary increase in values trigger bigger reductions in millage rates in order to maintain tax revenues at roughly constant levels). This means that business and commercial real property has appreciated at a slower rate than has residential and agricultural real property from 1975 through 2015.

Table 3 also shows that the school TPP tax rate has gone from 28.55 mills in 1975 to 50.61 mills in 2015. Because there are no tax reduction factors applied to personal property, this means that the average voted tax rate in Ohio school districts has not quite doubled over the 40 years studied here. Of course, much of the need for the increase in voted millage derives from the application of the HB 920 reduction factors in the aftermath of reappraisal. In fact there have been 11,505 operating levies placed on the ballot by Ohio's 600+ school districts from 1976 through 2015. 5,868 (51.0%) of these levies passed. The final row of Table 3 shows the change in the overall average effective rate of taxation across all 4 types of property from 1975 to 2015. This rate, which reflects the average effective millage level across the state, has increased from 28.55 mills to 38.60 mills.

Finally, Table 4 shows the percentage of school district property taxes attributable to each of the 4 classes of property from 1975 to 2015. In essence, Table 4 shows the same pattern for how the composition of property taxes paid by each class of property has changed over time as Table 2 did for property valuation. Residential & Agricultural (Class 1) real property is responsible for 69.0% of property tax revenues in 2015, up from contributing 46.1% of property tax revenues in 1975. Meanwhile, Business real and personal property taxes comprised 53.9% of school district property tax revenues in 1975, but provide only 31.0% of property tax revenues in 2015.

Table 4: Percent of Total School Property Taxes by Type of Property, 1975-2015

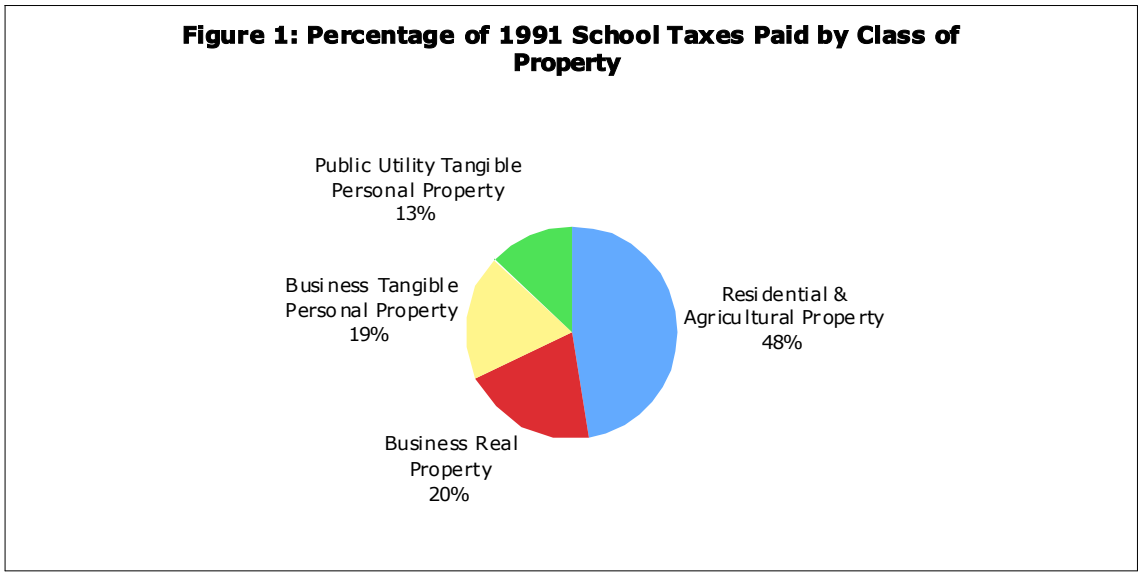
Type of Property	**1975**	**1983**	**1991**	**1999**	**2007**	**2011**	**2015**
Class 1 Real % Taxes	**46.1%**	47.1%	47.5%	52.4%	65.0%	69.9%	**69.0%**
Class 2 Real % Taxes	18.8%	18.6%	20.4%	20.3%	22.3%	24.3%	23.7%
Total TPP % Taxes	35.1%	34.4%	32.1%	27.3%	12.7%	5.7%	7.3%
Business TPP % Taxes	23.2%	22.3%	19.2%	17.7%	8.0%	0.0%	0.0%
PU TPP % Taxes	11.9%	12.0%	13.0%	9.6%	4.7%	5.7%	7.3%
Total Business Property % Taxes	**53.9%**	52.9%	52.5%	47.6%	35.0%	30.1%	**31.0%**

