

Real Property Taxes & Valuation

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How to Read Your Real Estate Tax Bill

Parcel Number	Owner Name/Legal Description	Assessed Value (35% of Market)		Tax Rate
010-777777	Citizen John A Citizen Jane B 1234 Happy Home Dr. Happy Hills Lot 7	LAND BUILDING TOTAL	28,400 53,100 81,520	91.480000 <hr/> Reduction Factor .452679 Effective Tax Rate 50..068854
Tax Distribution		Tax Calculation		
County General Fund Childrens Services ADAMH MRDD Parks Zoo	Senior Options Library JVS City Twp. Schools	Real Estate Taxes Tax Reduction Sub Total 10% Rollback 2 ½% Rollback Full Year Taxes Half Year Taxes	7,457.45 3,375.83 4,081.62 408.16 102.04 3,571.42 1,785.71	
Other Information		Half Year Amount Due	1,785.71	

(BASE X TAX RATE) - CREDIT = TAX

- Base – 35% of True Value
- Tax Rate – Sum of all voted and unvoted millage
- Tax Credit – Tax “Reduction” Factor
- Other Credit/Exemptions – Homestead Exemption, 2 ½ % Rollback

True Value

Land – $81,200 \times .35 = 28,420$

Building – $151,700 \times .35 = 53,100$

Total – $232,900 \times .35 = 81,520$

Assessed Value

(35% of Market Value)

LAND	28,420
BUILDING	53,100
TOTAL	81,520

Effective Tax Rate Calculation

$$91.480000 \times .452679 = 41.41107$$

$$91.480000 - 41.41107 = 50.068854$$

Tax Rate

91.480000

Reduction Factor

.452679

Effective Tax Rate

50.068854

Tax Calculation

Real Estate Taxes	7,457.45
Tax Reduction	3,375.83
Sub Total	4,081.62
10% Rollback	408.16
2 ½ % Rollback	102.04
Full Year Taxes	3,571.42
Half Year Taxes	1,785.71

$$81,520 \times .09148 = 7,457.45$$

$$7,457.45 \times .452679 = 3,375.83$$

Understanding Why Taxes Don't Decrease When Value Declines

Tax “Reduction” Factors

General Assembly created tax reduction factors (TRFs) in 1976 during a period of inflation to prevent taxing districts from realizing additional real property tax revenues on outside levies resulting from a reappraisal or update.

Tax “Reduction” Factor

- When value goes up, voted millage adjusted downward by use of the TRF so that a tax levy produces the same dollar amount as the year the levy was voted.
- The opposite is true when value goes down. Voted millage is adjusted upward to produce the same dollar amount.

Tax “Reduction” Factor

- In calculating the TRF, only “carryover value” – value that existed in both the current and preceding tax years – is used.
- New construction is not included in the calculation.

Tax “Reduction” Factor

Tax levies not subject to TRF:

- Fixed sum levies such as emergency school levies
- Bond levies either inside or outside
- Charter levies levied by municipalities subject to charter
- Inside Millage

Inside Millage

- Inside millage (unvoted) is the only millage that increases or decreases with value.
- Because limited by the Ohio Constitution and statute to 10 mills, tax decrease as result of value decrease is less than percentage of decrease.

Calculation of Tax When Value Decreases

	Year Before Reappraisal	Reappraisal Year
Taxable Value of Property	\$120,000	\$100,000
Inside Millage	10 mills	10 mills
Tax on Inside Millage	\$1,200	\$1,000
Outside Millage	20.833 mills	20.833 mills
Tax on Outside Millage	\$2,500	\$2,500
Total Tax	\$3,700	\$3,500
Tax Decrease		\$200

Calculation of TRF

	Year Before Reappraisal	Reappraisal Year
Taxable Value	\$120,000	\$100,000
Tax Rate	20.833 mills	20.833 mills
Tax before TRF	\$2,500	\$2,083.33
TRF	0	1.20000
Tax After TRF	\$2,500	\$2,500
$\text{TRF} = \frac{120,000}{100,000} = 1.20000$		
$\text{Tax Adjusted for TRF} = 2083.33 - (2083.33 \times 1.2) = 2500$		
<p>TRF increased tax by \$416.67</p>		

20-Mill Floor

- Another limitation on TRF
- Constitution permits the General Assembly to limit the effect of TRFs on the current expense revenues of subdivisions.
- By statute, the TRF cannot cause a school district's effective current expense rate (inside and outside) to fall below 20 mills.

