

Joint Committee on Property Tax Review and Reform
Testimony of Zaino Hall & Farrin LLC/ZHF Consulting LLC
Thomas M. Zaino, Stephen K. Hall & Brian M. Perera
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Co-Chair Blessing, Co-Chair Roemer, and Members of the Joint Committee on Property Tax Review and Reform, thank you for inviting us to speak today about Ohio's property tax system.

My name is Tom Zaino. I served as Ohio Tax Commissioner under Governor Bob Taft many years ago and I currently serve as managing member of Zaino Hall & Farrin LLC, a boutique law firm with offices in Columbus and Cincinnati. We focus our practice on tax and economic development matters. Through our wholly-owned subsidiary, ZHF Consulting LLC, we provide policy and government affairs consulting services. Supporting me with this testimony today are Steve Hall and Brian Perera. Steve's legal practice includes representing property owners with respect to their personal and real property tax matters. Brian's consulting practice leverages his decades of experience in dealing with tax issues and state budget issues, having served as Senate Budget director for more than 20 years. At your request, our goal today is to provide the Committee with some historical perspective on the property tax system, highlight problem areas with the current property tax system which hurt Ohio, and describe some options to address those problem areas.

While we are not representing any particular client today, for transparency purposes, you should know that we represent all sized taxpayers, from the smallest to the largest, before government tax and economic development authorities and in the court system.

A Perspective on Property Tax Reform – Change Takes Time

This committee has heard testimony from the Legislative Service Commission describing the history of the real property tax system, including the H.B. 920 and related constitutional enactments in the 1970s and 1980. We will provide some additional historical and data driven perspectives.

On March 1, 2003, the bipartisan *Committee to Study State and Local Taxes* ("CSSLT") issued a report that examined Ohio's tax system in light of the five elements of a quality tax system and

identified obstacles and options for Ohio tax reform. The five elements of a quality tax system used by the Committee were:

1. Simplicity
2. Equity
3. Stability
4. Neutrality
5. Competitiveness.

These five elements are generally accepted by policy makers and economists as representing essential components of a quality tax system.¹

CSSLT's Report identified and examined many obstacles in Ohio's tax system, including property taxes, and provided 39 options to overcome all those obstacles. Before creation of your committee, Ohio had acted upon 33 of the 39 options.² The formation of this Committee adds the opportunity to address two of the remaining six options called for in 2003:

- Establish a special committee to examine the real property tax; and
- Explore eliminating the differences in the property taxation of public utilities as compared to other businesses.

I draw the Committee's attention to Attachments C and D, which are excerpts from the CSSLT report. It is fascinating because the issues faced in 2003 have not changed much, if at all.

I realize that the focus of the committee has, so far, been on the real property tax system, but I would like to point out that Ohio still retains some uncompetitive vestiges of the archaic tax on personal property. The enabling legislation creating this committee did not limit the committee's work to real property--division (B) of uncodified section 757.60 of Am. Sub. H.B. 33, provides in relevant part:

(B) The Committee shall review the history and purposes of all aspects of Ohio's property tax law . . .

¹ See Attachment A which provides a description of each element as used by CSSLT.

² See Attachment B which lists each option recommended by the CSSLT and the status of each recommendation.

This committee is well-positioned to address the problems remaining in Ohio’s real and personal property tax system and keep Ohio on a trajectory of positive economic growth. In the early 2000s, Ohio recognized the inherent problems with the tangible personal property tax and moved to eliminate most of those taxes. However, the tax still applies to public utilities at an overly burdensome rate. For example, while real property is taxed at 35% of true value, pipeline property is taxed at 88% of true value and electric transmission and distribution property is taxed at 85% of true value. This significantly high assessment rate increases the tax liability on this property. Because these taxes are passed-on to rate payers, this high tax is ultimately paid by Ohio consumers.

According to the Department of Taxation’s 2022 Annual Report, this tax resulted in \$2.2 billion of tax revenue in tax year 2021, up 3.5 per cent from 2020. By comparison, the tax on real property (not including manufactured homes which are generally taxed like real property) generated \$18.5 billion of revenue in tax year 2021, up 1.6 per cent from tax year 2020.

The following chart illustrates the disparity of the listing percentages applied to tangible personal property of different types of public utilities.

Ohio Property Tax Assessment Percentages ³	
Type of Property	Assessment Percentage (i.e., % of Fair Market Value subject to tax)
Pipeline company property	88%
Electric transmission and distribution property	85%
Energy companies (all property except taxable production eqpt.)	85%
Rural electric company property	50%
Real property (all)	35%
Natural Gas, Waterworks, and Water transportation property	25% (or 88% for pre-2017 property)
Electric generation property	24%
Energy companies (taxable production equipment)	24%
All other general business tangible personal property	0%

³ Ohio Department of Taxation Annual Report, 2022.

These high listing percentages are an obstacle for Ohio-based investment in the infrastructure maintained by these public utilities. If new investment is made in Ohio infrastructure, then the cost of doing business in Ohio, or living in Ohio, is increased.

House Bill 920 Reduction Factors – Is the System Working?

