County Auditors' Association of Ohio

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Joint Committee on Property Tax Review and Reform

May 22, 2024

Testimony before the Joint Committee on Property Tax Review and Reform on behalf of the County Auditors' Association of Ohio will be provided by the following county auditors:

I. Ashtabula County Auditor David Thomas
   a. Understanding the Problem
   b. Addressing the Problem

II. Green County Auditor David Graham
   a. Examples of CAAO Proposals Applied
   b. CAAO Opinion on Testimony Offered by Other Organizations
   c. Issues Still to be Resolved

III. Franklin County Auditor Michael Stinziano
   a. Relief for Individual Homeowners and Communities Affected by Market Pressure
   b. Residential Stability Zones
   c. Deferral Programs
   d. Income-tax Based Circuit Breaker
   e. Annual Tax Increase Limits

IV. Closing

I. ASHTABULA COUNTY AUDITOR DAVID THOMAS

The County Auditors' Association of Ohio (CAAO) members have been on the front line of the property tax problem in Ohio for a number of years and appreciate the opportunity to work with legislators on crafting a solution to a problem that has long needed addressed.

The CAAO members have come together to study solutions to the property tax problem from a number of perspectives with a diverse group of counties. We considered a wide range of solutions dealing with valuation, tax rates and credits. We acknowledge that there is no single solution that will address the property tax problem but believe the following combination of solutions will help manage the problems many of us are facing.

We would be remiss if we did not point out some of the past state policies that have placed stress on local governments, which has caused local governments to rely more heavily on property taxes to fund services. This leads to more property taxpayers covering this burden as opposed to state tax revenue payers. Over the last 20 years we have seen:

- A 50% reduction in local government funding from the state to local governments;
- The elimination of personal property tax that provided funds to local governments and replaced them with the Commercial Activity Tax that was used to fund State revenues;
- Public utility deregulation which resulted in decreases in local property taxes; and
- Through legislation and court interpretation we have seen dramatic increases in tax exemptions (such as TIFs, exempt properties, and abatements) and reclassification of real properties, including but not limited to hospitals, roller coasters and greenhouses (U-Store-It). Revenue stays constant, and thus others are left to pay the difference.

These holes created by the cutting of both the tax base and the tax sources have had to be filled by someone, and if not by state tax revenue, then that someone is our local property taxpayers. I like to sum it up to my taxpayers during townhalls this way- we, the state, have cut the income and other taxes dramatically over the years, which is good, but if we aren't cutting spending at the state level, that burden to fund local services gets placed at the local level where, those who may not benefit from income tax cuts such as seniors, now pay a higher share of the new burden through property taxes. Essential services must be provided; currently our property taxpayers carry the weight.

A. UNDERSTANDING THE PROBLEM

<u>HB 920 and the 20 mill Floor</u>

HB 920 was intended to prevent dramatic property tax increases from changes in the market for real estate values. When originally passed only the 10 mills of inside millage would see revenue change as a result of changes in the real estate market. Currently, the average effective tax rate for Class I (agricultural and residential properties) is approximately 50 mills. If you are at the average, 20% of your millage is directly tied to valuation changes- 10 mills of those 50 mills. To take this a step further, if there were a 30% increase in valuation, it would produce a 6% increase in taxes. While this would be an unvoted increase, it would be tied more closely to what constituents would accept as an inflationary increase (2% per year).

To put this in terms of dollars, the tax on a $100,000 property at 50 mills is $1,750. If that appraised value were to increase to $130,000, only the 10 mills of inside millage would result in a tax increase, so the additional tax would be $105 ($30,000 valuation increase * 35% assessment ratio * 10 mills (.01))

HB 920 works when actually in application. What today's 20-mill floor for schools means, is a much stronger tie between value increase and tax increase, which is not the intention.

Now a much larger percentage of the levies are directly correlated with the valuation increase. Assuming the voted millage subject to the floor is 17 mills, 27 (10 mills of inside and 17 mills of the floor) or 54% of the mills, are directly correlated to the valuation increases. That is bad. This has much greater tax implications. Given our earlier scenario, the tax increase would now be $283.50 ($30,000 valuation increase * 35% assessment ratio* 27 mills (.027). Keep in mind these examples are based on a property appraised at $100,000- there are not a lot of these homes around anymore.