20-Mill Floor

- Bond levies, permanent improvement levies and emergency levies are not included in the calculation.
- Once a school district's millage reaches the 20-mill floor, the district's current expense millage rate will not be reduced following reappraisals.

20-Mill Floor

- Therefore, schools at the floor receive additional revenue on 20 mills when values increase due to reappraisal, which means that taxes paid by property owners also increase.
- School districts with, say, 22 mills, receive growth on only inside millage which is about 4 or 5 mills.
- This is an issue when value is increasing but not when it is decreasing.

Equalization in a Declining Market

2008 Reappraisals & Updates

- 13 counties underwent reappraisal
- 28 counties underwent update
- 9 of the update counties received recommendations for no change in the aggregate value of residential property
- Recommendations for increases in residential value ranged from 3% to 8%
- Reappraisal residential changes ranged from -1% to 12%

Aggregate Residential Increases

	Update	Reappraisal
2002	10.64%	13.40%
2003	11.67%	15.86%
2004	8.12%	10.55%
2005	8.72%	15.48%
2006	10.20%	11.15%
2007	7.54%	9.20%

2008 Revaluation Counties (R 510 and R 550)

Period	Median Ratio
January–June, 2005	93.7%
July–December, 2005	91.5%
January-June, 2006	89.9%
July-December, 2006	90.3%
January-June, 2007	91.2%
July-December, 2007	92.1%

2008 Revaluations

- A year like none before
- In November 2007 ODT began planning how to address the 2008 equalization requirements
- Prepared reports from 1993-2007 tracking historical median ratios

2008 Revaluations

- Shared DTE data with others in ODT
- Discussed potential resistance to increasing values in what many described as a declining market.
 - Sharpest increases in ratios were in urban areas
 - Rural areas generally showed continued declines in ratios
 - Some counties still trying to correct chronic under-assessments
- Educated them about our review standards
 - Based on IAAO's *Standard on Ratio Studies*
 - Requires measures of central tendency between 90% and 110%

2008 Revaluations

- Discussed the possibility that values would decline in some areas
 - Challenge of explaining to taxpayers the reason tax decreases would not be proportionate to value decreases
 - e.g., a 5% decline in value would, on average, translate into a 1% tax reduction
 - When market corrections occur, larger increases will be necessary to maintain valuation levels

2008 Revaluations

- Compared Ohio's housing market at that time to the national market
 - Ohio did not experience a “boom-bust” scenario like many coastal markets, because Ohio did not have a “boom”
 - Ohio primarily saw stagnation in values
 - During previous cycles, 12-15% growth every three years was typical
 - Sales volume declines, however, were sharp

2008 Revaluations

- Recognized need to proceed responsibly and cautiously in enforcing equalization requirements
- Acknowledged duty to remain accountable to school districts and local governments
- Agreed goal was to ensure 2008 values reflected market conditions on January 1, 2008

2008 Revaluations

- RC 5715.012 requires use of sales from the three years preceding the lien date for equalization purposes
- ODT does conduct ratio studies for all three years for trending purposes
- Most recent year has always been the focus of equalization activities
 - Only year that is used in standard post-appraisal ratio studies conducted for sexennial reappraisal counties.