While this Committee is tasked with reviewing and considering reform of Ohio’s entire property tax system, a catalyst for its formation was certainly the recent substantial increases in taxes impacting Ohio’s citizenry. Please note that I referred to “increases in taxes” not “increases in value.” The reason this distinction is important is that property owners generally like their property to increase in value, but they also want to be protected from unbudgeted and unvoted inflationary increases in real property taxes. In 1976, the General Assembly enacted H.B. 920. The purpose of H.B. 920 was to protect all Ohio real property taxpayers from experiencing an increase in real property taxes on existing property simply because the value of the property increases. The concept was that if a jurisdiction wanted more revenue, the jurisdiction had to explain the benefits of the revenue increase to the voters who would then approve and pay the tax increase. In 1980, Ohio voters passed a constitutional amendment which separated Class I from Class II property for purposes of the H.B. 920 protections against unvoted inflationary tax increases.⁴

So, why are some Ohio property owners experiencing dramatic increases in property taxes? Based on research and available data, we believe school districts have done their own type of “tax planning,” by utilizing levies that have been enacted over the last 48 years but which are exempt from H.B. 920. As a result, H.B. 920 is broken. We will show why H.B. 920 is broken and why it no longer works to protect Ohioans from inflationary increases in property taxes.

The goal of H.B. 920’s protections is to reduce the effective tax rate in order to offset inflationary increases in property values that existed on the date a levy was enacted.⁵ Some important characteristics should be understood about the H.B. 920 protections, as well as some trends that have occurred which impact the effectiveness of H.B. 920.

⁴ Ohio Constitution, Article XII, Section 2a.

⁵ Note: The H.B. 920 tax reduction factors do not apply to limit growth on inside mills or on new construction occurring after a levy is enacted. Therefore, all local political subdivisions, including school districts, can experience revenue growth from both inside mills and from new construction.

- Under law, 20 mills or a 20-mill equivalent is a minimum requirement to qualify for state aid from the school foundation formula.⁶ Therefore, school district millage cannot be effectively “reduced” below 20 mills (i.e., the 20-mill floor) via the tax reduction factors created by H.B. 920.
- Only Current Expense Levies and Permanent Improvement Levies can be reduced by the H.B. 920 protections (i.e., the tax reduction factors).
 - However, only Current Expense Levies are included in the calculation of the 20-mill floor.
- Once a school district’s millage on Current Expense Levies is rolled back to the 20-mill floor, H.B. 920’s protections no longer apply to protect property owners from inflationary increases in property values.
 - At that point, school districts benefit from unrestrained growth in tax revenues for those current expense levies merely due to inflationary values of real property.
- The Levy Loophole Incentive: Because school districts benefit from unrestrained growth when at the 20-mill floor, schools in need of additional revenue that are also reasonably close to, or at, the 20-mill floor are incentivized to only offer new levies to voters that are not included when determining whether the district is at the 20-mill floor.
- The following levies are not included when determining the 20-mill floor:

Levies Not Factored into the 20-mill Floor ⁷	
General Operation Levies	Specific Purpose Levies
Emergency	Bonds
Substitute	Permanent Improvement
School District Income Taxes (millage equivalent)	Recreation
	Libraries
	Safety & Security

⁶ R.C. 3317.01(A).

⁷ *Property Taxation and School Funding*, Ohio Department of Taxation, Meghan Sullivan and Mike Sobul, Updated February 2010. <https://tax.ohio.gov/researcher/tax-analysis/tax-data-series/school-district-data/publications-tds-school/publications-tds-school>.

- Data shows that schools are being influenced by this incentive to plan around H.B. 920's taxpayer protections. The following chart illustrates that 70% of school districts are at, or closing in on, the 20-mill floor.

School District Mills – 2022 ⁸				
	Number of School Districts	Percentage of School Districts	Cumulative Percentage	Number with additional millage not subject to H.B. 920
Less than 20 mills	10	2%	2%	N/A ⁹
At 20-mill floor	333	54%	56%	264 (79% of the 333) ¹⁰
Near 20-mill floor	84	14%	70%	N/A
22.01-25 mills	52	8%	78%	N/A
More than 25 mills	132	22%	100%	N/A

Ohio's Real Property Tax System Lacks Simplicity

Simplicity is generally recognized as one of the five elements of a quality tax system. The idea is that the tax system be easy to understand and easy to administer. I would suggest to the committee that Ohio's real property tax system fails on this element. You have been policy makers for quite some time, and you have been involved in the state budgeting process. You have heard from experts from the Legislative Service Commission, the Ohio Department of Taxation, the Ohio Auditors Association and the Board of Tax Appeals. After all that, I rhetorically ask you to consider

⁸ 2022 Aggregate Property Tax Rates by School Districts, Ohio Department of Taxation, <https://tax.ohio.gov/researcher/tax-analysis/tax-data-series/school-district-data/publications-tds-school/publications-tds-school>.

⁹ These 10 school districts are either special island districts or school districts that rely on JVS millage to meet the 20-mill minimum.

¹⁰ In 2022, 131 school districts had between 0.01 to 10 additional mills or equivalents (such as income tax); 133 school districts had an additional 10 or more mills or equivalents. As a result, although 264 districts are at the "20-mill floor," those districts are, in reality, levying more than 20 mills via emergency, substitute and/or income taxes!

whether you feel that you understand Ohio's real property tax system? If the answer to this question is "no," I ask you to consider what the everyday taxpayer can possibly be expected to understand.

Simplicity Gone Awry: When originally enacted in 1971, emergency levies were fixed sum levies (and, therefore, not subject to the H.B. 920 inflationary protections) that could be enacted for one of the following purposes:

- To provide for the emergency requirements of the school district; or
- To prevent the temporary or permanent closing of one or more schools within the district.