While taxpayers would certainly complain about a $105 tax increase, they complain much louder when they see a $283 increase- especially when it is unvoted.

Homestead

Individuals qualifying for homestead have seen a declining benefit for years as a result of the exemption amount being frozen at $25,000 off the value of the home. The problem occurs because as values increase due to a reappraisal, the effective tax rate is reduced by HB 920 resulting in a lesser benefit to the homestead recipient. $25,000 at a 60 mill effective rate is a larger benefit than $25,000 at a 50 mill effective rate. In the Budget Bill you tied the $25,000 exemption to an index increasing it to $26,200 for 2024. This 5% increase in the exemption amount was dwarfed by the 15% increase in the tax liability many of our citizens saw as a result of the valuation increase and the 20 mill floor. Meaning, I fielded hundreds of calls from seniors asking why they lost part of their homestead, it is tragic.

B. ADDRESSING THE PROBLEM

When evaluating solutions, we focused on solutions that benefit the property owner that owns and occupies his or her home as the primary residence. We want direct relief. I think in Columbus, you like to call these people Bob and Betty Buckeye.

The following changes are being proposed by the CAAO:

- Limit the growth on fixed rate levies subject to the 20 mill and 2 mill floors
- Expand the Homestead program
- Give County Auditors greater authority to determine property values
- Revamp the Non-Business Credit (NBC) and Owner Occupancy Credit (OOC)

Limiting the Growth on Fixed Rate Levies Subject to the Floor

The CAAO proposes to limit the revenue that is produced on voted levies subject to the floor. This limit could be based on an established index. If valuations were to increase over the reappraisal cycle by more than the indexed amount during the cycle, the index would create a cap that would not allow revenues to grow in excess of the index due to reappraisal changes. If the reappraisal changes grew by less than the indexed amount, the actual valuation would be used to calculate the effective tax rate.

To actually calculate the effective tax rate based on this index would likely be deemed unconstitutional, therefore we recommend a tax credit measuring the difference between what schools would receive with the floor versus the capped increase could be calculated creating a credit rate that would apply to each property tax bill. The credit would not be reimbursed by the State and would be deducted from subdivisions subject to the floor.

This would allow school districts to receive additional revenue from its inside millage, but it would limit their growth from fixed rate levies subject to the floor to an indexed amount. Even with this approach, we remind you that school districts will actually be collecting less than the floor amount which may require adjustments to the state school funding formula.

This idea can essentially be explained as limiting school revenue from the 20 mill floor to at or below inflation.

Expanding the Homestead Program

The CAAO supports the expansion of the homestead program. This includes both increases in the value subject to the calculation of the credit and the income required in order to qualify for homestead. We appreciate the fact that this will increase the cost to the state but feel ensuring our most vulnerable Ohioans are protected is an important issue. If we are cutting the income tax and other taxes that benefit workers, it is only right to also cut seniors taxes who now have a higher share of the local government burden without the benefit of less state taxes.

Auditors often hear from seniors, “You are taxing me out of my home!” If you look at Greene County Auditor David Graham’s mother’s property as an example, she has seen an increase in her tax bill $968 (156%) since 2014. $103 (17%) of this increase was the result of new levies. During this same time the homestead reduction has decreased by $43 (10%). We can appreciate the perspective of seniors on this issue, and we must do more.

Giving County Auditors Greater Authority to Determine Property Values

Currently, the Ohio Department of Taxation makes recommendations to county auditors of expected valuation changes during valuation update years. These recommendations are based on conveyance forms supplied to the department by county auditors. The Department’s recommendations are based on sales in a taxing district. County Auditors, on the other hand, analyze sales based on a neighborhood. Neighborhoods are defined by grouping similar homes in a similar geographical area in order to more accurately analyze data. This approach utilized by county auditors provides much more accurate results.