2008 Revaluations

- Under RC 323.11, the tax lien date is January 1
- General appraisal practice and case law recognize that a recent sale is indicative of value on a given date, whether it occurs before or after the appraisal date
- Decided to conduct supplemental sales ratio studies using sales from the first six months of 2008 on an as needed basis

2008 Revaluations

- Determined supplemental studies would be conducted at the auditor's request or at ODT's discretion
- Eleven supplemental studies were conducted among the 41 revaluation counties
- In general, the supplemental studies showed continued declines in values and sales volume

2009 Revaluations

- 5 counties undergoing reappraisal
- 19 counties undergoing update
- No counties received recommendations to increase the aggregate value of residential property
- 7 counties received recommendations for decreases in residential value, which ranged from -3% to 13%

2009 Revaluations

- Updates have been finalized for 8 of the 19 update counties
- Ratio studies using 2009 sales were necessary in five counties to approve the proposed values
- Residential valuation changes range from 1% to -11% in the finalized counties
- Tentative reappraisal residential changes range from 0% to 5.5% (not all counties have filed or been finalized)

Looking Forward to 2010

- Of the 23 counties scheduled for revaluation in 2010, only 3 have second-half 2008 mean ratios below 90%
- One county in that group has a second-half 2008 mean ratio above 100%
- The remaining counties have mean ratios from that period in the 90's

Looking Forward

- ODT will continue to proceed cautiously and responsibly to ensure property is valued accurately
- Intend to continue using the supplemental six-month study on an as-needed basis

Impact of Compensation Payments on School Funding

- Prior to HB 66 in 2005 and HB 530 in 2006, those seeking local tax incentives often entered into compensation agreements with school districts to compensate them for the loss of revenue.
- For the schools, it was a win-win situation because they were compensated for purported lost revenue and the payments did not affect the district's State foundation aid.

How School Funding Worked before HB 1

- School funding is a shared responsibility between the state and local school district.
- The State used a foundation method to determine amount of money to provide basic level of funding.
 - No. of pupils x \$ amount/pupil
 - From this amount, deduct local share commonly referred to as a charge-off, based upon district's relative property wealth. The charge-off amount was 23 mills.

Greater Property Value, the Less State Aid

(a) Basic/Pupil Foundation Amount	\$4,000	\$4,000
(b) No. of Students	1,000	1,000
(c) Property Value	\$50,000,000	\$75,000,000
(d) Total Base Level Funding (a x b)	\$4,000,000	\$4,000,000
(e) Local Charge-Off (property value x 23 mills)	\$1,150,000	\$1,1725,000
(f) State Share of Base Level Funding (d – e)	\$2,850,000	\$2,275,000

- In the case of a tax incentive agreement, the school district would agree to a 100% exemption + side compensation agreement rather than a 75% exemption with no compensation.
- Because 100% exempt, the value of new construction was not included in the district's "property value" and did not affect the charge-off.

- By contrast, if new construction was only 75% exempt, then the 25% would be taxable value and would increase the charge-off and reduce state aid.

HB 66 and HB 530

- Altered the school funding formula to partially account for compensation payments.
- Requires the Tax Commissioner to “addback” the value underlying qualified payments for use in calculating state aid
- See attachment for full discussion

HB 1 – School Funding

- Switched from Foundation Formula to Evidence Based Model (EBM) to determine funding.
- Building block method that identifies cost of certain educational components that are linked to academic success.
- Decreased charge-off from 23 mills to 20 mills.
- Did not change the compensation addback to the charge-off.

Real Property Tax Update

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Procedural Matters

- *Columbus Bd. of Education* – when is BOR entry vacated?
- *Olmstead Falls* – what is the effect of a decision from a prior year?
- *Springfield City Schools* – who can file a complaint?

Big Box Stores

- *Target & Retail Trust IV* – how are “big box” properties to be appraised for tax purposes?
 - Build-to-suit and sale-leaseback transactions
 - Second generation sales
 - Each case decided on its own

Subsidized/Tax Credit Properties

- *Woda Ivy Glen Ltd.*
 - Parcels assessed separately, or as an economic unit?
 - Impact of federal use restrictions
 - Private vs. public restrictions

Appraisals

- *Meadow Ridge/Butler LP* – risk to appellee who presents no evidence
- *Toledo Trust* – owner's opinion of value not competent evidence
- *7700 Tyler Blvd. Co.* – factors impacting credibility of appraisal report

Sales

- *CCleveland Oh Realty I* – sale subject to long term lease
- *Bd. of Education* – sale subject to other encumbrance
- *Mt. Vernon City Schools* – auction sale is arm's-length