On May 11, 1971, during a state Senate Committee hearing on the bill proposing emergency levies, Cincinnati School Board member, Mrs. Virginia K. Griffin, who was testifying said that allowing school boards to submit limited-time levies to meet emergencies "is going to make the situation worse." She further raised her concern that this type of levy, if enacted, would create a circumstance where "there would be a series of emergencies." As you will see in the chart on the next page, Mrs. Griffin's view was prescient.¹¹

In 1980, the second possible purpose was replaced with a purpose of avoiding an operating deficit. I suggest that all general levies are intended to avoid an operating deficit. The change of the second purpose seems to have been interpreted as an expansion of the types of expenses for which such levies may be used.

Over the years, Ohio has enacted many other changes to the emergency levy provisions, enhancing the appeal of such levies for school districts, including the following:

- 1983 – authorizing the renewal of a single expiring emergency levy.
- 1985 – excluding emergency levies from the calculation of the 20-mill floor.
- 1992 – allow multiple emergency levies to be renewed as a single emergency levy.
- 2008 – allow one or more emergency levies to be converted to substitute levies.
- 2008 – increase maximum term for an emergency levy from five to ten years.

¹¹ The Columbus Dispatch, (published as Columbus Evening Dispatch) – May 12, 1971 – page 31.

As alluded to above, the following chart illustrates how prescient Mrs. Griffin was when she testified. Since at least 1994, emergency levies appear to now be routine and no longer indicate a true state of emergency.¹²

Chart Illustrating Routine Emergencies Since 1994				
Type of Levy	No. of School Districts Imposing such Levy		Percentage of School Districts Imposing such Levy	
	1994	2022	1994	2022
Emergency Only	192	199	31.3%	33.0%
Substitute Only	N/A	52	N/A	8.0%
Both	N/A	13	N/A	2.0%
Total Levies	192	264	31.3%	43.0%

Substitute Levies: The fact that emergency levies may be “substituted” creates additional problems for taxpayers. Although taxpayers may think they know what it means to “substitute” a levy, I don’t believe they do--there are important consequences to substitution. After the first year, the substitute levy raises the fixed sum of an emergency levy and imposes additional tax on new construction. Also, unlike emergency levies, substitute levies may be levied for a continuing period of time. In truth, a “substitute levy” is really much more than a mere substitute of the emergency levy.

I note that Ohio’s Deceptive Trade Practices law¹³ prohibits a person from representing that services have characteristics that those services do not actually have. Through no fault of school districts (at all), the use of the terms “emergency levy” and “substitute levy” come close to giving taxpayers an impression that a new levy has characteristics that those levies do not actually have. This obviously violates “simplicity,” but also negatively impacts the other characteristics of a quality tax system—including equity, stability, neutrality and competitiveness.

¹² For this chart, 1994 data is used because it is the earliest data that was publicly available on the Ohio Department of Taxation’s website. Also, note that substitute levies were not available until 2008.

¹³ R.C. 4165.02 – Ohio’s Deceptive Trade Practices law.

We believe H.B. 920 is broken. Because 343 of Ohio's 611 school districts (56%) were at or below the 20-mill floor in 2022, many Ohio property owners are experiencing unexpected, dramatic, and unvoted tax increases.

Other Elements of a Quality Tax System: Ohio's real property tax on property owners and personal property tax on public utilities also fail to meet other important elements of a quality tax system. In order to save time, I encourage this committee to see Attachment A, which is an excerpt from the actual 2003 Committee to Study State & Local Taxes which has concise review of how these taxes measure up to the quality elements.

Options to Fix Ohio's Property Tax System

The following list provides some reform options the Committee may want to consider as it completes its review of Ohio's property taxes.

1. Fix H.B. 920: H.B. 920 can work to prevent inflationary pressures from increasing property tax values. It needs to be strengthened to fulfill its intended purpose.
 - a. Factor in emergency and substitute levies when determining whether a district is at the 20-mill floor.
 - i. Example: If a school is currently at the 20-mill floor and has a 7-mill emergency levy, treat the district as having 27 mills and, therefore, not generating inflationary growth on any mills (except the inside millage, of course).
 - b. Similarly, factor in school district income taxes toward the 20-mill floor.
2. Truth in Advertising: The real property tax system is confusing for taxpayers and not "simple."
 - a. Rename "emergency levies" and "substitute levies" to make sure taxpayers truly understand the implications of supporting such levies.
 - b. Limit emergency levies and their related substituted levies to true emergency situations with a limited time frame.
 - c. Clarify other terminology and simplify the tax levy system.

3. Smooth Out the Valuation Process. Jumps in property taxes every three or six years can stun property owners with higher taxes. One way to address this problem is to revalue property on a more frequent basis.
 - a. Consider requiring more frequent revaluations.
 - i. Annual or bi-annual.
 - ii. Portions of counties.

4. Address Equity and Neutrality: Property rich individuals, such as older Ohioans on fixed incomes or low-income Ohioans living in gentrifying neighborhoods, may not be able to pay inflationary property taxes. This can force them to make decisions to sell their property simply because of taxes. I draw your attention to the attached Policy Brief from the Lincoln Institute of Land Policy which highlights some options to address these problems.
 - a. Enhanced homestead credits.
 - b. Circuit breakers based on income.
 - c. Property tax deferral programs.
 - d. Monthly payment of real property taxes.

5. Address Competitiveness: High and unexpected property taxes create competitiveness hurdles for Ohio when competing in a global environment.
 - a. Ohio's remaining tangible personal property tax system imposed on public utilities is a disincentive to new investment in Ohio's energy infrastructure and increases the cost of doing business in Ohio and of living in Ohio.
 - b. Unexpected and inflationary increases in real property taxes create an environment of uncertainty that puts Ohio at a disadvantage.

