Overview

1) Constitutional Limits of Property Taxation

2) Property Valuation

3) Impact of Valuation Changes on Township Revenues
Constitutional Restrictions

• O. Const. Art. XII, Sec. 2 is the basis for property taxation

• Article XII, Section 2a further defines how property taxes may be implemented

• Article XII, Section 3 provides for the imposition of taxes on income

Constitutional Provisions

• Article XII, Section 2 imposes two primary limitations on real property taxation

• All real property must be taxed uniformly according to fair market value
  • i.e., all real property must be treated equally

• Taxes can exceed one percent of “true value” (fair market value) only by popular vote
Constitutional Restrictions

• Statutory law is even more restrictive
  • Unvoted taxes cannot exceed 1% of taxable value
  • See RC 5705.02

• Article XII, Section 2a of the Constitution allows real property to be “classified” or categorized for tax reduction factors as either residential/ agricultural or other

Property Taxation Overview

• There are two “classes” of real property
  • Residential & agricultural (Class 1)
  • Commercial and industrial (Class 2)

• There are two “types” of tangible personal property
  • General business (which is no longer taxable)
  • Public utility
### Property Taxation Overview

**Percentage of Property Valuation by Type**

**Tax Year 2016**

<table>
<thead>
<tr>
<th>Type</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Residential/Agricultural</td>
<td>73.4%</td>
</tr>
<tr>
<td>Commercial/Industrial</td>
<td>20.4%</td>
</tr>
<tr>
<td>Public Utility Tangible</td>
<td>6.2%</td>
</tr>
</tbody>
</table>

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**Property Taxation Overview**

- In a simple world, calculating property tax is “simple”:

\[
\text{Property Value} \times \text{Tax Rate} = \text{Property Tax Due}
\]

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Property Taxation Overview

- In Ohio, real property tax is calculated:

\[
\text{Net Real Property Tax Due} = \left( \frac{\text{Property Value}}{\text{Assessment Rate \%}} \right) \times \left( \frac{\text{Tax Rate}}{\text{Reduction Factors}} \right) \times (35\%) - \text{Tax Credits (paid by state)}
\]

Real Property Valuation

- Property values are based on true value

- True value is generally fair market value

- Property used exclusively for commercial agricultural purposes is valued based on its ability to generate agricultural income
  - rather than on fair market value
Real Property Valuation

- Real property is reappraised every six years through visual inspection by each county.

- Values are updated three years after reappraisals based on computer analyses of property transactions in the taxing jurisdiction.

- **Taxable Value** of real property is statutorily set at 35% of fair market value.
  - i.e., the **Assessment Rate %** = 35%

P.U. Tangible Property Valuation

- For public utilities other than electric production equipment, *true value* is based on depreciated cost.

- For electric production equipment, *true value* is either 50 percent of original cost or depreciated cost.
  - Generally depends on when the equipment was first put in service.
P.U. Tangible Property Valuation

• **Taxable Value** is set to be some percentage of true value
  • an **Assessment Rate %** is established for various types of public utility property

• Utilities around the state with older facilities have been appealing for lower valuations over the last couple years

• There is a lot of potential new public utility values because of the Rover and Nexus pipelines

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### Assessment Rates of Public Utility Property

<table>
<thead>
<tr>
<th>Assessment Rate</th>
<th>Type of Property</th>
</tr>
</thead>
<tbody>
<tr>
<td>88 %</td>
<td>Heating company, pipeline company, and waterworks company property</td>
</tr>
<tr>
<td>85 %</td>
<td>Transmission and distribution property of electric companies</td>
</tr>
<tr>
<td>50 %</td>
<td>Transmission and distribution property of rural electric companies</td>
</tr>
<tr>
<td>25 %</td>
<td>Rural electric property other than transmission and distribution property; natural gas company, railroad company, and water transportation company property</td>
</tr>
<tr>
<td>24 %</td>
<td>Electric Company property other than transmission and distribution property</td>
</tr>
</tbody>
</table>
What is Happening Going Forward

