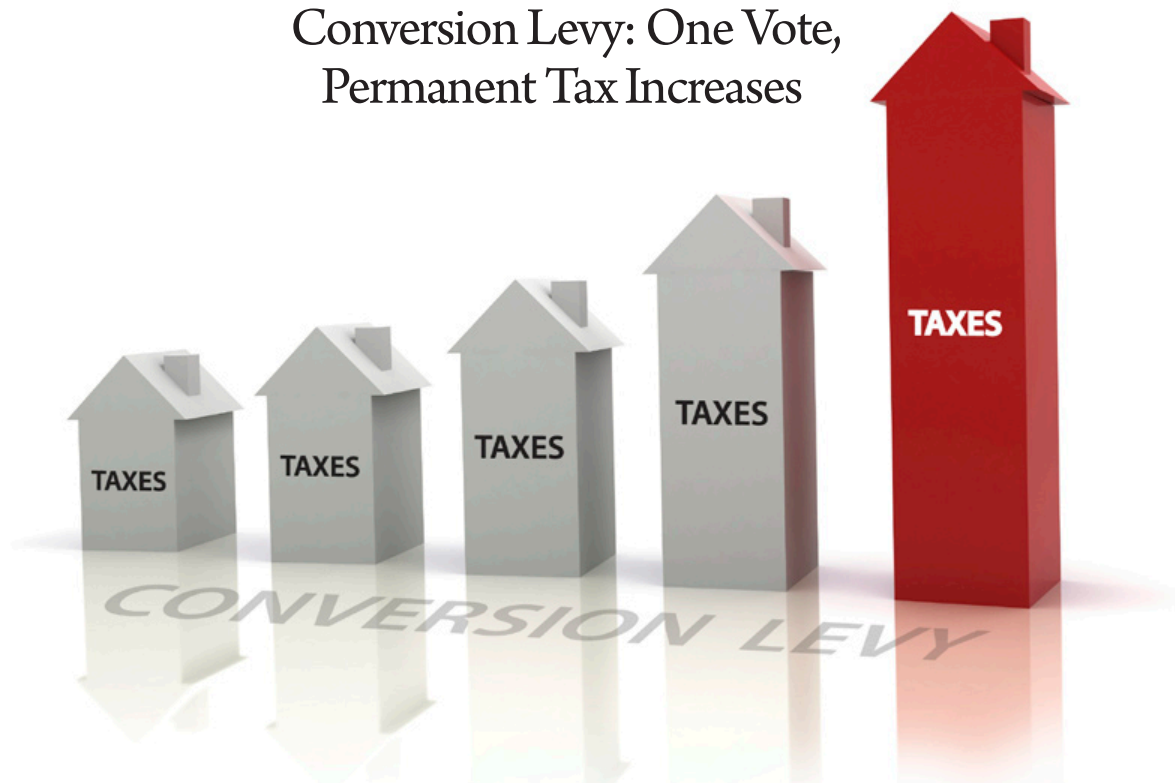


THE BUCKEYE INSTITUTE FOR PUBLIC POLICY SOLUTIONS

The Need for Levy Reform in Ohio

Conversion Levy: One Vote,
Permanent Tax Increases



By **JOE TESTA**

May 2010

FOREWARD by **MATT MAYER**



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FOREWARD¹ by MATT MAYER

Why This Report Matters to You

Ohio's property tax system is already confusing and convoluted. With the different types of levies used by government entities to secure funding and the unique language used in the levy system, the last "reform" voters need is another type of levy that sounds reasonable, but could result in three bad outcomes. The conversion levy option should be repealed.

First, the conversion levy is not revenue neutral. If your school district tries to pass a conversion levy, one of its "selling" points will be that it is revenue neutral because all it allegedly does is combine several existing levies into one "conversion" levy. As a result, the school district will claim that it will not result in a tax increase, but simply extends the existing tax. This claim is grossly misleading.

Because the conversion levy structurally eliminates the protection homeowners currently have from a piece of legislation passed in the 1970s that keeps tax increases low when home values increase, in the years following passage of a conversion levy, homeowners will be hit with significant tax increases each time their home is assessed at a higher value.

Next, school districts can seek to make the conver-

sion levy a permanent levy, which means that voters would never get a chance to slow or stop the large tax increases that will come as home values increase. As the data in this report highlights, had Columbus City Schools passed a conversion levy in 1998, the tax increases over the next ten years would have generated almost \$170 million more revenue for that school district—without homeowners having any ability to stop the tax hikes.

Finally, with a permanent conversion levy in place that generates more tax revenue from higher taxes, homeowners and parents will lose one of the best tools driving accountability in the school district: namely, the need for school districts to come back periodically to ask for more money through levies. Each time a school district has to ask its homeowners for more money, those voters get a chance to hold that school district accountable for the spending decisions that have been made. With voters routinely rejecting levies, such a tool is critical, especially as budgets grow disconnected from the health of the economy or the educational outcomes achieved.

¹ The views expressed in this Foreword are solely the views of the Buckeye Institute for Public Policy Solutions and should not be imputed explicitly or implicitly to Joe Testa.

Executive Summary

One of the most confusing taxes Ohioans pay is the property tax. The confusion comes from the odd language used (millage, levy, inside/outside), the number of jurisdictions homeowners are subject to (city, county, township, school district), the way the actual tax is calculated (percentage of value, reduction factors, effective rates), and the types of levies (renewal, replacement, incremental). We have tried to minimize this confusion in this paper, but something that takes over twenty pages to explain—no matter how hard we try—will retain some level of complexity.

To complicate matters even more, as part of the 2009 Ohio Budget, a new type of levy was added to the list: the conversion levy. This new conversion levy would in essence “convert” existing school district operating levies to a 20-mill floor. School districts across Ohio can try to pass conversion levies over the next five years.

There are three key reasons why this conversion levy is bad for Ohioans.

First, under existing law, when home values increase, a law protects homeowners from being hit with large tax increases after county assessors raise the appraisal value of their properties. For example, if a county assessor appraises your home and finds it is worth 10 percent more than the last appraisal, resulting in a projected tax increase, you would only be subject to a tax increase on roughly 15 percent of that increase. This current system keeps Ohio’s property taxes relatively low. Given our weak job market and status as the state with the seventh highest state and

local tax burden, keeping property taxes low is one of few advantages Ohio has on other states.

Conversely, the current system also protects government entities from losing tax revenue when property values decline. This system injects a level of predictability into our property taxes. The conversion levy would dramatically alter this stable system. Specifically, the conversion levy would maintain the protection for government entities in a declining market so those entities did not lose any tax revenue, but the conversion levy would eliminate the protection in an increasing market for homeowners so that you would be hit with the entire tax increase.

Next, the conversion levy could be passed as a permanent levy, which means that it would be a tax on your property indefinitely. So,

as the county assessor appraises your property every three years, your property taxes could increase significantly each three-year assessment period. Although property values in Ohio have declined over the last few years, the norm over the last few decades has been yearly home value increases. As an example of the power of the conversion levy, had Columbus City Schools passed a conversion levy in 1998, the amount of increased taxes homeowners would have been subject to from 1998-2008 compared to what they paid under the existing 1998 levies would have been \$169,959,910.

This stunning increase leads to the final problem with the conversion levy: it decreases the accountability parents have with their schools. Specifically,

The conversion levy could be passed as a permanent levy, which means that it would be a tax on your property indefinitely.

because school districts have failed to restrain operating costs, they must come back to the voters for more tax revenue every so often or incur deficits. Because a permanent conversion levy would give school districts a constantly increasing amount of revenue, school districts would not have to restrain costs and there would be little homeowners could do to ensure that school districts were spending their money efficiently and effectively. The right to periodically vote on levy increases is the most powerful tool parents have to hold school districts accountable.