Note that the presence of the 10% rollback suggests that an alternate way to organize Table 4 would include an additional category for "State Payments of Local Property Tax." However, school rollback payment amounts are not available for the entire time period under study here. Furthermore, given the elimination of the rollback on new and replacement levies in HB 59 (the FY14-15 biennial budget), the figures in Table 4 provide an accurate reflection of the distribution of the tax burden under current law.

One interesting aspect of Table 4 is that there is relatively little difference from 1975 to 1991 in the percentage that each of the 4 classes of property comprises of total school district property taxes. Residential and agricultural property contributed 46.1% of total school taxes in 1975 and 47.5% in 1991, while Class 2 business real property increased slightly from 18.8% of taxes paid in 1975 to 20.4% in 1991. Business TPP taxes showed the largest change over this 16 year time frame, decreasing by 4 percentage points from 23.2% in 1975 to 19.2% in 1991. This is almost certainly due to the gradual decrease in the assessment percentage on business tangible personal property over this time period.

Consequently, it makes some sense to examine more closely the changes in the composition of school property taxes from 1991 through 2015. This period corresponds both to the biggest changes in tax policy affecting the property tax base and to the filing of the *DeRolph* school funding lawsuit in 1991. Figures 1 and 2 below provide a graphic depiction of the percentage of school property taxes derived from each class of property in 1991 and 2015, respectively.

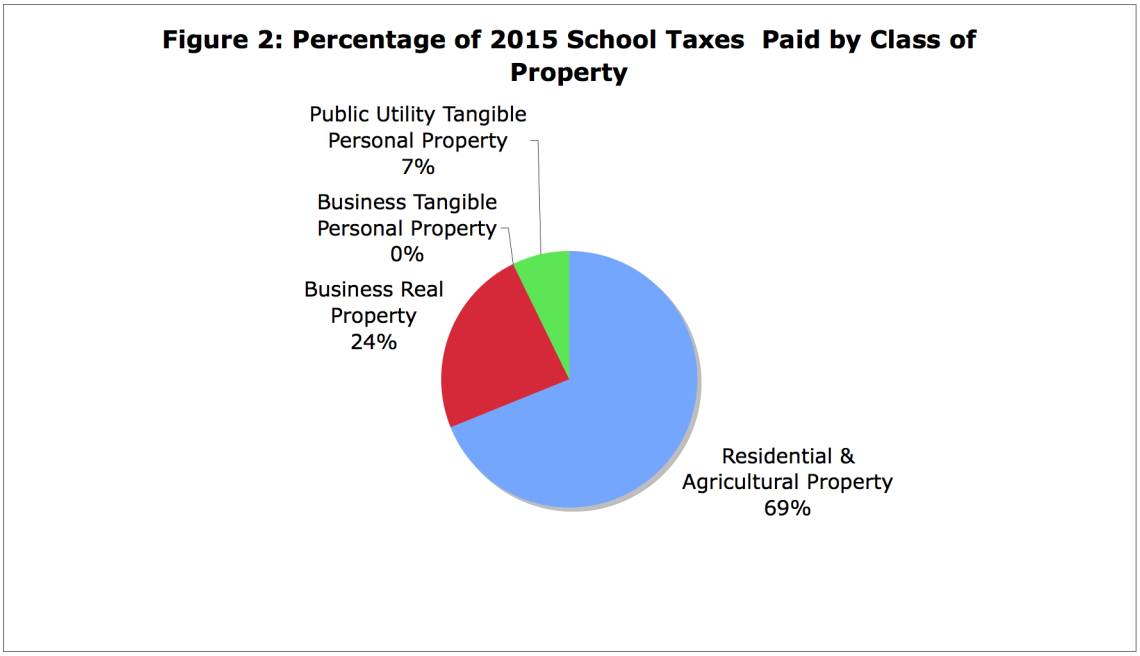
Figure 1: Percentage of 1991 School Taxes Paid by Class of Property