- 12 of the 41 counties going through reappraisal or triennial update is are expected to see double-digit increases in residential values
- Only two counties are expecting lower than 3% growth in residential values
- New pipelines may have significant impacts on Public Utility values over the next several years

<table>
<thead>
<tr>
<th>County</th>
<th>Recommended Increase</th>
<th>Tentative Change</th>
<th>County</th>
<th>Tentative Change</th>
<th>County</th>
<th>Tentative Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ashland</td>
<td>13.0%</td>
<td>12.2%</td>
<td>AUGLAIZE</td>
<td>8.9%</td>
<td>MAHONING</td>
<td>2.0%</td>
</tr>
<tr>
<td>Ashtabula</td>
<td>6.0%</td>
<td>5.7%</td>
<td>CLINTON</td>
<td>11.1%</td>
<td>MERCER</td>
<td>6.8%</td>
</tr>
<tr>
<td>Athens</td>
<td>7.0%</td>
<td>7.1%</td>
<td>DARKE</td>
<td>12.2%</td>
<td>MORROW</td>
<td>8.1%</td>
</tr>
<tr>
<td>Butler</td>
<td>13.0%</td>
<td>8.6%</td>
<td>DEFIANCE</td>
<td>7.9%</td>
<td>PERRY</td>
<td>7.9%</td>
</tr>
<tr>
<td>Clermont</td>
<td>14.0%</td>
<td>14.0%</td>
<td>DELAWARE</td>
<td>11.9%</td>
<td>PICKAWAY</td>
<td>9.9%</td>
</tr>
<tr>
<td>Fulton</td>
<td>15.0%</td>
<td>10.4%</td>
<td>FRANKLIN</td>
<td>13.7%</td>
<td>PIKE</td>
<td>12.3%</td>
</tr>
<tr>
<td>Greene</td>
<td>8.0%</td>
<td>5.4%</td>
<td>GALLIA</td>
<td>5.2%</td>
<td>PREBLE</td>
<td>7.6%</td>
</tr>
<tr>
<td>Knox</td>
<td>10.0%</td>
<td>8.1%</td>
<td>GEAUGA</td>
<td>7.0%</td>
<td>PUTNAM</td>
<td>11.1%</td>
</tr>
<tr>
<td>Madison</td>
<td>18.0%</td>
<td>15.7%</td>
<td>HAMILTON</td>
<td>5.2%</td>
<td>RICHLAND</td>
<td>4.6%</td>
</tr>
<tr>
<td>Montgomery</td>
<td>6.0%</td>
<td>6.3%</td>
<td>HARDIN</td>
<td>6.2%</td>
<td>SENECa</td>
<td>5.0%</td>
</tr>
<tr>
<td>Noble</td>
<td>12.0%</td>
<td>8.8%</td>
<td>HARRISON</td>
<td>1.5%</td>
<td>SHELBY</td>
<td>6.5%</td>
</tr>
<tr>
<td>Summit</td>
<td>8.0%</td>
<td>7.8%</td>
<td>HENRY</td>
<td>9.0%</td>
<td>TRUMBULL</td>
<td>3.1%</td>
</tr>
<tr>
<td>Wayne</td>
<td>7.0%</td>
<td>6.5%</td>
<td>JACKSON</td>
<td>7.4%</td>
<td>VANWERT</td>
<td>3.3%</td>
</tr>
<tr>
<td>Licking</td>
<td>13.4%</td>
<td>13.4%</td>
<td>WOOD</td>
<td>10.2%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
What is Happening Going Forward

- In counties going through reappraisal or triennial update in 2017, CAUV values are expected to decline by an average of 31.7% statewide.

- In 2018 counties, CAUV values are expected to decline 21.5%.