Continuing with the example above, because Columbus City Schools did not restrain operating costs, it had to ask the voters for an additional operating

levy in 2004. As two points of reference, from 1998 to 2009, Columbus City Schools possessed 18 percent fewer students. At the same time, the cost per pupil jumped by 90 percent from \$7,181 to \$13,673, while inflation only increased by 29 percent. Secondly, the average teacher salary jumped from just over \$50,000 in 2002 to \$64,000 in 2008—a 28 percent increase, as inflation only increased by 14 percent. Voters approved the 2004 levy, but as enrollment shrinks, per pupil spending continues to increase, and the average teacher pay outpaces inflation, future levies may be viewed with a more skeptical eye. Voters must retain that check on their school districts.

Why the Conversion Levy?

School districts across Ohio are in constant need of more money. Why? Because regardless of the economic realities of homeowners, administrators, teachers, and staff are routinely given yearly salary increases to go along with the yearly step increases built in to collective bargaining agreements. To see this trend, visit the Teacher Salary database on the Buckeye Institute website (www.buckeyeinstitute.org) and search by your school building or district.

The vast majority of operational expenses for school districts go toward the salary and benefits of staff. Specifically, according to the Ohio Department of Education, salaries and benefits on average comprised 78.59 percent of total operating expenditures for school districts in Ohio in 2009.² In most cases, the sole local sources of operating revenue for school districts are operating levies.

To obtain more operating revenue, school districts must periodically ask homeowners to pass operating levies that increase their property taxes. One of the few powers possessed by homeowners to maintain accountability over their school districts is the power to vote on operational levies. School districts must, therefore, explain to homeowners why they need more money and defend their fiscal management of the school district. In many cases, homeowners find the school districts' explanations lacking and reject operating levies. In fact, in the November 2008 election, voters approved only 40 percent of the 238

operating levies on the ballot in Ohio.³ From 2003 to 2010, the statewide passage rate of school levies ranged from a low of 40 percent to a high of 68 percent, including a 56 percent passage rate in May 2010.⁴

As discussed in detail in the following paper by former Franklin County Auditor Joe Testa, the conversion levy option added in the 2009 state budget allows school districts to place an operating levy on the ballot that would eliminate the protections of House Bill 920 that keeps property taxes from increasing significantly from year-to-year and, if made permanent, would result in large property tax increases when home values increase without affording homeowners a chance to vote on those increases. Because the conversion levy would not result in an increase in property taxes in the first year once passed, school districts can argue for passage of the conversion levy as revenue neutral. Once passed, due to the constant increase in property tax revenue, school districts would be able to spend money freely.

Most critically, with a permanent conversion levy, voters will lose their ability to keep school districts in check, as tax revenues will grow allowing school districts to spend without worrying about voters reining in that spending. With the large jump in per pupil spending and teacher pay over the last decade that has not resulted in concomitant educational outcomes, especially in the urban and suburban school districts

2 Ohio Department of Education, FY2009 District Profiles Report, February 17, 2010, at <http://education.ohio.gov/GD/Templates/Pages/ODE/ODEDetail.aspx?page=3&TopicRelationID=1441&ContentID=81682&Content=82450> (April 14, 2010).

3 Jim Siegel, "Levies fewer but longer under school-funding plan," *The Columbus Dispatch*, January 30, 2009, at http://www.dispatch.com/live/content/local_news/stories/2009/01/30/levies.html?sid=101 (April 14, 2010).

4 Ohio Secretary of State, Election Results, at <http://www.sos.state.oh.us/elections/electResultsMain.aspx> (March 14, 2010); Catherine Candisky and Charlie Boss, "Win rate for school levies drops, but bigger bucks," *The Columbus Dispatch*, May 6, 2010, at http://www.dispatchpolitics.com/live/content/local_news/stories/2010/05/06/copy/win-rate-for-school-levies-drops-but-bucks-bigger.html?adsec=politics&sid=101 (May 6, 2010).

in Ohio, homeowners are becoming more concerned with decisions being made by school districts as evidenced by the low passage rate for school levies in Ohio. The most powerful voice those homeowners have is to reject operational levies where the school districts have failed to justify the need for increased tax revenue. That voice must be preserved.

As Charts 1 and 2 show,⁵ had a conversion levy replaced the existing levies in 1998 in the seven Central Ohio school districts highlighted in this report, the property tax collected would have increased substantially for homeowners in those districts. These increases would not have occurred in a vacuum; rather, as Chart 3 shows,⁶ the increases would have occurred as most of these school districts were teaching fewer children at a rapidly expanding cost per pupil and as educational outcomes remained flat or worsened. This outcome results in homeowners paying a lot more and getting a lot less.

Columbus. For Columbus City Schools, with the existing levies in place in 1998, the baseline property tax charge from 1998 to 2008 totaled \$992,935,481. When new construction and inside millage is added in after 1998, the existing levies generated \$1,147,995,370 in property tax revenue. The tax revenue jump from the baseline represents a 15.62 percent increase. If the existing levies had been replaced in 1998 with a conversion levy, the estimated tax revenue generated from the same property base would have skyrocketed by \$169,959,910 to \$1,317,955,280 from 1998 to 2008, or a 32.73 percent increase on homeowners in the Columbus City Schools taxing district.

In this same period of time, the number of students in Columbus City Schools decreased by 18 percent from 63,577 students in 1998 to 51,963 students in 2009. The per pupil cost jumped by 90 percent from \$7,181 in 1998 to \$13,673 in 2009. If these figures continue to worsen, the voters should have the ability to hold the school district accountable by

rejecting future levies until cost constraints and/or outcomes improve.

Gahanna. For Gahanna-Jefferson Schools, with the existing levies in place in 1998, the baseline property tax charge from 1998 to 2008 totaled \$202,668,921. When new construction and inside millage is added in after 1998, the existing levies generated \$250,765,461 in property tax revenue. The tax revenue jump from the baseline represents a 23.73 percent increase. If the existing levies had been replaced in 1998 with a conversion levy, the estimated tax revenue generated from the same property base would have risen by \$19,817,129 to \$270,582,590 from 1998 to 2008, or a 33.51 percent increase on homeowners in the taxing district.

In this same period of time, the number of students in Gahanna-Jefferson Schools increased by 6 percent from 6,595 students in 1998 to 6,961 students in 2009. The per pupil cost jumped by 80 percent from \$6,595 in 1998 to \$11,289 in 2009.

Grandview. For Grandview Heights Schools, with the existing levies in place in 1998, the baseline property tax charge from 1998 to 2008 totaled \$39,576,436. When new construction and inside millage is added in after 1998, the existing levies generated \$43,428,720 in property tax revenue. The tax revenue hike from the baseline represents a 9.73 percent increase. If the existing levies had been replaced in 1998 with a conversion levy, the estimated tax revenue generated from the same property base would have jumped by \$7,848,077 to \$51,276,797 from 1998 to 2008, or a 29.56 percent increase on homeowners in the taxing district.

In this same period of time, the number of students in Grandview Heights Schools decreased by 11 percent from 1,265 students in 1998 to 1,123 students in 2009. The per pupil cost jumped by 66 percent from \$8,527 in 1998 to \$14,130 in 2009.

Groveport. For Groveport Schools, with the existing levies in place in 1998, the baseline property

5 Franklin County Auditor, Levy Calculations and Historical Franklin County Data (on file with author).

6 Ohio Department of Education, Enrollment Data, at <http://www.ode.state.oh.us/GD/Templates/Pages/ODE/ODEDetail.aspx?page=3&TopicRelationID=390&ContentID=12261&Content=78598> (April 15, 2010).

