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Understanding school levies

This fact sheet is designed to address the most frequently asked questions about the 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.

What is a tax levy?

A tax levy results from a process by which taxes are proposed, approved by voters, charged and collected. Boards of education propose additional local revenues in the form of a specific tax by a board resolution. School districts can place a levy on the ballot up to three times a year on three or four election dates. If a majority of voters who vote on the issue approve the tax, the county officials charge and collect the tax under the terms specified in the tax levy proposal. 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?

In Ohio, the bulk of revenue raised locally is from taxes levied on real property and tangible personal property. Real property 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). Tangible personal property (TPP) includes furniture and fixtures, machinery, equipment and inventory used by businesses in the manufacture and/or sale of their products. The majority of TPP will be eliminated by 2011.

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. It is not subject to the property tax reduction factor.
- **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.

What is the House Bill 920 factor?

An adjustment by which the law reduces the taxes charged by a voted levy to offset increases in values is called the property tax reduction factor. House Bill 920 was the legislation that created this law in 1976. The reduction factor applies only to Class I and Class II real property. Business tangible personal property and public utility tangible personal property are taxed at the voted millage rate.

What are the permissible uses for tax levies?

Permissible uses for a levy include: operating expenses; general ongoing improvements; recreational purposes; specific permanent improvements and/or

class of improvements; support for public libraries; community centers; 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 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 either 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 five 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 an emergency levy can.) Because it deals with specific dollar amounts, the emergency levy provides no growth on personal tangible or public utility property if the value goes up. Emergency levies may be renewed for the dollar amount originally requested.

● **Bond levy or bond issue** – A property tax levy used to provide the 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 the 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 both 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 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 levies also may be limited or continuing levies. A county financing district levy may be packaged with a millage reduction for residents of the participating districts.

● **Incremental levy** – A property tax phased in for the full amount of the millage increase. It is also

commonly known as a phase-in levy. It is a limited levy, with a maximum term of 10 years. Unlike the 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 life of the levy. The changes may be implemented as a dollar amount, a millage rate change or a 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 on that amount 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 assessed property values for existing property increase from \$100 million to \$115 million, the levy will generate an additional \$115,000 (23 mills times one-third of the increase of \$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 expires, boards of education have two options if they wish to receive additional funding: 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.

Can school districts levy an income tax?

Yes. The school district income tax (SDIT) is levied at a percentage on the income of district residents.

The 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. An SDIT can be a limited levy (maximum of five years) or a continuing levy. The SDIT can be proposed in combination with a reduction in property tax. The advantage of the SDIT for a school district is quite simple: because the SDIT taxes income, not property, there is no millage reduction factor involved. The levy proceeds can grow as residents' incomes grow.

Are there other types of school district income taxes?

Yes. School districts are also permitted to levy income taxes on earned income only. School districts have the option to levy an income tax and exempt certain incomes, such as pensions and retirement benefits. 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 of converting a

traditional income tax levy to a levy on earned income only with voter approval. Municipal corporations and an overlapping school district can levy a shared income tax, as well.

When is a levy collected?

Real and public utility 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 '08 real and public utility taxes in January 2009. Collection of the second half of TY '08 collections will occur in July 2009. The timing of tax payments means that revenue from TY '08 levies will be received in the second half of fiscal year (FY) '09 and in the first half of FY '10 (school districts use a July 1 to June 30 fiscal year).

To review a complete list of deadlines and past levy results, visit www.ohioschoolboards.org/levy-information-and-resources-center.