- In 2019 counties, CAUV values are expected to decline 20.6%.
What is Happening Going Forward

• In areas with strong growth in residential values and little agricultural property, tax rates will be rolled down by tax reduction factors to prevent gains in local revenue

• In areas where agricultural values decline more than residential values increase, tax rates will increase to prevent local revenue from falling

• In areas experiencing both of the above situations, the two will work opposite each other to keep tax rates stable

What is Happening Going Forward

• Counties going through reappraisals in 2018 or 2019 are likely to see increases in residential valuation

• Just because residential values are rising does not mean that townships will get more money

• Just because agricultural values are dropping does not mean agricultural dominant townships will get less money
Property Tax Rates

• There are two different ways tax levies can be implemented:
  • Unvoted millage (inside millage) is approved by the county budget commission, but cannot exceed 10 mills (a mill is 0.1 percent) for any taxpayer
  • Voted millage (outside millage) is approved by a popular vote

Tax Reduction Factors

• Enacted by H.B. 920 in 1976

• Tax reduction factors only apply to voted millage, not to unvoted (inside) millage

• Tax reduction factors are designed to:
  • Prevent a taxing jurisdiction from realizing additional revenue from increases in the market value of real property
    • Only applies to real property that existed in the district in both the current and previous year
    • Does not apply to new construction or improvements to real property
Common Misconceptions of Reduction Factors

- Tax reduction factors are **not** designed to:

  - Ensure every taxpayer within a township pays the same taxes on a levy as in the year preceding reappraisal or triennial update
  - Prevent townships from receiving additional revenue from new construction

### Tax Reduction Factors

**ILLUSTRATION 1—INCREASE IN VALUATION**

<table>
<thead>
<tr>
<th></th>
<th>Taxpayer 1</th>
<th>Taxpayer 2</th>
<th>Township</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxable Value Before Reappraisal</td>
<td>$40,000</td>
<td>$40,000</td>
<td>$10,000,000</td>
</tr>
<tr>
<td>Taxes Before Reappraisal (5 mills)</td>
<td>$200</td>
<td>$200</td>
<td>$50,000</td>
</tr>
<tr>
<td>Taxable Value After Reappraisal</td>
<td>$46,000</td>
<td>$42,000</td>
<td>$11,000,000</td>
</tr>
<tr>
<td>Taxes After Reappraisal (5 mills)</td>
<td>$209</td>
<td>$191</td>
<td>$50,000</td>
</tr>
</tbody>
</table>

Valuation in township increases 10 percent, but Taxpayer 1’s value increases 15% and Taxpayer 2’s value increases 5%

Assumes all 5 mills of tax are outside levies subject to reduction
Tax Reduction Factors

ILLUSTRATION 2—DECREASE IN VALUATION

<table>
<thead>
<tr>
<th></th>
<th>Taxpayer 1</th>
<th>Taxpayer 2</th>
<th>Township</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxable Value Before Reappraisal</td>
<td>$40,000</td>
<td>$40,000</td>
<td>$10,000,000</td>
</tr>
<tr>
<td>Taxes Before Reappraisal (5 mills)</td>
<td>$200</td>
<td>$200</td>
<td>$50,000</td>
</tr>
<tr>
<td>Taxable Value After Reappraisal</td>
<td>$34,000</td>
<td>$38,000</td>
<td>$9,000,000</td>
</tr>
<tr>
<td>Taxes After Reappraisal (5.556 mills)</td>
<td>$189</td>
<td>$211</td>
<td>$50,000</td>
</tr>
</tbody>
</table>

Valuation in township decreases 10 percent, but Taxpayer 1’s value decreases 15% and Taxpayer 2’s value decreases 5%

Assumes all 5 mills of tax are outside levies subject to reduction

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Tax Reduction Factors

ILLUSTRATION 3—FLAT OVERALL VALUATION WITH INCREASE IN RESIDENTIAL AND DECREASE IN AGRICULTURAL

<table>
<thead>
<tr>
<th></th>
<th>Homeowner</th>
<th>Farmer</th>
<th>Township</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxable Value Before Reappraisal</td>
<td>$40,000</td>
<td>$40,000</td>
<td>$10,000,000</td>
</tr>
<tr>
<td>Taxes Before Reappraisal (5 mills)</td>
<td>$200</td>
<td>$200</td>
<td>$50,000</td>
</tr>
<tr>
<td>Taxable Value After Reappraisal</td>
<td>$44,000</td>
<td>$32,000</td>
<td>$10,000,000</td>
</tr>
<tr>
<td>Taxes After Reappraisal (5 mills)</td>
<td>$220</td>
<td>$160</td>
<td>$50,000</td>
</tr>
</tbody>
</table>