Additionally, County Auditors validate sales by looking at data available on real estate websites advertising the property. This allows the County Auditor to ensure the data being used in establishing the property value is accurate. If a property were to sell that has a finished basement that was not reported to the County Auditor, the sale would likely occur for more than the auditor’s value. This would skew the valuation increase in this neighborhood because the difference in the sales price and auditor’s value was a factor of not only market changes, but of inaccurate data. County Auditors could either remove this property from the sales study or update the data and include the new valuation with updated data in the sales study.

Auditors do believe that oversight by the Department of Taxation is necessary to ensure that valuations are based on actual market conditions and not influenced by election cycles. We would propose that instead of the Department of Taxation establishing valuation expectations that the auditor is expected to conform with, the Department would instead review the valuations and if necessary, appeal the auditor's valuations to the Board of Tax Appeals. The Board of Tax Appeals would be required to conduct an expedited hearing and decision to ensure valuation disputes do not extend beyond the current real estate cycle.

The County Auditor's determination of value is ultimately based on sales validation methods and evaluating sales based on neighborhoods rather than taxing districts, which makes the County Auditor's valuation much more accurate. This process is supported in versions of HB 187 passed by both the House and Senate. This idea allows the Department to be the watchdog, not the originator, of determining values.

Revamping the Non-Business Credit (NBC) and Owner Occupancy Credit (OOC)

We propose eliminating the Non-Business Credit and expanding the Owner Occupancy Credit to a fixed dollar amount adjusted annually by an index. The State has long attempted to eliminate the link between property taxes and its liability under the Non-Business Credit and Owner Occupancy Credit. We believe in simplifying this concept to one credit, which must be applied for, and will directly help to keep property owners in their home. The Owner Occupancy Credit, if given the financial backing, will do that.

Currently the NBC and OOC are based on a percentage of the property tax. Nearly all agricultural and all residential properties qualify for the NBC which provides a 10% reduction for qualifying levies. This includes granting a 10% tax credit to the large domestic and foreign corporations who are purchasing many single-family homes and renting them out- the same ones we read about increasing the market and contributing to the unprecedented value increases.

Currently the OOC provides a relatively small property tax reduction, (originally 2 ½% but now much smaller as state share decreases yearly). We propose a meaningful fixed credit for an individual's primary residence. This would provide greater benefit to those living in lower valued properties and would eliminate credits for all properties that are used in business operations including rental properties and agricultural properties where the property owner does not live on the property.

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II. GREEN COUNTY AUDITOR DAVID GRAHAM

A. EXAMPLE OF CAAO PPROPOSALS APPLIED

	Prior Year	Current Year With Floor	Current Year With CAP	Current Year With CAP and NBC Elimination
Assessed Value	32,930	46,560	46,560	46,560
Effective Tax Rate	55.216107	48.075149	44.455779	44.087671
Taxes Before Credits	1,818.27	2,238.38	2,069.86	2,052.72
Non-Business Credit	(166.26)	(209.37)	(193.61)	
Owner Occupancy Credit	(41.57)	(52.34)	(48.40)	(750.00)
Homestead	(427.92)	(389.31)	(360.00)	(404.28)
School Floor Credit			(168.52)	(168.52)
Net Taxes	1,182.52	1,587.36	1,299.34	729.92

Items of Note:

- Value increased 41% from the prior year
- Current method resulted in a 34% increase in property taxes
- With the CAP of 7.6% on fixed rate levies subject to the floor this increase is reduced to 10%
- If you include the CAP and the fixed reduction for OOC the tax actually decreases 38%
- The increase in the homestead amount when the NBC is eliminated is a result of the tax on the homestead not being reduced by the NBC or OOC.

B. CAAO OPINION ON TESTIMONY OFFERED BY OTHER ORGANZIATIONS

In addition to areas where the CAAO is proposing solutions during testimony, we have heard a number of suggestions on which we would like to offer our opinion.

Altering the Definition of an Appraisal

The CAAO continues to strongly support the traditional definition of an appraised value; an opinion of value at a point in time. Averaging values based on sales over a period of time would dramatically change that definition and could lead to unintended consequences in the future, such as increasing values in a declining market and impacting how Board of Revision would determine valuation when valuation complaints are filed. Remember, Values are Values, they are what the market says they are.