Chart 1		District Tax Revenue Totals			
10-Year Cumulative Amounts, Conversion Levy Process vs. Standard Growth*					
	<i>District Tax Conversion Levy</i>	<i>District Tax Revenue Totals Standard Growth*</i>	<i>Cumulative Ten-Year Variance</i>	<i>Ten-Year Total Increase</i>	
Columbus	\$1,317,955,280	\$1,147,995,370	\$169,959,910	14.80%	
Gahanna	270,582,590	250,765,461	19,817,129	7.90%	
Grandview	51,276,797	43,428,720	7,848,077	18.07%	
Groveport	142,064,011	130,257,842	11,806,169	9.06%	
Hilliard	375,158,801	332,484,185	42,674,616	12.84%	
Upper Arlington	412,776,138	375,839,885	36,936,253	9.83%	
Whitehall	52,587,664	48,723,679	3,863,985	7.93%	

* Includes existing property, new construction, and inside millage.

Chart 2		Ten-Year Revenue Comparison			
Residential/Agricultural (Class 1) Tax Charges					
	<i>Baseline Charge</i>	<i>Standard Growth* Actual Charge</i>	<i>Standard Growth vs. Baseline Charge</i>	<i>Conversion Levy Estimated Charge</i>	<i>Conversion Levy vs. Baseline</i>
Columbus	\$992,935,481	\$1,147,995,370	15.62%	\$1,317,955,280	32.73%
Gahanna	202,668,921	250,765,461	23.73%	270,582,590	33.51%
Grandview	39,576,436	43,428,720	9.73%	51,276,797	29.56%
Groveport	108,412,511	130,257,842	20.15%	142,064,011	31.04%
Hilliard	259,741,379	332,484,185	28.01%	375,158,801	44.44%
Upper Arlington	343,859,004	375,839,885	9.30%	412,776,138	20.04%
Whitehall	45,784,112	48,723,679	6.42%	52,587,664	14.86%

* Includes existing property, new construction, and inside millage.

Notes: Baseline charge = (TY 98/99 actual charge) x 10. Standard Growth Actual Charge controls for new levies passed during 10-year analysis period.

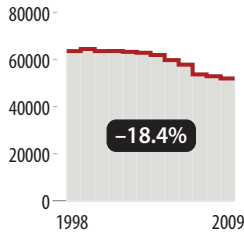
Chart 3

Per-Student Costs Rise Faster than Student Population

In the seven school districts below, the student population declined or made modest gains from 1998 to 2009, yet the per-student costs rose between 58 percent and 90 percent.

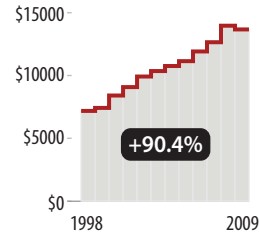
Columbus

Student population



-18.4%

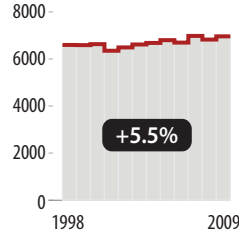
Per-Student Expenditures



+90.4%

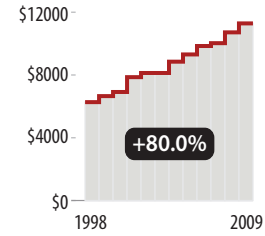
Gahanna Jefferson

Student population



+5.5%

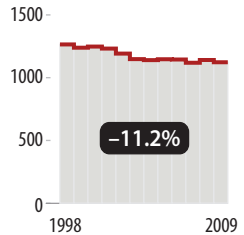
Per-Student Expenditures



+80.0%

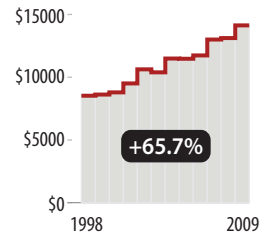
Grandview Heights

Student population



-11.2%

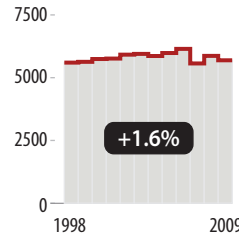
Per-Student Expenditures



+65.7%

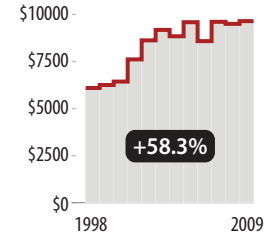
Groveport

Student population



+1.6%

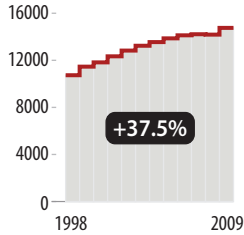
Per-Student Expenditures



+58.3%

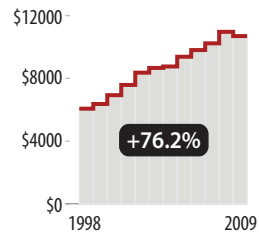
Hilliard

Student population



+37.5%

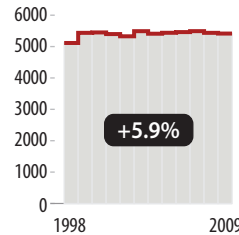
Per-Student Expenditures



+76.2%

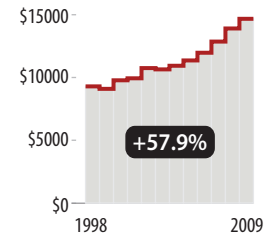
Upper Arlington

Student population



+5.9%

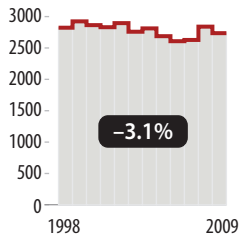
Per-Student Expenditures



+57.9%

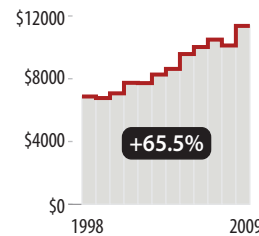
Whitehall

Student population



-3.1%

Per-Student Expenditures



+65.5%

tax charge from 1998 to 2008 totaled \$108,412,511. When new construction and inside millage is added in after 1998, the existing levies generated \$130,257,842 in property tax revenue. The tax revenue jump from the baseline represents a 20.15 percent increase. If the existing levies had been replaced in 1998 with a conversion levy, the estimated tax revenue generated from the same property base would have increased by \$11,806,169 to \$142,064,011 from 1998 to 2008, or a 31.04 percent increase on homeowners in the taxing district.

In this same period of time, the number of students in Groveport Schools increased by 2 percent from 5,601 students in 1998 to 5,693 students in 2009. The per pupil cost jumped by 58 percent from \$6,095 in 1998 to \$9,646 in 2009.

Hilliard. For Hilliard Schools, with the existing levies in place in 1998, the baseline property tax charge from 1998 to 2008 totaled \$259,741,379. When new construction and inside millage is added in after 1998, the existing levies generated \$332,484,185 in property tax revenue. The tax revenue jump from the baseline represents a 28.01 percent increase. If the existing levies had been replaced in 1998 with a conversion levy, the estimated tax revenue generated from the same property base would have skyrocketed by \$42,674,616 to \$375,158,801 from 1998 to 2008, or a 44.44 percent increase on homeowners in the taxing district.

In this same period of time, the number of students in Hilliard Schools increased by 38 percent from 10,734 students in 1998 to 14,758 students in 2009. The per pupil cost jumped by 76 percent from \$6,070 in 1998 to \$10,697 in 2009.

Upper Arlington. For Upper Arlington Schools, with the existing levies in place in 1998, the baseline property tax charge from 1998 to 2008 totaled \$343,859,004. When new construction and inside millage is added in after 1998, the existing levies generated \$375,839,885 in property tax revenue. The tax revenue jump from the baseline represents a 9.3 percent increase. If the existing levies had been replaced in 1998 with a conversion levy, the estimated tax rev-

enue generated from the same property base would have risen by \$36,936,253 to \$412,776,138 from 1998 to 2008, or a 20.04 percent increase on homeowners in the taxing district.

