

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.osba-ohio.org/levyinfo.htm.

The information in this pamphlet is designed to provide authoritative general information. It should not be relied upon as legal advice. If legal advice is required, the services of an attorney should be obtained.

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A primer for school leaders on the ins and outs of school levies

Understanding school levies

Glossary of Property Tax Definitions

Property Tax - A tax on the real property owned by residents and businesses. Property tax includes the land and structures on it, but not the contents.

Homestead Exemption – A reduction in property tax that is available to all property owners at least 65 years of age or permanently and totally disabled; and whose income does not exceed the amount set by law. Property owners must apply for the Homestead Exemption and reside in the home for which they are applying.

A Mill – Property tax is measured in mills. A mill means 1/1,000. Therefore, each mill generates \$1 of taxes for every \$1,000 of a property's assessed value.

Tax Rate - The total property tax rate paid by a business or individual for support of the school system, library, township, municipality, vocational school, community college, park system and county-wide services. This rate includes voted millage (Outside Millage) and 10 mills of unvoted taxes (Inside Millage) guaranteed by the Ohio Constitution.

Taxing District - A geographic area that shares the same local property tax rate. In the case of Washington Township, incorporated residents are in one tax district and unincorporated residents are in another.

Inside Millage – The Ohio Constitution guarantees 10 mills of unvoted taxes, also called inside millage, for each taxing district in Ohio. The amount is allocated among various local public entities.

Outside Millage – Any millage that has not been allocated by the state constitution is considered outside millage. All outside millage is voted on by residents.

Continuous Levy - Millage that has been allocated for an unlimited period of time, either through state allocation or voter approval.

Limited-Term Levy - Levies that expire after a specified period of time. A majority of Troy Township's levies are limited term.

Gross Millage - The number of mills originally approved or assigned in the first year of a continuous or limited-term levy.

Fixed Income Status - Under Ohio law, the amount of money a property tax levy collects can not increase beyond the sum collected in its first year, except for added value from new construction during the first year. This became law in 1976 with the passage of Ohio House Bill 920 which reduces the tax rate as property values in a district increase during triennial reappraisals and updates.

Reduction Factor - A formula applied to businesses and homes in a taxing district so that Fixed Income Status will be maintained during triennial reappraisals and updates. Specifically, the tax reduction factor equals the percent by which the sums levied for a particular levy would need to be reduced so that the current year's taxes equal the prior year's net taxes.

Rollback - Two tax relief measures have been granted by the state for homeowners – a Non-Business Credit on all real property tax in 1971, which is automatic and in 1979, an Owner Occupancy Credit for owner occupied properties that homeowners can apply for.

Effective Tax Rate - The tax rate after the tax reduction factor is applied is the effective tax rate. You are protected from unvoted increases in taxes by Ohio Legislation known as House Bill 920. Passed in 1976, HB 920 reduces your rate as property values in your district increase during triennial reappraisals and updates.

Renewal Levy - A property tax levy that collects the exact amount of taxes as the levy it replaces.

Replacement Levy - A property tax levy that enables townships to receive taxes based on the current valuation of all property in an area, including new development.

Tax as a percentage of Market - The Tax as a percentage of market is a simple percentage used to estimate total property taxes for a property. Multiply the market value of the property by the percentage listed for your taxing district.

Special Assessments - Charges by your city, township, or county to cover the cost of improvements or services.



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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. Generally, school districts can place a levy on the ballot up to two times per year on specified election dates, aligning with the primary election in March or May and the general election in November. A third election date in August is available only if a district is under a fiscal emergency. 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). Public utility personal property is also taxed.

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 according to a statutory formula.
- **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

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mills has received an adjustment to compensate for the impact of inflation on real property values.

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 inflationary 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 does 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 permanent 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?

- **Millage-based levy** – A property tax used for any school district purpose but primarily for either operating expenses or permanent improvement funding. Millage-based 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. 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. Emergency levies may be renewed for the dollar amount originally requested or with an increase or decrease.
- **Substitute levy** – A levy that substitutes for an existing emergency levy and grows as new real property is added to the tax base. Substitute levies may be for a maximum of 10 years or continuing. Substitute levies may be renewed.
- **Bond issue** – An authorization of a specific dollar amount to be borrowed to

finance construction and other permanent improvements. Simultaneous with that approval, a property tax levy sufficient to pay the bond issue's principal and interest over its term is also authorized. Depending on the type of permanent improvements contemplated, a school district bond issue may have a maximum term of 40 years.

- **Dual-purpose levy** – A single ballot issue for a PI purpose combined with an operating purpose. The issue may be continuing or limited. A PI/operating levy may be either a property tax or a school district income 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.
- **Bond issue combinations** – A bond issue may be combined as one ballot question with property tax levies for operating or permanent improvement or both. A bond issue may also be combined with a school district income tax as one ballot question.
- **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 school 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 is also commonly known as a phased-in levy. It is a limited levy, with a maximum term of 10 years. Unlike a millage-based 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.
- **Levy increasing by dollar or percentage** – A property tax levy that can increase by dollar or percentage. Initially, it has a maximum term of 10 years, but may be renewed at the ultimate amount for 10 years or a continuing period.

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 an increase or decrease.

- **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, subject to a reduction factor in the first year like a new 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 '23 real property taxes in January 2024. Collection of the second half of TY '23 collections will occur in July 2024. Because school districts use a July 1 to June 30 fiscal year, the timing of tax payments means that revenue from TY '23 levies will be received in the second half of fiscal year (FY) '24 and in the first half of FY '25.

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. Businesses do not pay SDIT; only residents of the district are required to pay SDIT. 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 for any number of years or a continuing levy and can be proposed in combination with a property tax levy, bond issue 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 or decrease 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 work. 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.

What are some practical considerations in levy planning?

There are multiple considerations in sound levy planning. Among them are the following:

- 20 mill floor status;
- property tax valuation cycle;
- rollback considerations, if any;
- district demographics;
- changes in law in terms of levy language or available election dates.

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.