Annual Updates of Property Values

There has been discussion regarding performing valuation updates annually. The CAAO opposes this proposal for a number of reasons:

- It does nothing to address the property tax valuation problem. Instead, it simply spreads the problem over multiple years making it more palatable.
- It would further increase the cost of government as valuation updates would be required more frequently.
- Small villages often do not have a sufficient number of sales in a given year to be statistically relevant. This would result in some areas having valuation updates more frequently than other areas. Also, while not proposed, applying an index to an area would violate the definition of an appraisal.
- In an escalating market, as we have seen for the last decade, annual value increases would result in net tax increases for most taxpayers as they would see annual tax increases rather than the triennial increase. The idea of compounding increases.

Recent Property Values an Anomaly

We have heard caution that recent property value increases are anomalies, and changes to property tax policy should not be made in response to large value increases since Covid. Our first response is that these value increases are not anomalies. In Ashtabula County for example, our sales just in the first quarter of 2024 were roughly 10% higher than last year and 46% higher than the last Mass Revaluation in 2020. Value increases will be hitting counties again in updates for 2024, 2025, and 2026. These value spikes have shown the flaws in Ohio's Property Tax System and have exacerbated underlying areas in need of changes for policy.

Making School District Emergency and Substitute Levies Subject to the Floor

There has also been discussion on making emergency and substitute levies subject to the floor. While we generally agree with this concept since they are used for the general operations of school districts, this could be a short-term solution as increasing values would eventually work these levies below the floor resulting in this problem occurring in future years. Additionally, this does nothing to address the problem that occurs for school districts that are at the floor and do not have emergency or substitute levies.

While it does nothing to address the property tax problem, we would support changing the name of an emergency levy to more accurately describe the type of levy.

C. ISSUES STILL TO BE ADDRESSED

There is no single solution to our property tax problem, and our proposals do not address all of the issues that exist.

- School districts at the floor have seen increases in their general fund revenues in excess of 20% as a result of the most recent reappraisals. As has been discussed, tax rates under HB 920 are adjusted each year for reappraisal changes so the levies produce the same income they did in the previous year. This means this dramatic increase in tax revenues and thus the cost to property owners will not be reduced with legislation focused purely on solving the problem moving forward. Our association continues to look for ways to reduce this cash windfall from future local tax revenues.

- For rural counties, an additional issue is CAUV for farmers in update counties over these past several years who have seen dramatic changes to their values. In my county as an example, of our 104,000 acres in CAUV, nearly 75% of their values increased by over 300%. As an association, we do not have uniformity on policy approaches to aid farmers. Some believe the constant spikes are the issue, others see higher values and taxes as a problem, and still more would like the soil value system scrapped for an easier to understand alternative. In rural counties, CAUV is a concern and plays into the conversation we are having today.
- The use of controlling interest transfers (aka the LLC Drop and Swap Loophole,) to avoid reporting of sale value and conveyance fees harms equity and transparency in both valuation and taxation. Holding real estate in an LLC or other corporate structure can be an important business tool, but it should not receive special treatment when control of a property changes hands. This practice makes it more difficult to properly value property, especially commercial property, impacting all taxpayers.
- Finally, our large urban and suburban counties, including a majority of the state's population, are less impacted by the 20 mill floor and have other challenges than smaller rural counties. Franklin County Auditor Michael Stinziano will provide additional solutions that speak directly to the large and medium county experience but would key options for all Ohio communities.

III. FRANKLIN COUNTY AUDITOR MICHAEL STINZIANO

A. RELIEF FOR INDIVIDUAL HOMEOWNERS AND COMMUNITIES AFFECTED BY MARKET PRESSURE

Overarching Point: In addition to modernizing and strengthening existing property tax protections for homeowners and older adults, we need more tools in the tool box to address individual homeowners and communities where market pressures create burdensome tax policies.