In this same period of time, the number of students in Upper Arlington Schools increased by 6 percent from 5,115 students in 1998 to 5,415 students in 2009. The per pupil cost jumped by 58 percent from \$9,293 in 1998 to \$14,676 in 2009.

Whitehall. For Whitehall Schools, with the existing levies in place in 1998, the baseline property tax charge from 1998 to 2008 totaled \$45,784,112. When new construction and inside millage is added in after 1998, the existing levies generated \$48,723,679 in property tax revenue. The tax revenue hike from the baseline represents a 6.42 percent increase. If the existing levies had been replaced in 1998 with a conversion levy, the estimated tax revenue generated from the same property base would have increased by \$3,863,985 to \$52,587,664 from 1998 to 2008, or a 14.86 percent increase on homeowners in the taxing district.

In this same period of time, the number of students in Whitehall Schools decreased by 3 percent from 2,823 students in 1998 to 2,736 students in 2009. The per pupil cost jumped by 65 percent from \$6,869 in 1998 to \$11,368 in 2009.

Collectively, these seven school districts today are teaching 7,061 fewer students than in 1998 and are spending on average 71 percent more per pupil. Had these school districts passed conversion levies in 1998, the total increased tax burden on homeowners in Central Ohio for just those school districts would have totaled \$292,906,140. That tax burden would have been added without a single vote by the homeowners in those school districts in the ten years after 1998. Putting our property taxes on autopilot is not good policy and it will not lead to good government.

From how the property tax and levy system works to how school districts spend tax revenue, homeowners have a right to as much transparency as possible. Increasing the level of transparency is even more vital as Ohio and its political subdivisions wrestle with def-

icits. Homeowners in a school district have every right to vote to increase their taxes to fund their schools. They also have the corollary right to reject requests from school districts for more tax revenue. Either way, it is vital that those homeowners can easily access micro spending data, educational outcomes, and other demographic information on their school district so they can make the independent and informed decision on operational levy requests. The Buckeye Institute's website contains much of this information, but more information is needed.

Following this Foreword is a paper by Joe Testa

in which he spends a great deal of time walking readers through the complex issues surrounding property taxes and levies. With so many issues to explain, Mr. Testa's paper does an excellent job of simplifying an inherently opaque system. The Buckeye Institute thanks Mr. Testa for his years working to educate voters on the levy system. This paper is part of that larger effort.

Matt A. Mayer is the President of the Buckeye Institute for Public Policy Solutions.

The Need for Levy Reform in Ohio

By JOE TESTA

I have never publicly advocated for or against any particular real estate tax levy that schools, social service agencies, or local government agencies have placed on the ballot. With this paper, I continue to adhere to that policy. It is not my role to advocate for increased or decreased funding for those entities or to comment on their level of fiscal management.

Given my years of experience, however, it is my role to strongly advocate for changes in state law regarding the levy types that can be placed on the ballot. Whether you support or oppose the real estate tax levies on the ballot, we all should want good government that increases clarity and predictability. Ohioans should be able to readily determine what these levies mean to them and ultimately what they will cost in future years if passed. Predictability on the cost of tax levy decisions is important to taxpayers. The Ohio legislature should reform our real estate tax system and not continue to make it even more confusing by creating yet another type of levy that injects still more complexity into the system.

I. Background

Real estate taxes have been around for a long time. Land ownership was viewed as proof of wealth for thousands of years, and so was seen by governments as a potential source of tax revenue. Raising revenue for armies, public improvements, schools, and social welfare programs has been placed on the citizenry throughout recorded history. Reportedly, Augustus Caesar brought the process of tax assessment totally into governmental hands by making the official as-

sessors public employees instead of the less regulated freelance tax collectors.⁷

How did Ohio adopt the system of public school funding through real estate taxes? Prior to statehood when Ohio was part of the Northwest Territory, there were no publicly funded schools. Parents had to pay for any education for their children directly through private schools, which focused on reading, writing, and mathematics. Even after statehood, the Ohio General Assembly struggled with the concept of public funding education through the sale of public lands or general taxation. Finally, in 1825, a half-mill property tax was levied for public education in Ohio.⁸

The compulsory education for all Ohioans six years old to eighteen years old passed in 1921, which launched the debate about how to best fund public schools.⁹ This debate continued through the 1994 Perry County ruling in the *DeRolph v. State of Ohio* case.¹⁰ The school districts that brought the DeRolph action turned to the Ohio Constitution of 1851 and claimed that Ohio had failed to provide the constitutionally guaranteed “efficient” system of public education. Although it was not settled to all the parties’ satisfaction, much of the debate centered around the heavy reliance on property taxes for funding public schools. Because property valuations differ significantly throughout the state and even from school district to school district, the ability to raise revenue through the property valuation method is inconsistent across Ohio.

Tax laws are created by the legislature and the governor and codified in the Ohio Revised Code

7 Richard Henry Carlson, “A Brief History of Property Tax,” *Fair and Equitable Magazine*, February 2005.

8 “Property Tax-Ohio History,” Ohio Historical Society, 2009.

9 “Public Schools-Ohio History,” Ohio Historical Society, 2009.

10 *DeRolph v. State of Ohio*, 91 Ohio St.3d 1225 (2001).

(ORC) and regulatory rules developed under the Ohio Administrative Code. Tax policy overall is the purview of the state tax commissioner, but much of the administration of the real estate valuation and tax responsibilities are conducted by the elected county auditors in each of Ohio's 88 counties. The ORC controls many of the requirements for fairness and equity in setting value, as well as the methods used in calculating the tax rates that are applied to each property value. Court rulings have also played a significant role in the interpretation of state law regarding the administration of these responsibilities and the determination of the fair and equitable market value of real estate.

II. Calculating a Tax Bill

Essentially, the process is broken down into two major parts: value and rate. At the county level, setting the real estate value for assessment is the responsibility of the county auditor, while most of the tax rate is set by the voters in the form of levies placed on the ballot. There are many elements that factor into the determination of the appraised value becoming the assessed value and the components of the tax rate. Fundamentally, the formula is: Value x Rate = Tax.

Setting the Value. County auditors work within two prescribed valuation cycles: a six-year reappraisal and an intermediate three-year update, referred to as the triennial update. The ORC requires all county auditors to appraise all property at its "true value in money" and adjust the assessed values for each of the three-year cycles as determined by the buyers and sellers of real estate during the preceding three-year periods.¹¹ Because these adjustments are only set every three years, they trail the actual market by up to 36 months—an eternity in a volatile housing market.

While all county auditors adhere to these appraisal cycles, all 88 counties are not completed in the same year. That is why adjoining counties with similar housing markets can have larger differences between

assessed values and current sales, as much depends upon how close each county's reappraisal cycle is to a current sale. The county auditor's appraisers are held to the professional standards and the guidelines of the International Association of Assessing Officers.¹²

The Cycles: Data Collection and Verification.

Each county auditor conducts a similar process in each of the two valuation cycles. The six-year full reappraisal is more extensive in that it includes a property-by-property review, while the triennial update does not. As a result, the reappraisal takes much longer and costs more to conduct. In Franklin County, with 435,000 parcels of real estate, a full reappraisal requires about two and a half years to complete. This process entails the collection of all historical property data on each property, any building permits, and sales in the area, as well as cost of construction tables. These tables come from national publications, which are regionalized for the area or proprietary software customized by appraisal firms.

For income-producing property, this process also includes income and expense data provided by the property owner or appropriate industry analysis publications. In recent years, with advances in technology, the field preparation includes Geographic Information System maps and aerial and street level photography. Each property is reviewed twice: once for data verification in which general conditions are noted along with apparent improvements or deteriorations of each property. An attempt is made to contact an owner or occupant at the door and, if unsuccessful, a door hanger is left for the owner to review and submit to the county auditor. There are variations to this process in different counties, such as the use of mailers or public notices, but the goal is the same: to collect as much current data as possible.