We appreciate the opportunity to present this testimony and are happy to answer any questions the Co-Chairs or other members of the Committee may have.

Attachment A

Excerpt from the Report of the Committee to Study State & Local Taxes
March 1, 2003

II. Elements of a Quality Tax System

Am. Sub. S.B. 261 directs the Committee to consider five elements of a quality tax system (simplicity, equity, stability, neutrality, and competitiveness) in making its recommendations. These five elements are widely accepted as the key elements of a quality tax system. While no tax system is perfect, the use of these principles of tax policy helps to achieve an effective and balanced tax system. The Committee recognizes that these five elements can conflict with each other and, therefore, the elements must be prioritized in order to achieve the best result. A summary of the five elements is provided below.

Simplicity – The tax system should facilitate taxpayer compliance by being easy to understand and easy to administer. Taxpayers, both businesses and individuals, pay two distinct “costs” with respect to tax compliance. The first cost, of course, is the expense of the actual tax. The second cost is the compliance cost of comprehending and properly complying with the tax system. By reducing a taxpayer’s compliance cost, the taxpayer’s overall tax burden is effectively reduced with no impact on government revenues. Finally, a simple tax system reduces the taxing authority’s cost of administering the tax.

Equity – Two types of equity exist: Horizontal Equity and Vertical Equity. Horizontal Equity exists when the tax system imposes similar burdens on similarly situated taxpayers. Vertical Equity exists when the tax system recognizes differing abilities of various taxpayers to pay. For example, wealthy individuals are generally able to pay more taxes than less wealthy individuals.

Stability – The tax system exists to fund essential government services and should provide adequate revenue to fund those services in both good and bad economic times. For example, an economic downturn may force a business to lay off employees due to decreased demand for its products. However, a bad economy generally creates new demands for state services. Therefore, a stable funding of government services is essential.

Neutrality – The tax system should not unduly influence economic behavior. The economy and the marketplace, not the government’s tax policy, should drive business decisions.

Competitiveness – The tax system is a meaningful part of a state’s living, working, and business environment. It should not impose an excess burden on taxpayers, particularly as compared to the tax systems of other states and, more and more, as compared to other parts of the world.

Attachment B

Committee to Study State & Local Taxes List of Recommendations and Results

- ✓ = Achieved
- ✗ = Not achieved
- M = Mixed results

CORPORATION FRANCHISE TAX OPTIONS – *The tax was phased out from 2005 through 2009.*

- ✓ Adopt a Combined/Unitary Income Tax Base
- ✓ Broaden the Tax Base, Eliminating a Substantial Portion of Special Interest Deductions and Tax Credits
- ✓ Adopt a Throwback Rule for Sales Factor Apportionment Purposes
- ✓ Increase the Net Worth Cap
- ✓ Adopt UDITPA Treatment of Business and Nonbusiness Income
- ✓ Retain Net Operating Loss Deductions
- ✓ Lower the Top Corporation Franchise Net Income Tax Rate and Eliminate the Brackets

PERSONAL INCOME TAX OPTIONS

- ✓ Reduce the Number of Low-Income Taxpayers
- ✓ Remove Trust Tax Sunset
- ✓ Lower Personal Income Tax Rates

MUNICIPAL INCOME TAX OPTIONS

- M Create a Uniform Tax Base for Net Profits Tax Purposes [*still needs work*]
- ✓ Create a Uniform Withholding Base
- ✓ Provide Appeals to the Board of Tax Appeals and the Ohio Supreme Court
- ✓ Create Uniform Net Operating Loss (“NOL”) Carryover Treatment
- M Provide Uniform Treatment of Pass-Through Entities [*still needs work*]
- ✓ Provide a Centralized, Web-Based Filing and Payment Option on *Ohio Business Gateway*
- ✓ Provide a Centralized Web-Based Tax Return Extension Site for Business
- ✓ Revise the Due Date of Municipal Income Tax Returns and Extensions
- ✓ Eliminate Three-Year Requirement for Reporting for Withholding Tax Purposes

SALES & USE TAX OPTIONS

- ✓ Broaden the Sales and Use Tax Base in Order to Capture the Broader Economy
- ✓ Ohio Should Participate in the Streamlined Sales Tax Project
- ✗ Broaden the Sales and Use Tax Base by Eliminating Special Carveouts to the Tax
- ✗ Do Not Increase the County Permissive Tax Rate Authority
- ✗ Lower Tax Rates

TANGIBLE PERSONAL PROPERTY TAX OPTIONS

- ✓ Eliminate the Tangible Personal Property Tax and Replace It with a Broad-Based, Low Rate Tax [*i.e., the CAT*]
- ✓ Accelerate Elimination of the Inventory Tax Base
- ✓ Eliminate Filing Requirements Associated with the \$10,000 Exemption
- ✓ Phase Out Reimbursement of the cost of the \$10,000 Exemption
- ✓ Expand Abatement of Penalty Circumstances

REAL PROPERTY TAX OPTIONS

- ✗ Establish a Special Committee to Examine the Real Property Tax – This is YOU!
- ✓ Expand Abatement of Penalty Circumstances

GENERAL PUBLIC UTILITIY TAX OPTIONS

- ✗ Explore Eliminating the Differences in the Taxation of Public Utilities as Compared to Other Businesses as the Barriers to Competition Break Down