Figures 1 and 2 clearly show that the share of school property tax revenues attributable to Residential & Agricultural property has increased from 48% in 1991 to 69% in 2015. At the same time, the share of school property taxes attributable to Business and Public Utility Tangible Personal Property has declined from 32% in 1991 to just 7% in 2015.

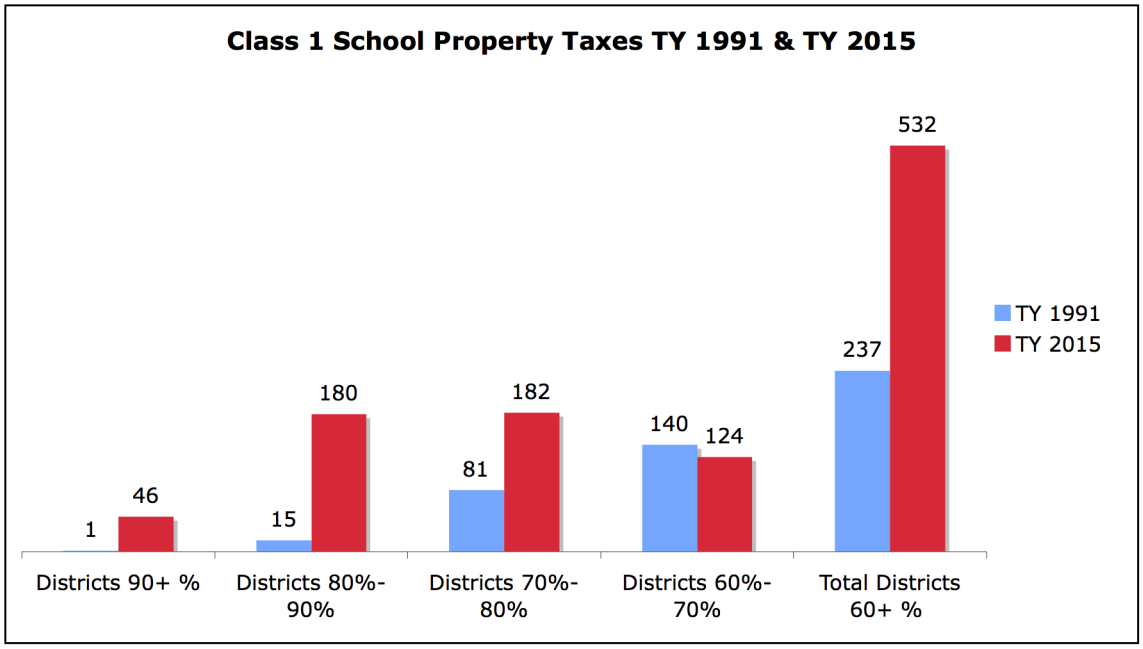
While HB 66 held schools (and other local governments) harmless on the loss of the Business TPP tax revenues through 2011 and SB 3 prescribed a 15 year hold harmless period on Public Utility TPP revenue loss, a phase-out of these TPP replacement payments was begun in Fiscal Year 2012. In FY11 Ohio school districts received $1,129.1 million (over $1.1 billion) in total TPP replacement funds from the state. However, in FY13 the total amount of TPP replacement payments had been reduced to $510 million. TPP replacement was frozen at the $510 million level in FY14 and FY15; however, additional reductions made in the FY16-17 biennial budget have resulted in TPP replacement payments to schools being reduced to $180.5 million in FY17.