The technological advances in data collection, computerized mapping, and other analytical tools used for conducting mass appraisal are extremely accurate. For example, Franklin County's residential

11 Ohio Revised Code Section 5712.01, at <http://1166.161.141.164>.

12 International Association of Assessing Officers, at <http://www.iaao.org>.

values were determined to be at 99 percent of current market value by the state for the last reappraisal in 2005. One important caveat, however, is that, while the aggregate data and value conclusions are accurate across counties, for an individual property, due to a recent sale, an unreported improvement, or damage or other data gleaned from an interior inspection, it may require an adjustment following the mass appraisal.

Analysis of the Data and Determination of Value. The sale data from the previous three years is entered into the system and a series of statistical analysis techniques are applied.¹³ Computer models are created that separate property by similarities of structure, age, condition, and value levels. This process is done to narrow the comparability of each property by similar factors and value ranges so that \$80,000 homes are not compared to \$500,000 homes, as those markets operate very independently.

The final determination of value is set or approved by a professional appraiser. This person can be either a county auditor's employee or an appraiser provided under contract with a private appraisal firm. Ultimately, the county auditor is responsible for the fairness and equity of the value determination. This value is determined to be the most probable price for which the property would sell in an open market between a willing buyer and seller. The county auditor may employ one of many means to notify the property owners of the "tentative value," which, if not altered, will be used in the tax bill calculation for that tax year.

In Franklin County, for the last several cycles, a direct mailer was sent to each property owner to notify them of the proposed value adjustment and when the neighborhood "Informal Reviews" are scheduled. The mailer contained the schedule of times and locations throughout Franklin County where the contract appraisers and county staff would be available to meet with property owners and discuss the tentative value. If property owners would accept a selling price that

is less than the auditor's tentative value figure, then they are asked to bring information to support the reduction they believed was appropriate. Typically, that would entail recent sale data or an appraisal conducted by a licensed appraiser. The appraiser then considers the information and may schedule a site visit to verify property condition and characteristics. Notification is later sent to the property owner with the final determination of value.

State Review Process and Final Valuation. At the completion of the informal review period, the county finalizes the values for all properties and submits them to the Ohio Department of Taxation for an independent review.¹⁴ The state conducts its own statistical studies and market analyses to determine if the county auditor's values are within an acceptable range relative to the current market. If the values are not within an acceptable range, then the Ohio Department of Taxation may direct that adjustments be made. This review is performed to help ensure that the values submitted fairly reflect the current market and achieve uniformity across the state for this essential process.

Following the approval by the state, the county's "final" values are then compiled with values from the surrounding counties that have overlapping taxing districts. The combined taxing jurisdictions' values are then used to set the real estate tax rates for calculating the tax bills. The county auditor then applies various value reductions to the appraised value that is assessed at 35 percent of the appraised value. First, residential property receives a 10 percent reduction. Next, an owner who occupies the home receives a 2.5 percent reduction. Senior citizens over 64 or other owners who are permanently and totally disabled can receive another reduction. These reductions are reimbursed to the local jurisdictions through our state tax collections.

The county auditor then delivers the tax list to the county treasurer to prepare and mail out the bills to

13 "Your Home, Your Value," at <http://www.caa.org>.

14 Ibid.

begin the collection process.

Appeals of Value. In addition to the informal review period described above, there are more formal appeals available to property owners. Once the tax bills have been calculated and mailed, the owner may file a complaint form with the county auditor no later than March 31 of the collection year. For an appraisal completed for tax year 2008, the owner had until March 31, 2009, to file an appeal. This filing initiates a hearing before the County Board of Revision (BOR). The BOR consists of three members: the county auditor, county treasurer, and one of the three county commissioners or their representatives.

The BOR will then schedule a hearing in which the property owner is given the opportunity to present evidence to support an adjustment in value. If the requested adjustment is equal to or greater than \$50,000 of the appraised value, the local public school district is notified by law, has the authority to file a counter-complaint, and can attend the hearing to challenge the requested change. The burden of proof rests with the filer challenging the county auditor's value. Some people have questioned why the burden is on the property owner to prove that the auditor's value is incorrect.

There are two reasons for this burden. First, the county auditor's appraisers have already followed the procedures outlined above and have concluded what, in their professional judgment, is a fair and equitable value. The property owner, therefore, needs to counter that evidence with equally compelling data (e.g. current comparable sales or an appraiser's opinion) in order for the BOR to have sufficient evidence to weigh against the current value.

Secondly, if the BOR lowers one homeowner's value, there will be a reduction in resulting revenue to the governmental entities, but only for the subject tax year. The following tax year that value reduction will cause the value of the tax district to be reduced slightly which causes the tax rate to increase for all residential property in that district. This means that every other residential property in that district will pay a little more tax to make up the loss as a result of

lowering a home's value and tax. The law, therefore, places a high standard for such a shift.

Generally, the BOR hearings are relatively informal affairs for homeowners, but can become complicated if there is a significant reduction being requested. For the average homeowner, the cost of a private appraisal is approximately \$300. To justify the expense, the appraisal would require a value reduction of about \$16,000 in the City of Columbus/Columbus City Schools to have a comparable reduction in their tax bill. This break-even point is a factor that homeowners should consider before spending the money on an appraisal.

If unsuccessful, the homeowner may appeal that decision to the Ohio Board of Tax Appeals (BTA) or to the Court of Common Pleas in their county. As the appeal moves forward, the return on investment calculation begins to change. Most of the questions raised or challenges to value are resolved at the informal reviews or the BOR. If the BOR, BTA, or Court of Common Pleas orders a change in value, the county auditor will make the change, but may also appeal the decision.

The local public school board may also initiate challenges to property value at the BOR. These challenges are generally against commercial property involved in a recent sale. The courts have found in recent years that the best determination of market value is an "arm's length sale." That means that there is normal motivation on the parties to sell and that the sale was public. If the local public school board is successful at the BOR, the owner has the same appeal rights mentioned previously. If the local public school board ultimately prevails, all agencies that receive real estate tax revenue will receive an increase in tax receipts at the cost of the owner commensurate with the increased value for the applicable year(s).

The Real Estate Tax Rate. While the property owner is most concerned with the tax dollars that they are required to pay, the only appealable portion of that formula is the value itself. The tax rate is an entirely different matter, and is derived through a very different and complicated process. The tax rate is

made up of two major parts: inside and outside millage. Inside millage is set by state law at a maximum of 10 mills; it is the unvoted 10-mill limitation for any taxing district.¹⁵ A mill is \$1 of tax for each \$1,000 of assessed value.

This 10-mill maximum within each taxing district provides a constant stream of revenue for local governments and is allowed to grow or decline with the market value to ensure a constant revenue stream for government service providers. It is essentially a fixed millage amount with some rare exceptions. For example, the breakdown of inside millage for the City of Columbus within Columbus City Schools:¹⁶

Columbus City Schools	4.51 mills
City of Columbus	3.14 mills
Franklin County Government	2.35 mills
	<i>(currently collected at 1.47 mills)</i>

There are many taxing districts in each county. In Franklin County, there are currently 140 districts. Why so many? Each time there is an overlap of city, village, or township with a school district, a new taxing district is created. Within a given school district, there may be many taxing districts in which the property owners are paying taxes to the same school district. For example, within Columbus City Schools, there are 29 taxing districts that all pay taxes to the same school district at the same school tax rate, but those taxing districts may pay a different total tax rate.

This discrepancy is due to the different inside millage amounts and any voted levies that apply to property owners in a given jurisdiction even though both belong to the same school district. For example, a township may pass a fire levy that applies to all property in their township, but does not apply to the property in the city across the street even though their children go to the same school. Annexation over the years has contributed greatly to these disparities of overall tax rates.