TELECOMMUNICATIONS TAXATION OPTIONS

- ✓ Tax Local Telephone Companies in the Manner of Other Telecommunications Companies

GENERAL FINANCIAL SERVICES INDUSTRY OPTIONS

- ✓ Perform Industry-by-Industry Examination for Change

DEALERS IN INTANGIBLES TAX OPTIONS

- ✓ Eliminate the Dealers in Intangibles Tax

OPTIONS RELATED TO TAX ADMINISTRATION AND OHIO'S BUDGET

- ✓ Rebuild Ohio's Rainy Day Fund [*Still needs work*]
- M Increase Funding of the Department of Taxation to Ensure Fair Compliance by All Taxpayers [*Done initially, but dramatically reversed in the 20teens.*]
- ✓ Enhance Enterprise Zone Agreement Enforcement Provisions and Tools
- ✓ Limit Enterprise Zone Benefits to New Investments Involving Interstate Competition

Attachment C

Excerpt from Report of the Committee to Study State and Local Taxes
March 1, 2003

REAL PROPERTY TAX OBSTACLES

Simplicity: Ohio's real property tax system is so complicated that it is not understood by taxpayers. This leads to frustration with the tax. Tax relief initiatives, particularly the tax reduction factor law (H.B. 920), have broken down the relationship between the tax rates approved by the voters and the taxes actually due. The tax reduction factor law, with its many complications and ramifications, is difficult even for experts to fully comprehend. Other examples of areas of confusion are the use of "mills" rather than percentages for tax rates, the difference between fair market value and assessed value, the existence and purposes of the 2.5% and 10% rollbacks, the current agriculture use valuation law, and the difference between replacement levies, continuing levies, and renewal levies.

Equity: While the tax reduction factor law has its shortcomings, it does limit tax increases arising out of appreciation of property values. This has been a key public policy of the state for many years. The 20-mill floor, below which the tax reduction factor law cannot cause school tax levies to fall, can cause taxes to increase with appreciation. In effect, the tax reduction factor law does not provide the same protections from tax increases for taxpayers in areas where the 20-mill floor has been reached that it does in other areas. This may be perceived as a horizontal equity issue if the primary policy objective is limiting tax increases arising from increased property values.

As a tax relief measure, the state pays 10% of every real property tax bill. For homesteads (owner-occupied housing), the state pays an additional 2.5% of the bill. This tax relief applies without regard to the financial circumstances of the property owner, and may be viewed as a violation of vertical equity. That is, the state assumes responsibility for 12.5% of every homesteader's property tax bill, whether that homesteader is a retiree on a fixed and limited income or whether the homesteader clearly has the financial means to pay the tax.

Stability: Ordinarily a stable tax source will provide for some expansion over time. The tax reduction factor law affects this potential expansion, by limiting the amount of revenue expansion arising from property value appreciation. Even so, the real property tax is a very stable and vital revenue source, with about two-thirds of the tax going to local school districts and the balance going to county and other local jurisdictions. Some exceptions to this general conclusion warrant mention. In areas where few additions are being made to the tax base, the tax reduction factor law may be thought to severely restrict revenue growth.

At the same time, the Committee has observed a recent trend of school districts to reduce their millage down to the 20-mill floor. As noted above, the result of this phenomenon is to short-circuit the impact of the H.B. 920 reduction factor limits on real property tax growth so that it has no impact in those districts. It is estimated that 314 school districts are currently at the 20-mill floor and that 113 more will be at the 20-mill floor within the next six years, barring passage of a new

levy.¹⁴ When the tax reduction factor law does not apply, the increases in taxes on real property can be quite dramatic, and can outstrip the amount of growth considered reasonable in order to maintain stability.

Closely tied to stability is the impact of the revaluation process every six years, with the intervening three-year update. As a result of this process, taxpayers can experience large and unexpected jumps in their tax liabilities upon revaluation.

Neutrality: Significant variations in local tax rates do exist and may affect decisions regarding where to live, although decisions may be equally driven by the level of service provided, as by the amount of tax charged. That is, taxpayers may choose to pay additional tax in order to have more services.

Competitiveness: Ohio’s real property tax does not pose any significant competitiveness issues. While many Ohioans feel that the real property tax rates are very high and burdensome, Ohio’s average effective tax rates are generally lower than the effective rates of its competitor states. For example, Ohio was ranked 21st when comparing effective tax rates on \$100 of value in each state’s largest city.⁴³¹⁵ Neighboring states with higher effective real property tax rates include Indiana, Michigan, and Pennsylvania. Other competitor states with higher effective real property tax rates include Florida, Georgia, Texas, and Wisconsin.

[ZHF NOTE: The above observation on competitiveness is based on 2000 data. Using similar data in 2024, Ohio’s rank in the same study when comparing effective tax rates on \$100 of value in each state’s largest city is 20th highest burden even though the effective rate dropped from 1.64 mills in 2000 to 1.53 mills in 2020.^{16]}

REAL PROPERTY TAX OPTIONS

To overcome the obstacles described above, the Committee has identified the following options:

1. Establish a Special Committee to Examine the Real Property Tax. The real property tax system in Ohio is uniquely complicated. Further, it is inextricably tied to the funding of primary and secondary education, which is beyond the scope of the Committee’s statutory duties. While the Committee received testimony regarding the real property tax, a more focused examination of this tax is deserved. A bi-partisan committee can focus solely on this tax and also consider the implications any change will have on school funding.
2. Expand Abatement of Penalty Circumstances. The powers of county auditors and the Tax Commissioner to abate penalties for underpayment of the real property tax should be expanded to be equivalent with other taxes. For example, with most state-administered taxes, the Tax Commissioner may abate penalties for “good cause.”

