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Understanding school levies

Funds generated from school tax levies compose a significant part of financing for Ohio schools. This fact sheet is designed to address the most frequently asked questions about school tax issues in Ohio. The information is of a general nature. Readers should seek the advice of legal counsel with specific legal problems or questions.

How are school districts financed?

School districts in Ohio are financed with a combination of federal, state and local funds. At the state level, school districts receive funding from the Ohio Department of Education's (ODE) general revenue funds and Ohio Lottery profits. At the local level, school districts receive funding from locally levied property taxes. School districts also can receive funding from income taxes approved by voters.

What is a property tax levy?

A property tax levy is the collection of taxes charged on the value of property. Each district must follow a process described in Ohio law in order for taxes to be levied on property within the district.

Boards of education propose additional local tax revenues by board resolution. School districts can place a levy on the ballot up to three times a year on specified election dates. If a majority of voters in an election approve the tax, county officials charge and collect the tax under the terms specified in the tax levy proposal. The collected funds are then disbursed to the district. When a levy is placed on the ballot, it must identify as its objective a legally defined school district purpose.

What types of property can be taxed?

Real property subject to taxation includes the buildings and land held by individuals or businesses. Real property is divided into two classes: Class I (residential and agricultural) and Class II (commercial, industrial and all other real property).

What is a mill?

The unit of value for expressing the rate of property taxes in Ohio is the "mill." A mill is defined as one-tenth of a percent or one-tenth of a cent (0.1 cents) in cash terms. Millage is the factor applied to the assessed value of property to produce tax revenue.

● **Inside or unvoted mills** – Millage imposed by local governments without voter approval as defined in the Ohio Constitution. The constitutional limit for these taxes is 1% or 10 mills. Public schools, cities, counties and other local governments within a taxing district are allocated a portion of the inside mills collected within the district.

● **Outside or voted mills** – Millage approved by voters. Outside mills are subject to the property tax reduction factor.

● **Effective mills** – In the case of real property, a difference can exist between a tax levy's rate as authorized by the voters and the actual amount of mills charged against a district's assessed valuation. The effective millage rate reflects the fact that the original number of voted mills has received an adjustment to compensate for the impact of inflation on real property values.

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For more information on this subject, please contact OSBA's Division of Legal Services

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What is the House Bill 920 factor?

In 1976, the Ohio General Assembly passed House Bill (HB) 920, which reduces the taxes charged by a voted levy to offset increases in the value of real property. This is called the property tax reduction factor or HB 920 factor. The reduction factor applies to both Class I and Class II real property. This means the amount of outside millage taxes collected on property will not exceed the amount collected at the property's value in the first year the taxes were collected. Although property values may increase while the levy is in effect, the amount of taxes collected on those properties do not increase. The reduced rate at which taxes are collected is termed the "effective" millage.

What are the permissible uses for tax levies?

Permissible uses depend on the type of levy. Among the permissible uses are: operating expenses; general ongoing improvements; recreational purposes; specific permanent improvements and/or classes of improvements; community or cultural centers; school safety and security; purchase of educational technology; and debt service for bonds issued for school construction.

What are the common types of school tax levies?

- **General levy** – A property tax used for any school district purpose but primarily for either operating expenses or permanent improvement funding. General levies used to provide operating funds are commonly known as operating levies, while those used for permanent improvements can be known as permanent improvement or PI levies. Boards of education propose levies as a specific dollar amount of new revenue. That proposal is reviewed by the county auditor, who determines the actual millage necessary to produce the dollar amount. The levy, once approved by voters, is subject to the tax reduction factor.
- **Emergency levy** – A property tax that serves as a limited operating levy (maximum of 10 years) proposed for a specific dollar amount. Because the dollar amount of taxes charged by the levy must stay constant, the millage rate increases or decreases as property values change. (Note: The millage of a general levy proposed for a specific dollar amount cannot be raised beyond the voted amount, while the millage of an emergency levy can.) Emergency levies may be renewed for the dollar amount originally requested.
- **Bond levy or bond issue** – A property tax levy used to provide a school district with local revenue for construction purposes. The county auditor determines the rate of a bond levy needed each year to service the principal and interest owed on the amount of bonded debt approved by voters when they approved the bond levy. Bond levies remain in place until the

debt (principal and interest) is fully paid, typically 20 or more years.