Outside millage, on the other hand, varies greatly among taxing districts. Outside millage is voted millage and is therefore controlled by the voters. Voters can approve or reject any levy the taxing authorities place on the ballot. It is important to understand the very different ways that inside and outside millage impacts your tax bill. One of the problems with this subject is that there are so many exceptions and special provisions in Ohio law regarding the relationship between property values and taxes. There are also many other factors that impact property tax bills: levels of assessment, roll backs for residential properties and owner-occupied residences, exemptions for seniors, special assessments, special improvement district fees, economic incentive abatements, tax increment financing agreements, and special valuations for agricultural property.

III. The Relationship between Value and Tax

The discussion about the difference between inside and outside millage is important in understanding the relationship between value and tax. Because the inside millage is essentially a guaranteed millage for local governments, it remains constant when the appraised value of property changes. In other words, the increased value subsequent to the county auditor's reappraisal results in a direct increase in tax due to the inside millage. So, as property values increase in a taxing district, the total revenue generated from the inside millage increases as well.

Outside millage is very different. Voters control the impact of outside millage because the levies were approved at the ballot box. Each time you go to the ballot to decide on a property tax levy placed there by your school district, social service agency, or township, you are deciding whether you want to increase your own taxes to provide additional revenue to that entity. You will see a levy type named and a millage amount or tax identified. The amount of millage being requested is to generate a specific amount of money for the request-

¹⁵ Ohio Revised Code Sec. 5705.02, at <http://codes.ohio.gov/orc/5705>.

¹⁶ Franklin County Auditor's Office, at <http://www.franklincountyauditor.com>.

ing entity (e.g., \$10,000,000). If the voters approve it, the requesting jurisdiction is essentially guaranteed to receive that amount in the years ahead according to the levy type and length of term.¹⁷

Most school levies are permanent and generate exactly the amount of money that the voters approved—no more and no less. Operating expense levies, of which there are several variations, are adjusted each year according to what is known as the carryover value of the properties that existed at the time of the levy's passage. That means that if the value of your home increases as a result of the reappraisal and your value increased the average for your district, then your taxes for that one levy will not increase in subsequent years. If, however, your home value increased to a greater extent than the average of your district because of market conditions in your neighborhood, then you would pay more as a result. Because the levy guarantees a specific amount of money to the government entity, the tax on each property will rise or fall depending on its value compared to the aggregated property values in the taxing district. If you construct a room addition or otherwise take some significant step to enhance the market value of your home, then the tax impact will be greater on you as well.

For example, a homeowner in the City of Columbus/Columbus City Schools living as an owner occupier in a \$100,000 home would have a tax rate of 60.970893 mills and pay a tax of \$1,867.23. Under the first scenario, the homeowner renovates the home and adds a room that raises the market value by \$10,000 to \$110,000. With the new room, the same tax rate applies and the tax increases by \$186.73 to \$2,053.96—the 10 percent increase in value corresponded to a 10 percent increase in tax. Under a second scenario, the homeowner sees a \$10,000 increase in market value due to a reappraisal. The house is now valued at \$110,000. Because of House Bill 920 (HB 920), however, the tax rate actually decreases to 56.337000 mills and the tax increases by \$30.62 to

\$1,897.85—the 10 percent increase in value corresponds to a 1.64 percent increase in tax.

The simplest tax levy type is the traditional new permanent operating expense levy. The “effective” millage being applied in subsequent years will be adjusted according to the change in market value because of something called “reduction factors.” Reduction factors were added to this calculation process in 1976 with the passage of HB 920 and were first utilized in Franklin County in the 1978 Triennial Update.¹⁸ These reduction factors are recalculated every year for every one of these voted expense levies in every county in Ohio to six decimal places.

Slower growth will result in smaller reductions and significantly appreciating market values will result in larger reductions. This takes the “sticker shock” out of tax bills for homeowners when the market is healthy. Does that mean that there will be no tax increase? No, taxes will still increase because of the inside millage. The ratio of inside millage to outside (voted) millage varies from district to district, but the rule of thumb is roughly a 15 percent to 85 percent split. That means that about 85 percent of the impact of the tax increase is removed as the 15 percent tax increase is applied. The example above illustrates this effect. If it was not for HB 920, the increase in value would mean a tax increase representing 100 percent of the tax impact. That makes the current law under HB 920 the homeowner's best friend, as it prevents homeowners from getting hit with large tax increases.

Over the course of time in an appreciating market, the effective rate of each levy is reduced as increased property values require a lower outside millage tax to generate the same tax amount as past years. As stated before, many school levies are permanent. There are school levies being collected in Franklin County that were passed during the Eisenhower Administration. The effective rate on those levies is much smaller now in comparison to the original millage approved by the voters because property values have increased, but

17 Ohio Revised Code Sec. 5705.07, at <http://codes.ohio.gov/orc/5705>.

18 Ohio Revised Code Sec. 319.301, at <http://codes.ohio.gov/orc/319>.

these levies still generate the same amount of revenue for the school district each year.

The total effective tax rate is the inside millage plus the effective rate for each of the voted outside millage levies being applied. There may be emergency levies and bond levies that are added to the effective rate and, although the calculation process of each of them is different, the law limits the revenue each is to generate to only the amount approved by the voters or to meet debt obligations.

Following the same relationship of value to tax, what then happens in a depreciating market? Many people have asked, "If the market value of my home has declined in recent years, how much of a tax decrease can I expect to receive?" Well, it is not quite zero, but it is very little.

You see, because about 85 percent of the residential effective tax rate is voted outside millage and is reduced commensurate with value appreciation, state law requires that exactly the opposite must occur in a depreciating market. Remember, the voters approved these operating expense levies to generate a given amount of money for the government entity requesting it, so they are guaranteed that approved amount. That means that if the value of property decreases, the HB 920 "reduction factor" works in reverse. The effective tax rate for the voted millage would then increase to offset the loss in value. In a severely depreciating market over a long period of time, each individual levy would cap out at the amount of millage approved by the voters. For levies that had been in place for many years, that is extremely unlikely to happen.

To use the previous example, if your home value dropped in the reappraisal by 10 percent, you would not see a cut in taxes equal to 100 percent of the tax impact; rather, you would see only a decrease in taxes equal to 15 percent of the tax impact. Just as HB 920 is the homeowner's best friend in an appreciating market, it becomes the school district, social service agencies, and other government entities best friend in a depreciating market. That is the way our legislators

have designed it over the last 30 years.

As an example, the average valued home in the City of Columbus/Columbus City School District is about \$110,000. A 10 percent increase in value due to a reappraisal would result in about an \$11,000 gain in equity and about a \$30 per year increase in taxes. Likewise, a 10 percent reduction in value from a reappraisal would result in an \$11,000 loss in equity and only a \$30 per year reduction in taxes. Obviously taxpayers are pretty disappointed when they realize how little their tax bill would be reduced if their market value had decreased that much, but the system in place protects both homeowners and government entities from large fluctuations in taxes/tax revenues.

IV. The Confusing World of Real Estate Tax Levies

The most important aspect of Ohio's property tax levy system is that Ohioans have the opportunity to vote for or against requested increases in property taxes. The difficult aspect is that the variety of levy types and nuances available to taxing authorities to place on the ballot make it very difficult for the voters to understand the impact of the voting decisions they are being asked to make.

Operating expense levies are either new, renewals, or replacements with some variations of each. A new levy is pretty straightforward. An amount of millage being requested will be added to the effective tax rate according to the language on the ballot. Generally, that levy is for the current tax year and, if approved, will be effective back to January 1 of the effective year.

For example, a new 5-mill levy on the ballot in November of 2010, if passed, will be added to the effective tax rate for the requesting district back to January 1, 2010, and be added to the tax bills payable in 2011. A slight reduction of the effective millage being added may occur due to value adjustments made at that time.