¹⁴ Based on 2001 data available from the Ohio Department of Taxation.

¹⁵ Source: District of Columbia Report, *Tax Rates and Tax Burdens in the District of Columbia: A Nationwide Comparison*, 2000.

¹⁶ Source: District of Columbia Report, *Tax Rates and Tax Burdens in the District of Columbia: A Nationwide Comparison*, 2020.

Attachment D

Excerpt from Report of the Committee to Study State and Local Taxes March 1, 2003

General Public Utility Taxation Obstacles

Public utilities were at one time easily identifiable as businesses that provided specialized services or products under specially regulated conditions. The importance of the product, its predictable delivery, and unusual market conditions contributed to the public interest in regulation and oversight. This regulation often involved the creation of state-authorized monopolies and the imposition of special or heavier taxes than apply to other businesses. In some ways these issues may have been related: in return for a monopoly franchise, the state may have imposed heavier taxes. Also, the existence of rate regulation may have made it easier to levy higher taxes on these businesses since they were theoretically guaranteed full recovery of taxes through the rate-making process. For whatever reason, a system developed that did impose heavier and different tax burdens on the public utility industry than on general businesses.

The discussion below reviews obstacles as they apply to public utilities in general. Immediately following the general discussion, the obstacles are reviewed in more detail with respect to the telecommunications industry.

Simplicity: Public utility taxes apply to a class of taxpayers—those defined as “public utilities.” Public utility status affects tax liability of both the utility and its customers. In the era of deregulation and re-regulation, the term “public utility” has lost its bright-line meaning. Determining whether an entity meets the definition of a particular public utility can be difficult. It is also possible for a particular business to meet the definition of a public utility one year, but not the next. On the customer side, the taxes paid by the consumer will differ based on whether the provider of the service or product is a public utility or not.

Equity: To tax the same product or services differently depending on whether or not it is provided by a public utility is not only confusing, it is inequitable. To tax two companies differently when they provide products or services in competition with each other is also inequitable.

Stability: The public utility taxes, once a hallmark of stability, have become less reliable as public utilities have moved out of the monopoly environment and into a more competitive situation. Competitive pressures have affected both the rate-making processes and prompted legal challenges to the statutes that impose differing tax regimes than apply to general businesses. Legal challenges have already led to some refunds, and they create uncertainty for the future.

Neutrality: The disparities between general business taxation and public utility taxation have led to the creation of non-utility related entities to assume some portion of the traditional public utility role, but at a lower tax cost. An historical example best illustrates this. Formerly, electric companies were subject to higher listing percentage on inventory (like coal to be used in

generating electricity) than general businesses. By transferring ownership of the inventory to a non-utility, the electric company could significantly reduce its tax.

Competitiveness: The uncertainty associated with Ohio's current tax treatment of public utilities and their competitors makes investment in these ventures risky. In some cases, businesses may defer investment until the tax questions are resolved. The central roles of these industries, once regulated in part due to their critical importance, argues for the elimination of these artificial and troubling differences in tax treatment.

Attachment E

Property Tax Relief for Homeowners
Policy Brief
Lincoln Institute of Land Policy
March 2022

PROPERTY TAX RELIEF FOR HOMEOWNERS

By Adam H. Langley and Joan Youngman

The property tax is uniquely suited for supporting the independent local governments that play a critical role in the United States federal system. Localities fund a variety of key public services that enhance quality of life for their residents, including K-12 education, public safety, parks, infrastructure, and much more. Local governments—which include cities, counties, school districts, and all other jurisdictions below the state level—are the closest to the people and most trusted by them. An important reason for this is the proximity and flexibility that allow local governments to understand and respond to the needs of residents. But independent decision making requires that local governments have the ability to raise sufficient revenues to fund their operations.

The property tax has important strengths as a local revenue source. Its immobile tax base allows localities to assemble a package of taxes and services reflecting the preferences of their citizens. It provides stable revenue over the business cycle, promotes transparency regarding fiscal decisions, and tends

to impose less drag on the economy than other taxes. The property tax is also progressive compared to most alternatives; that is, it tends to take a relatively smaller share of income as incomes fall—especially when targeted tax relief options such as circuit breakers and homestead exemptions are in place.

Targeted property tax relief policies can lead to a tax system that is fair and affordable while still providing the revenue needed to support quality public services.

These strengths lead to heavy local reliance on property taxes. The property tax accounts for nearly half of all revenue raised by local governments in the United States. Local governments raise over five times more revenue from property taxes than from sales taxes, and over 10 times more than from income taxes.

Like any tax, however, the property tax faces challenges. Fiscal disparities across communities are a problem for any local tax and mean that poorer jurisdictions may struggle to provide adequate services at reasonable tax rates. Since it does not consider current income, the property tax can be unaffordable for those who are house-rich but cash-poor. In addition, property taxes can potentially increase sharply from one year to the next, they may be based on inaccurate or outdated estimates of value, and they often must be paid in large lump sums.

The good news is that there are policy options that can effectively address all of these challenges. When used together, they can lead to a tax system that is fair and affordable while still providing the revenue needed to support quality public services. But it is important to design relief programs carefully to address specific issues, because untargeted policies can cause excessive revenue losses and serious unintended consequences.