In Franklin County, a 41% increase in property values led to only a 6% increase in property taxes on average, but that average included a wide range of experiences for individual homeowners. For those whose homes increased more than the average-a symptom of market pressures on traditionally more affordable areas-the tax increase was severe. Due to the reappraisal alone, more than 30,000 homeowners in Franklin County experienced at least a $1,000 increase in their annual tax bill, with another 77,000 seeing at least an additional $500 come due.

The size of the value change and the shift experienced this appraisal cycle is stark, but the reality that those in the most appreciating areas see the largest and sometimes burdensome change in their taxes is a perpetual problem. While existing programs like the owner occupied credit and the homestead exemption should be modernized, they cannot on their own fully address the housing instability of someone become house rich and cash poor.

Often those most impacted have been the anchors of their communities for years or decades—communities that are seeing growth and investment and the increased property values that go with them. It is these homeowners, both seniors and younger that we have heard from over the last several months looking for help that we cannot provide unless the General Assembly allows better tools and options at the state and local level.

Ohio needs a menu of options so that the needs of each community and each resident can best be met while recognizing the key role property tax plays in supporting key government services. We ask this committee to make recommendations and introduce legislation to create in Ohio property tax deferrals, income-tax based circuit breakers, and residential stability zones to allow locally controlled exemptions for need rather than development. Through this combination approach, our homeowners can be protected while cost to the state and local government is minimized.

B. RESIDENTIAL STABILITY ZONES WOULD USE OUR EXISTING ABATEMENT SYSTEM TO EXEMPT VALUE INCREASES FOR NEED RATHER THAN ONLY DEVELOPMENT.

This proposal, now introduced as S.B. 244 (Reynolds, Craig), would allow local governments to exempt increases in value caused by the market for low-to-moderate income homeowners with flexible local control. Our local communities are asking for this option as they see the impact of important development work on the tax liability of long-term homeowners. City of Columbus Mayor Andrew Ginther has stated a desire in redefining the guidelines and policies for Community Reinvestment Areas to include homeowners on fixed or low incomes in order for all Ohio residents in need to see a benefit.[1] This is especially important now as the recent reappraisal has seen prices and valuations increasing significantly in low- to moderate-income neighborhoods

Exempting new value from taxation is a common practice, but care is needed to not skew the appraisal process or create disincentives for transferring property. For instance, Michigan constitutionally limits annual value increases to 5% or the inflation rate, opting for whichever is less. The cap can be maintained on the property in the case of a death of the homeowner, and the property is transferred into the name of family member. However, in order to protect revenue streams for essential public services, the limit on the growth in taxable value does not apply after the property is sold.[2]

Residential stability zones can work with several key features:

- The ability to shape the location, amount of, and eligibility for exemption to meet local need within state guardrails.
- No state funding required as the equalization process with protect voted levies and only loss would be foregone increases in inside, 20 mill floor, and emergency levies (the levies not subject to H.B. 920).
- Existing administration of development abatements, like Community Reinvestment Areas, can be used for implementation.
- Appraisal integrity would be maintained so return to full taxation when no longer enrolled will be efficient.
- Residents at the center of major value shifts, like those that are currently being caused by the Intel development could be protected from runaway value and taxes.

C. DEFERRAL PROGRAMS DO NOT ELIMINATE, BUT SIMPLY DELAY WHEN TAXES COME DUE PROVIDING OPTIONS TO BURDENED TAXPAYERS.

[1] "I would like to see some sort of incentive for families that have lived in neighborhoods for years and years. The Ohio Revised Code lays out the CRA guidelines and policies, and one of the things I've been pushing Director Mihalik [on is] a state law change to make sure that folks on fixed incomes, and potentially seniors, might also realize a benefit – particularly if the home prices and valuations are going up dramatically in their neighborhood – that they're given some benefit or reprieve from that. But that would require a state law change that we're working on." https://columbusunderground.com/interview-mayor-andrew-ginther-on-tax-abatements-zoning-reform-transit-and-more-bw1/

[2] https://www.freep.com/story/money/personal-finance/susan-tompor/2023/03/08/how-michigan-property-tax-hikes-inflation-shock-homeowners/69933896007/#:~:text=How%20the%20cap%20works,inflation%20rate%2C%20whichever%20is%20less

Under a deferral program, eligible homeowners can opt out of paying some of their property taxes until their circumstances change or the house is sold. More than twenty states have deferral options for homeowners.