Renewal levies, if approved, extend the period of time the current effective rate is to be collected.¹⁹ For

example, if a taxing authority passes a 5-mill, ten-year operating expense levy on the ballot, it will be added to the effective tax rate for that year. Over the years, if property values are appreciating, HB 920's reduction factors will decrease the effective millage of that levy accordingly. If ten years later that levy is being collected at 3 mills, it is still collecting the same revenue it did upon passage. If that agency wants to simply renew that levy, with voter approval, the life of the levy will be extended at the current effective millage of 3 mills. The HB 920 reduction factors would continue to be applied in the subsequent years.

A replacement levy is similar to a renewal levy, but, if placed on the ballot after being reduced by the effective tax rate, the agency would be asking the voters to replace the current effective millage with the original millage that was passed several years earlier.²⁰ In the example above, the current 3-mill levy could be replaced with the original 5-mill levy. That, of course, resets the effective rate at 5 mills and the reduction factor process begins again. This scenario, however, results in a tax increase of up to 2 mills for the property owners and provides additional revenue for the government entity.

There are other levy variations, but perhaps the most confusing for the voters is the replacement/decrease levy. If I were to tell you that there is a property tax levy type that technically is a decrease and appears that way on the ballot but actually *increases* your taxes, would you believe it? Using the previous example again, the original operating levy was passed at 5 mills and is now being collected at 3 mills. If the government entity places a replacement/decrease levy on the ballot for 4 mills, it is technically a "decrease" from the originally approved 5-mill levy. The problem is that, if approved, the 4-mill levy will be applied to the tax rate in place of the 3-mill levy that was currently being collected, which would increase the taxes for the property owners starting that tax year. Hence, you may vote for a "decrease" that actually *increases*

your taxes.

The Franklin County Auditor's office created a tax estimator (<http://franklincountyoh.metacama.com/globalTaxEstimator.jsp>) on its website many years ago so that property owners could gauge the actual impact of such confusing levy types. There is no need for the real estate tax code to be so difficult for property owners and voters to decipher.

Another difficult levy type is the "incremental levy." This type is placed on the ballot with an immediate millage to be applied plus additional incremental millage amounts to be applied in subsequent years.²¹ The proponents of this levy type have stated that it allows the millage to grow gradually and lessens the impact on the property owner, but there are issues here, too. The incremental millage amounts are not subject to the HB 920 reduction factors until after they are applied in subsequent years. This means that any value increases that would normally have been added to the base prior to the application of new millage are not being used to lessen the impact on property owners.

If the government entity instead had to go back on the ballot in those subsequent years, the millage could have been lower due to the increased value and, therefore, cost each property owner less money. Secondly, since the county auditor cannot predict the future, there is no accurate way to notify the property owner what the later increments will cost them for their particular property before they are asked to vote. If their home value increases, they will pay more taxes. How much more tax will depend on the amount of home value increases in the future. If the agency had put the entire millage on the ballot up front instead of incrementally, the property owner would pay a level tax for that levy throughout its effective years. The reduction factors would protect them and the county auditor could tell them what the impact will be if the levy passes. The incremental levy deprives the property owner of an accurate understanding of its full impact at the time they are being asked to vote for it.

20 Ohio Revised Code Sec. 5705.192, at <http://codes.ohio.gov/orc/5705.192>.

21 Ohio Revised Code Sec. 5705.212, at <http://codes.ohio.gov/orc/5705.212>.

V. The Conversion Levy

Just when you thought you had a pretty good handle on these levy types, Ohio created another in this past budget bill: the conversion levy.²² School districts have from January 1, 2010, until January 1, 2015, to place a conversion levy on the ballot. To understand the purpose of the conversion levy, you need to have some familiarity with something called "the 20-mill floor." It is a state guaranteed minimum effective millage for all public school districts in Ohio to be applied to the real estate tax bills. This minimum is generally seen as applicable where school districts have failed to convince the voters to pass tax levies over several years.

The 20-mill floor, therefore, was created to give the public schools a low water mark for their effective millage. During periods of real estate value growth, which has been the case in most places in Ohio except for the last couple years, the effective tax rate for the voted outside millage has decreased due to the reduction factors. When values increase, the schools and local agencies only gain additional tax revenue from inside millage and new construction value. Currently, in order to increase the outside millage revenue, they would have to go back to the ballot to ask for voter permission.

School districts at the 20-mill floor, however, do receive increases as property values increase because the effective millage, which would have been driven down below 20 mills, is artificially raised back up to 20 mills. The effect is that the school district gains additional revenue from the outside millage unlike the other school districts that are above 20 mills. So without a vote of the people, property owners are charged with increased taxes and the school receives additional revenue. In effect, the property owner's protection provided by the HB 920 reduction factors is negated.

Remember, the 15 percent to 85 percent rule of thumb previously mentioned keeps 85 percent of the tax impact in check and only allows the 15 percent to rise. This restriction does not apply to districts at the 20-mill floor. In these school districts, a 10 percent increase in value results in homeowners paying an increased school tax on the full 10 percent increase in value. The other taxing jurisdictions with voted millage are held to the rule of thumb. During periods of value decrease, however, the effective millage is not capped at 20 mills. It is allowed to increase so that the district does not lose revenue from real estate value loss, up to the millage amount originally approved by the voters.

There are 612 public school districts in Ohio and 389 of them are at the 20-mill floor. Many of these 20-mill floor school districts are smaller, rural school districts that cover a modest number of students. The rest have maintained a stronger real

estate value base and have been able to convince voters to pass operating expense levies. Without getting into the reasons why voters in some school districts are more financially supportive of their schools, people living in the 20-mill floor school districts have lost the protection of HB 920. One argument made by the advocates of this concept is that the schools need to keep up with inflation even if the voters do not pass any new levies.

There have been numerous attempts over recent years to pass legislation that erodes the property owner's protection of HB 920. This past state budget bill gave the remaining school districts in Ohio a method to effectively take their districts to the 20-mill floor by way of the conversion levy. This change is in spite of the fact that the voters in those districts have previously voted to increase their own taxes to support their schools. The passage of a conversion levy in any

With the conversion levy, property owners are charged with permanent increased taxes and the school receives additional revenue, after just one vote.

22 Ohio Revised Code Sec. 5705.219, at <http://codes.ohio.gov/orc/5705.219>.

given school district would have the effect of negating the protections of HB 920. How would it work?

The school district would separate their effective millage into two pieces: the 20-mill for the floor plus the difference between 20 mills and the school's effective residential rate currently being collected. For example, if a school's current effective residential tax rate is 30 mills, 20 mills becomes the floor and works just like the 389 school districts at the 20-mill floor and the additional 10 mills becomes converted millage. It is converted into a fixed-sum levy that generates the same amount of revenue for the school in subsequent years irrespective of the property value increases or decreases. In other words, for the converted millage portion the school neither gains nor loses with the subsequent changes in property value. The upside for school districts is with the 20 mills. Just like the schools currently at the 20-mill floor, they receive the full benefit of property value increases for both the carryover value of existing property and the added tax from inside millage and the new construction value they receive now.

The conversion levy option raises a couple concerns. At the time that a school district would opt to place it on the ballot, the conversion levy would initially have a neutral tax impact on the property owners because the converted millage would be calculated to generate the same revenue for the school that the current effective rate generated. This effect might appear to be innocuous to voters because of the initial neutral tax impact. But what happens in future years when these districts that have historically enjoyed increased market value and increased equity for the property owners? Taxpayers will be hit much harder with school tax increases than they had been hit previously.

Depending upon how much millage needed to be converted to take the school district to the 20-mill floor, a 10 percent increase in value as described before would become much closer to a 10 percent school tax increase instead of the HB 920-reduced 1.5 percent. The "conversion" method fundamentally changes the structure of the school real estate tax calculation. If

the voters in a given school district wish to give their schools automatic revenue increases to coincide with valuation increases instead of requiring the schools to come back to the ballot and make their case each time, that would be their right assuming these voters truly understood exactly what would happen to their property taxes when the conversion levy is placed on the ballot.