- **Dual-purpose levy** – A single ballot issue for a PI levy or bond issue combined with an operating levy. The issue may be continuing or limited. A PI/operating levy may be either a property tax or a school district income tax, but a bond/operating levy must be a property tax. The school board, at the time it seeks the ballot issue, must state how much of the tax levy will be used for each purpose.
- **County financing district levy** – A property tax levy proposed by an educational service center for the support of a specific program or purpose (such as special education). If approved, the tax is levied on all participating districts in the county. These also may be limited or continuing levies. A county financing district levy may be packaged with a millage reduction for residents of participating districts.
- **Incremental levy** – A property tax phased in for the full amount of the millage increase. It also is commonly known as a phased-in levy. It is a limited levy, with a maximum term of 10 years. Unlike an operating levy, an incremental levy imposes additional millage on a regular schedule throughout the life of the levy. The advantage is that the increments are imposed as the full voted millage, not as effective millage, meaning there is a limited amount of growth allowed in the levy. Up to five changes may be proposed during the levy's life. The changes may be implemented as a dollar amount, millage rate change or change in the percentage of the millage imposed.
- **Growth levy** – A property tax levy that is designed to compensate for reductions in state funding caused by appreciation in real estate values. The growth cannot exceed 4% per year. Since the property value increase is phased in over three years, the amount that can be raised by the levy is only based on one-third of the total increase in value. For example, if a district passes the levy and assesses property values for existing property increase from \$100 million to \$115 million, the levy generates an additional \$15 million, which equals one mill of tax). In the second year of the levy, the revenue raised cannot exceed \$119,600 (an increase of 4% over the amount collected in the preceding year, providing an additional 0.04 mills).

What are the options when a limited levy expires?

When a limited levy (one which is limited to a particular number of years) expires, boards of education wishing to receive continuing or additional funding can choose either to renew the levy or replace it.

● **Renewal levy** – Ohio law generally allows districts to ask voters to renew a limited levy when it expires. The levy must be for the same purpose and is renewed at the effective millage rate. (Example: A five-mill, five-year levy that has been lowered by the reduction factor to 3.8 mills would be renewed at the 3.8-mill rate.) A renewal, however, can be combined with additional millage.

● **Replacement levy** – This type of levy has the same purpose as a renewal, but instead of renewing the previous levy at the effective millage rate, a replacement levy is imposed at the original millage rate of the levy that it replaces. This gives the district the benefit of any growth in local value that occurred over the life of the previous levy. (Example: A five-mill, five-year levy would be replaced for five mills, instead of the 3.8-mill effective rate of the older levy.) This type of levy cannot be used for an emergency levy, and unlike the renewal levy, cannot be combined with other changes in millage.

When are the tax revenues collected?

Real property taxes are paid in January and July of the calendar year following the tax year (TY) for which the taxes are levied. Thus, the county treasurer will collect the first half of TY '17 real property taxes in January 2018. Collection of the second half of TY '17 collections will occur in July 2018. Because school districts use a July 1 to June 30 fiscal year, the timing of tax payments means that revenue from TY '17 levies will be received in the second half of fiscal year (FY) '18 and in the first half of FY '19.

Can a school district levy an income tax?

Yes. The school district income tax (SDIT) is levied at a percentage on the income of district residents or on the taxable income of an estate. SDIT uses as its base the same taxable income as reported for state income tax purposes. It can be either for operating purposes or permanent improvements. SDIT can be a limited levy or continuing levy and can be proposed in combination with a property tax levy, bond levy or reduction in property taxes. The advantage of SDIT for a school district is quite simple: because SDIT taxes income, not property, there is no millage reduction factor involved. The levy proceeds grow as residents' incomes do.

Are there other types of school district income taxes?

Yes. School districts also are permitted to levy income taxes on earned income only. Earned income excludes investment and retirement income. Like the income tax levied on taxable income, this tax applies to school district residents regardless of where they live. By applying the school district income tax to a narrower voter base, school districts may obtain approval of levies that would otherwise be defeated.

School districts also have the option, with voter approval, of converting a traditional income tax levy to a levy on earned income only. In addition, municipal corporations and an overlapping school district can levy a shared income tax.

The information in this fact sheet is designed to provide authoritative general information. It should not be relied upon as legal advice. OSBA recommends that questions of legal interpretation be directed to your board's legal counsel.