For example, in Florida any owner-occupied property is eligible for deferment of amounts above 5% income for any resident and above 3% for residents older than 65.[3] In Maine, it is a program for older homeowners and those with a disability and capped for eligible at $150,000 of liquid assets and $80,000 of income.[4] In Minnesota, it is available for all ages with tiered income groups on how much can be deferred. (Note Minnesota also has a circuit breaker program and they can work together).[5]

For a deferral program to be successful in Ohio, it should include several features:

- Be accessible to a broad range of homeowners and link benefit amount to income
- Establish a revolving state fund so local levies are kept whole and long-term funds are returned to the state
    - No long-term loss in state funds
    - No complication in local budgeting or levy certification
- Establish a mechanism for efficient communication and income verification between Department of Taxation and County Auditors
- Include an extended repayment timeline to avoid any benefit cliff if repayment becomes necessary without a sale of the home

D. **AN INCOME-TAX BASED CIRCUIT BREAKER USES EXISTING TAX STRUCTURES TO PROTECT AGAINST SUDDEN PROPERTY TAX SWINGS.**

This proposal, now introduced as SB 271 (Blessing, Craig), places a limit on how much a person's income can be taken up by property tax. It can be easily administered as a refundable tax credit on state income tax and be an important supplement to existing state funding of local government services.

Minnesota offers one of the largest circuit breaker programs in the country which establishes a direct state-paid refund to individuals who qualify according to their annual household income. The Minnesotan program also includes renters as eligible for the program's benefits, citing correctly that upwards of 15% of rent paid is used toward property taxes. This is an extremely popular program, with over 500,000 Minnesotans applying for and receiving refunds annually.[6]

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[3] Florida Statute 197.252

[4] Main Title 36, Chapter 908

[5] Minnesota Chapter 290B

[6] https://www.house.mn.gov/hrd/pubs/ss/sshptrp.pdf

West Virginia implements a similar program for their senior citizens with income requirements following federal poverty guidelines. West Virginia caps property tax liability for qualified senior citizens at 4% of annual income.[7]

Using a simplified circuit breaker model put forth by Policy Matters Ohio[8] and the Institute on Taxation and Economic Policy, one sixth of Ohio taxpayers would receive property tax relief. This amounts to more than 1.7 million Ohioans benefiting, and almost three-quarters of the tax cut would go to those with incomes below $45,000. Under this model, relief would start when an individual has paid 5% of their income in property taxes.

Any circuit breaker program in Ohio should include:

- A refundable tax credit on state income tax with a simplified filing option for those who are eligible but would otherwise not file income tax.
- Eligibility for owner occupied property and ideally renters with property tax calculated as a portion of rent (e.g. 15%).
- Amount of benefit can be higher for lower income levels and phase out at higher income levels .
- Cost to the state will be directly proportional to need.
    - Many states include a cap on the benefit for any one individual which could work if paired with other program options like deferrals or increased homestead or owner occupied benefits.

IV. CLOSING

In closing, on behalf of the CAAO I would like to thank you for the opportunity to speak to this important issue. Need for this reform has been at the forefront of my five years as County Auditor, and I know my colleagues know this has been a growing concern for much longer. It is critical we take this opportunity to make a difference on this important issue which affects so many of our citizens.

Our final comment is: I periodically will hear people say," if you can't afford your home then you should sell it." It is important to remember that an individual's home is not a commodity. It is where they raised their family, helped build their community, and is part of who they are. It is personal to them, and government must take steps to ensure individuals can stay in their home.

Again, we thank you.

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[7] https://tax.wv.gov/Individuals/SeniorCitizens/Pages/SeniorCitizensTaxCredit.aspx

[8] https://www.policymattersohio.org/research-policy/quality-ohio/revenue-budget/tax-policy/ohio-needs-a-property-tax-circuit-breaker#:~:text=Circuit%20breaker%20covers%20Ohio%20residents,is%20over%205%25%20of%20income