Secondly, the school district may make this a permanent levy. Once the voters pass the conversion levy, those who move into the district in later years would have no vote regarding increased property taxes unless the school district decides that the value growth even under the conversion levy is not sufficient and decides to place another levy on the ballot. Most voters want to have the opportunity to consider the district's performance prior to the application of additional taxes and want to preserve their right to vote on these matters.

Thirdly, another interesting twist is the impact of the conversion levy on commercial property. The conversion levy calculation described above is based on the residential effective tax rate. Commercial rates are generally higher because the growth of commercial value is historically less than residential value. The commercial rate is therefore reduced to a lesser extent and so remains higher. Since the conversion levy calculation is based on the residential rate and then applied to the commercial rate, the conversion levy will have a disproportionate impact on the commercial rate and would have actually caused a loss to the school from their commercial real estate tax collections. State government "fixed" this with a "hold harmless" provision. Whatever the loss that the schools would have had from commercial property will be made whole by the state for up to 13 years. The formula the state would apply starts at 100 percent of the loss and decreases by half of the gap between the prospective losses and offset by the gains from being at the 20-mill floor.

What this essentially means is that the reduction in commercial real estate tax to the school district as a result of the conversion levy passage would be paid by

all Ohioans from our state income taxes, including those from people living in those 389 school districts that are already at the 20-mill floor. They not only have to pay automatic tax increases with their increases in property value, but also have to help pay for the commercial tax “loss” in the other school districts. This outcome is patently unfair.

Fourth, because the county auditor cannot predict market value years into the future in order to advise property owners of the likely impact of passing this new conversion levy, there really is no way for voters to ascertain the true cost of the proposed tax they are being asked to pay. This utter lack of clarity and predictability for the voters is troubling.

VI. An Historical View of What Impact the Conversion Levy Might Have on Property Taxes

The only way to estimate the cost of the conversion is to look at historical data. The following case study is a calculation of the cost to property owners in seven Franklin County school districts had the conversion levy been in existence and passed by the voters over the last ten years.²³ This calculation assumes that the conversion levy was passed in 1998 and applied from 1999 forward. This analysis also does not add any operating levies passed by the voters during these years in order to focus solely on the impact of the conversion. This example is not to imply that any of these districts are contemplating the use of the conversion levy, but merely to show what the impact on property taxes would have been. The key point of the data presented here is not the initial year of application but the structural change this levy puts in place during a slow real estate market, which property owners may regret when the real estate market begins to recover, as it most surely will.

A review of Charts 1 and 2 show the cumulative

No single governor or General Assembly would ever have designed the property tax law we have in place in Ohio today.

ten-year variance column that calculates the increased tax charge that would have been added to all residential tax bills had the conversion levy been in place. The range would have been \$3.8 million more taxes for Whitehall School District property owners to \$169.9 million more taxes for Columbus School District property owners. Remember, these large increased taxes would have occurred

without any new operating levies passing and with only the inside millage and new construction increases already in effect simply by passing a conversion levy. The major concern here is that the conversion levy would appear to be revenue neutral on the ballot but would be anything but neutral when property values begin to appreciate again. Even if the voters fully understood how the conversion levy would work, there is no way to estimate the cost to property owners in future years. Voters would be asked, in effect, to change the structure of their school’s funding from property tax to grant open ended and permanent school tax increases.

VII. Solutions to Ohio’s Tax Levy Confusion

No single governor or General Assembly—Republican or Democrat—would ever have designed the property tax law we have in place in Ohio today. Although there are important elements and safeguards that need to be retained, the process of property valuation and taxation under Ohio law needs an overhaul. What has occurred is a series of “tweaks” to the ORC over many years through many administrations and leadership changes in state government to address specific concerns and challenges to this process. The result is too convoluted for most property owners and voters who cannot afford to spend years to gain sufficient expertise to unravel it.

The General Assembly needs a clean slate to build a more straightforward and understandable

23 Franklin County Auditors’ Office, Levy Calculations and Historical Franklin County Data, 2009-10.

property tax system that provides transparency and accountability for Ohioans. Clarity and predictability of government breeds confidence in the system. Here are some reforms that our elected officials should put in place:

1. A Common Level of Assessment. We appraise property at 100 percent of market value, but we “assess” at 35 percent. We should eliminate this confusion, utilize the appraised value for tax calculation, and cut tax rates accordingly to achieve revenue neutrality with this change.

2. Simplify the Funding Tools. We should reduce the types of real estate tax levies to three: new operating expense levies, emergency levies, and bonds. Bond millage is already subject to annual adjustment to meet the debt service requirements and cannot exceed the millage approved by the voters. This type of levy seems to be clear and manageable.

Emergency levies, however, should have greater restrictions.²⁴ We should limit the duration of the levy to a maximum of five years and, once passed, restrict the ability of school districts to place another one on the ballot for a minimum of ten years. Real financial emergencies can exist, but the placement of a series of multiple emergency levies implies that the regular operating expense of the taxing authority is in a perpetual emergency mode. This approach undermines the confidence of taxpayers and indicates financial instability. The decision to pursue repeated emergency levies should require the declaration of “financial distress,” thereby subjecting them to a greater level of state oversight until the taxing authority has returned to more sound footing.

Operating expense levies should be limited to “new” levies only. These levies should continue to be

subjected to the HB 920 reduction factors to protect property owners during periods of appreciating market values. All the others—renewals, replacements, replacement/decreases, incremental, and conversion—should all be eliminated. This reform would ensure a more straightforward calculation of the impact of the operating levy when placed before the voters. We would need to work out a grandfather or sunset element for the levies previously approved by the voters, but keeping things simple is vital for making sure all Ohioans understand this process.

VIII. Conclusion

The consideration of these recommendations and others by the Ohio legislature would give Ohioans a fresh beginning toward real clarity and predictability when Ohio voters are asked to raise their own property taxes for their schools, municipalities, townships, and social service agencies. As Franklin County Auditor for 17 years, I encountered numerous people who were routinely confused by the current system and by the language on the ballot. County auditors have taken many steps to create websites and levy calculators to help their citizens understand the process, but State law needs to be simplified, too.

Regardless of whether you support or oppose specific property tax levies when you cast your vote at the ballot box, we all should want good government that increases clarity and predictability so that all Ohioans understand what they are voting on, what it means for them, and, ultimately, how much it will cost them. The Ohio legislature should reform our property tax system, not continue to make it even more confusing by allowing yet another type of levy that injects still more complexity into the system.

24 Ohio Revised Code Sec. 5705.194, at <http://codes.ohio.gov/orc/5705.194>.

About the Author

Joe Testa served as the Franklin County Auditor for seventeen years from 1992 to 2009 and the Franklin County Recorder from 1985 to 1992. He also served as the Franklin County Chief Deputy Recorder from 1981 to 1985. Testa currently heads Testa Management Strategies LLC. He has taught as adjunct professor at Columbus State Community College and the Fisher College of Business at The Ohio State University.

In 1998, Testa was the President of the County Auditors Association of Ohio and a Member of the Executive and Legislative Committee from 1993 to 2009. He also was the President of the Columbus Lit-

eracy Council from 1998 to 2000.

Prior to his government service, Testa worked for Stokley Van Camp as the Assistant Employee Relations Manager, Harris Semiconductor Corporation as a Production Supervisor, and the Bendix Corporation as a Quality Assurance Technician at the Kennedy Space Center.

Testa spent four years in the U.S. Navy from 1968 to 1972 where he earned the Vietnam Service Medal. He received a B.A. in Public Administration from the University of Central Florida and a Masters of Labor and Human Resources from The Ohio State University.

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Nothing written here is to be construed as an attempt to aid or hinder the passage of any legislation before the Ohio Legislature.

THE NEED FOR LEVY REFORM IN OHIO

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