Figure 2: Percentage of 2015 School Taxes Paid by Class of Property



A final lens through which the evolution of Ohio's property tax base over the past 20 years can be viewed is by comparing the number of school districts whose percentage of school property taxes contributed by Residential & Agricultural property is above a given percentage in 1991 and then in 2015. Figure 3 below shows that in 1991 there was only 1 (out of 612) school district that received more than 90% of its property tax revenues from Class 1 Residential & Agricultural property. In 2011, 41 districts relied on Class 1 property for over 90% of its property taxes. Similarly, in 1991, only 15 districts relied on Class 1 property for 80-90% of its property taxes, whereas, 201 districts did so in 2011.

Figure 3: Number of Districts Relying Primarily on School Taxes Derived from Residential & Agricultural Property, 1991 and 2015



III. Conclusions

The data presented here clearly shows that Ohio's property tax burden has shifted dramatically away from business and commercial taxpayers and towards residential and agricultural taxpayers since 1975. Furthermore, the bulk of this change has occurred since 1991 as a series of state tax policy changes serving to reduce the tangible personal property tax burden on businesses and public utilities took effect. While the rationale for the changes to the TPP tax are sound from a state perspective, the impact on schools, other local governments, and other taxpayers is undeniable. Below are the main conclusions from this analysis.

1. In Tax Year 1991, Total TPP taxes were 32.1% of school district property taxes. In Tax Year 2015, TPP taxes comprised only 7.3% of total school district taxes paid.

2. In TY 1991, Class 1 real property taxes (residential & agricultural property taxes) were 47.5% of school property taxes. In TY 2015, Class 1 taxes comprised 69.0% of school taxes paid. Thus, Ohio schools have become much more dependent on Residential & Agricultural taxpayers to provide the local share of school funding since 1991.

3. 87% of school districts rely on Class 1 taxes for more than 60% of their local revenue in 2015. In 1991, only 39% of districts had a Class 1 tax share in excess of 60%.

4. None of the above figures include over $400 million in school district income taxes (SDIT) collected in the nearly 200 school districts that utilize an SDIT. Inclusion of these revenues would only increase the percentage of local school taxes derived from

homeowners.

5. Because HB 920 works to lower effective millage rates on real property in response to reappraisal increases in property value, the shift towards greater reliance on Class 1 property taxes is NOT due to inflationary increases in the Class 1 property tax base.

6. Increased Class 1 millage rates are also not responsible for the shift in tax burden towards residential and agricultural taxpayers, as Class 2 and TPP (voted) millage rates have both increased more than Class 1 rates over time.

7. Rather, the primary reason for the shift is state tax policy changes that have entirely eliminated the business TPP tax and significantly reduced the assessment rate on Public Utility TPP.

8. While it is true that school districts and other local governments were initially held harmless for the impact of the HB 66 Business TPP and SB 3 Public Utility TPP tax reduction, these replacement payments were phased down in FY12 and FY13, and again in FY16 and FY17. They are now 16% of what they were in FY11. The loss of these replacement payments makes the shift in the composition of the remaining tax base even more challenging for schools and taxpayers.

9. This analysis does not explicitly take into account the replacement payments for the 10% rollback on residential and agricultural property and the 2.5% homestead rollback on owner occupied homes. Inclusion of this would slightly reduce the percentage of taxes actually paid by Class 1 property owners (because the state pays the rollback amount directly to schools and other local governments). However, this adjustment would not change the primary findings of this report in any meaningful way. Furthermore, because HB 59 (the FY14-15 budget bill) eliminated the rollback on new and replacement property tax levies enacted in November 2013 and beyond, the data shown for 2015 accurately reflects the distribution of taxes for school levies approved by voters under current law.