The Keys to an Equitable and Efficient Property Tax System



Designing Targeted and Effective Tax Relief Policies

Research shows that most property tax revolts are a response to dramatic increases in property taxes, particularly when these result from rising home values. These political reactions have often led to some form of state-level property tax limitations, including rate limits, assessment limits, and levy limits. These limits can constrain growth in property taxes, but they may also shift the revenue mix to less reliable sources, reduce the quality of local services, and impede local governments' ability to respond to local preferences and changing circumstances.

To avoid politically unacceptable tax increases without resorting to inflexible tax limitations, it is critical that local officials reduce tax rates during periods of rapid growth in property values. Responsive rate setting, quality assessment practices, and regular revaluations are the foundation of a fair property tax system.

Targeted tax relief policies can build upon that foundation. Circuit breakers, deferrals, and homestead credits each address specific property tax challenges without undermining the strengths of this essential revenue source. Relief programs can make the property tax more progressive, offset rapid tax increases, assist homeowners who face liquidity issues, and help those who are least able to pay.

Homestead Exemptions and Credits

Homestead exemptions and credits are the most common type of property tax relief. These exemptions and credits are usually available for all owner-occupied primary residences, although some states restrict eligibility to seniors or provide seniors with additional benefits. Most jurisdictions exempt a fixed *dollar* amount from taxation, making the property tax distribution more progressive. For example, a \$20,000 exemption reduces property taxes by 20 percent on a \$100,000 home, 10 percent on a \$200,000 home, and 5 percent on a \$400,000 home. Some jurisdictions exempt a fixed *percentage* of value from taxation, leaving the property tax distribution unaffected and providing the largest dollar savings to owners of high-value homes. Homestead credits are similar to exemptions, but they reduce tax bills directly rather than reducing taxable values.

Income-Based Homestead Credits

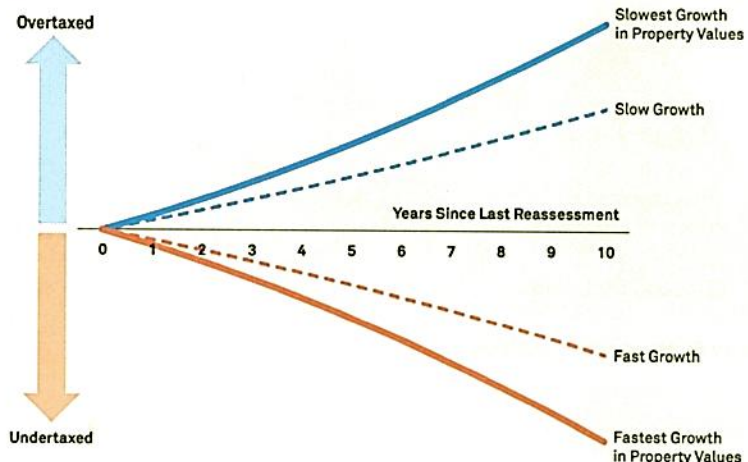
Income-based homestead credits tie the amount of property tax relief to applicants' incomes, with credits decreasing as income increases. These means-tested programs provide more targeted and cost-effective relief than homestead exemptions or credits that do not take income into account. However, means testing can also reduce participation rates and increase administrative burdens.

Quality Assessment Practices Are Essential for Tax Fairness

Accurate assessments are essential for equity under a market-value property tax system. Without them, the distribution of property taxes becomes unfair and arbitrary. Assessment accuracy depends on regular revaluations, and it is enhanced by modern valuation techniques, state oversight of local assessing offices, and effective appeals systems.

The most common cause of inaccurate assessments is that too much time has passed since the last revaluation. The longer a jurisdiction goes without reassessing property values, the greater the tax inequities. Properties with the slowest growth in values (or largest declines) become increasingly overtaxed. Properties with the fastest growth become increasingly undertaxed.

Tax Inequities Grow Without Reassessment



Recommendations

Property tax relief must be designed thoughtfully to address specific issues and avoid unintended consequences. The following recommendations promote an equitable and efficient tax system.

IMPLEMENT QUALITY ASSESSMENT PRACTICES WITH REGULAR REVALUATIONS. Accurate assessed values are the foundation of a fair property tax system, and regular revaluations are crucial to maintaining accurate assessments. Without them, taxpayers in areas of slow or declining growth will be overtaxed, subsidizing taxpayers in neighborhoods with the greatest property appreciation. Between full revaluations, assessments can be kept current by statistical adjustments and mass appraisal techniques.¹ Regular revaluations should be paired with tax rate reductions during periods of rising values.

UTILIZE WELL-DESIGNED STATE AID FORMULAS. A frequent criticism of the property tax is that poorer communities with low property values cannot supply adequate public services at affordable tax rates. However, this is not a problem with the property tax, but with local taxation generally. Areas that cannot support quality services with their local tax base require transfers from a higher level of government. State aid is the only way to address fiscal disparities across communities and ensure that all localities have the resources to provide quality services, especially public education. State aid formulas should account for socioeconomic factors that affect expenditure needs and differences in the local costs of providing public services.²

PROVIDE TARGETED AND COST-EFFECTIVE PROPERTY TAX RELIEF WITH CIRCUIT BREAKERS AND DEFERRALS. Circuit breakers target relief to households paying the highest share of their income in property taxes. These may include senior citizens on fixed incomes, low-income homeowners in gentrifying neighborhoods, and workers who have lost their jobs. These programs offset taxes above a threshold percentage of income and can provide effective relief to the most heavily burdened households.³