Valuation in township stays flat, but homeowner’s value increases 10% and farmer’s value decreases 20%

Assumes all 5 mills of tax are outside levies subject to reduction

PUBLIC FINANCE RESOURCES: EMPOWERING THE PUBLIC’S FINANCIAL LEADERS
Key Takeaways

- Residential property values are growing at a healthy rate across the state.
- Agricultural property values will likely be falling for the next five years.
- The impacts of the increases and decreases in values will be muted by tax reduction factors, but may cause shifting of tax liability from farmers to homeowners.

The Public Finance Resources Team

Matt Bunting, Consultant, has over 30 years of experience in the public finance sector. This includes 20 plus years as a school district treasurer, and 11 years with the Auditor of State where he led financial, legal compliance, and Federal single audits of government entities. Matt has helped develop financial forecasting tools, and providing instruction and training opportunities attended and used by over two hundred of Ohio's public school treasurers. Matt works with clients to help determine a long-term operating strategy for the organization. He holds a Degree in Accounting from Hocking College, and is a Certified Government Financial Manager.

Ryan Ghizzoni, Consultant, began his career with the Auditor of State's Office and has served as a school district treasurer for the past 10 years. During his career, he has been the recipient of six Association of School Business Officials International Meritorious Budget Awards and was the recipient of the Ohio Association of School Business Officials 2011 Outstanding Treasurer of the Year Award. Ryan holds a Bachelors of Business Administration from the Youngstown State University, and is a Certified Administrator of School Finance and Operations.

Debra Hoelzle, Chief Operations Officer, provides direct services to clients, and oversees the day-to-day operations of PFR. She brings with her operational experience from both the public and private sectors, including a school district and multiple corporations in the financial services industry. Debra holds her Masters of Business Administration from Ohio University, and her Bachelors of Science in Business Administration from The Ohio State University.

Stacy Overly, Consultant, provides direct financial services to clients. He has over 20 years of experience serving as school district treasurer, including 15 plus years of developing financial forecasting tools, and providing instruction and training opportunities attended and used by over two hundred of Ohio's public school treasurers. Stacy works with clients to analyze trends and review local economic data to help determine a long-term operating strategy for the organization. He holds his Masters of Business Administration and his Bachelors of Business Administration in Finance from Ohio University.

Mike Sobul, Consultant, brings 30 years of experience in public finance and tax analysis. Currently a school district treasurer, Mike spent nearly 25 years with the Ohio Department of Taxation where he led revenue forecasting efforts and provided analysis, training, and fiscal services to schools and local governments. Mike holds a Masters Degree in Public Policy from the University of Michigan and a Bachelors Degree in Economics and Political Science from Wittenberg University.

Ernie Strawser, Consultant, provides direct services to our public finance clients. He has over 30 years of public finance experience as a CFO, consultant, and developer and instructor of financial forecasting techniques and tools which have been used by over two hundred Ohio school district CFOs. Ernie works with clients to facilitate their understanding of local financial results, trends, and strategies. He holds both a Masters of Science in Administration from Central Michigan University and a Bachelor of Science in Finance from Ohio University.
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  - Cash flow monitoring
  - Modeling scenarios
  - Graphics and dashboards
  - Planning tool
• Consulting \(\rightarrow\) *Maximize your effectiveness*
  - Financial consulting and cash flow monitoring
  - Forecast review and analysis, “what if” planning
  - Presentations to key stakeholders
  - Special Projects
• Data Interpretation \(\rightarrow\) *Data driven decision making*
  - Multi-year data sets to identify trends
  - Benchmark analysis reports to see how you compare
  - Graphics that are easy to read, understand and explain
  - Data driven decision making

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