Tax deferrals allow homeowners to delay payment of their tax until their home is sold or inherited, at which point the deferred taxes are due, together with any interest. Deferrals provide substantial assistance to homeowners who are cash-poor but house-rich, allowing them to defer 100 percent of their tax liability and draw on their home equity to pay current property tax bills. They are particularly appropriate for senior citizens who wish to age in place.⁴

ALLOW HOMEOWNERS TO PAY PROPERTY TAXES ON A MONTHLY BASIS. Instead of requiring lump-sum payments that can create financial challenges for households and increase tax delinquency, local governments should consider alternative payment plans. This is typically done through prepayment programs that allow monthly payments to accumulate in an escrow account, which is used to pay the annual or biannual tax bill.⁵

AVOID TAX LIMITATIONS, ESPECIALLY ASSESSMENT LIMITS. Tax limits are one of the most common responses to political pressure for property tax relief, but they are generally a poor choice.⁶ They are untargeted and impose a one-size-fits-all constraint on very different local governments. Limits on growth in assessed values are particularly harmful. They create unpredictable winners and losers, shift the tax burden from owners of rapidly appreciating property to those whose home values are growing slowly or even depreciating, and generate large inequities where owners of homes of similar value face very different tax bills.⁷ Rather than imposing inflexible tax limits, state and local governments should provide targeted tax relief that preserves the revenue needed to maintain quality public services.

This Policy Brief is based on *Property Tax Relief for Homeowners*, a Policy Focus Report by Adam H. Langley and Joan Youngman (Cambridge, MA: Lincoln Institute of Land Policy, 2021).

- 1 International Association of Assessing Officers. 2017. *Standard on Mass Appraisal of Real Property*. Kansas City, MO: International Association of Assessing Officers.
- 2 Matthew Chingos and Kristin Blagg. 2017. "Making Sense of State School Funding Policy." Washington, DC: Urban Institute.
- 3 John H. Bowman, Daphne A. Kenyon, Adam Langley, and Bethany P. Paquin. 2009. *Property Tax Circuit Breakers: Fair and Cost-Effective Relief for Taxpayers*. Policy Focus Report. Cambridge, MA: Lincoln Institute of Land Policy.
- 4 Alicia Munnell, Anek Belbase, Wenliang Hou, and Abigail N. Walters. 2017. "Property Tax Deferral: A Proposal to Help Massachusetts Seniors." Chestnut Hill, MA: Boston College Center for Retirement Research.
- 5 Adam H. Langley. 2018. "Improving the Property Tax by Expanding Options for Monthly Payments." Working paper WP18AL1. Cambridge, MA: Lincoln Institute of Land Policy.
- 6 Joan Youngman. 2016. "Tax Restrictions and Assessment Limits." In *A Good Tax: Legal and Policy Issues for the Property Tax in the United States*. Cambridge, MA: Lincoln Institute of Land Policy.
- 7 Mark Haveman and Terri A. Sexton. 2008. *Property Tax Assessment Limits: Lessons from Thirty Years of Experience*. Policy Focus Report. Cambridge, MA: Lincoln Institute of Land Policy.

In Colorado, the property tax deferral option for senior homeowners has many elements of a well-designed program, imposing no income ceiling and using a low interest rate on deferred taxes equal to the latest 10-year Treasury note. Taxpayers must submit an annual application to qualify, and the state government makes payments to each county on behalf of those who have deferred their taxes.



Shoveling snow in Crested Butte, Colorado.
Source: John Terence Turner/Alamy Stock Photo.

Income-based homestead credits define several income brackets, and taxpayers within each bracket receive the same property tax reduction. For example, a state might provide a 75 percent property tax credit for households with incomes up to \$10,000, a 50 percent credit for incomes of \$10,001 to \$20,000, and a 25 percent credit for incomes of \$20,001 to \$30,000. Some states provide a fixed-dollar credit for taxpayers in each income bracket, again with credits decreasing as incomes rise.

Circuit Breakers

Property tax circuit breakers are meant to prevent homeowners from being overburdened by property taxes, just as an electrical circuit breaker prevents electric current overloads. They offer relief when property taxes exceed a threshold percentage of income. Circuit breakers target property tax relief to homeowners paying the highest share of their income in property taxes, such as seniors on fixed incomes, low-income homeowners in gentrifying neighborhoods, and individuals facing a sudden reduction in earnings. These programs are more cost-effective than those that provide a small amount of tax relief to all homeowners, because they can allow significant assistance to the most heavily burdened households at a lower cost overall.

Most states impose income ceilings to restrict eligibility and benefit limits to constrain the amount of relief provided to any taxpayer. It is important to avoid income ceilings and benefit limits that are too low, to ensure that homeowners receive adequate relief.

Deferrals

Property tax deferral programs allow homeowners to delay payment of their property taxes until ownership of the home is transferred. At that point, the full amount of deferred tax becomes due, typically with interest. Deferrals directly address concerns faced by homeowners with substantial home equity but limited cash flow, allowing them to draw on their home equity to pay current property tax bills. Unlike other forms of tax relief, deferrals impose no long-term cost on other taxpayers. Yet they can also provide very substantial assistance—usually allowing homeowners to defer 100 percent of their tax liability.

Summary of Property Tax Relief Programs

Good	Homestead Exemptions and Credits
Better	Income-Based Homestead Credits
Best	Circuit Breakers Deferrals

Eligibility for deferrals is usually restricted to low-income seniors. Deferrals are an excellent solution for these households, as most seniors own their homes and have considerable home equity. In addition, most seniors prefer to age in place, and deferrals ensure that no eligible homeowner will be forced to move due to property taxes.