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Education Tax Policy Institute

**School Property Taxes in Ohio:
A Ten-Year Study**

Executive Summary

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Executive Summary

Overview

This study of the Ohio property tax from 1990-2000 contains three parts. The first part addresses issues related to changes in the distribution of the tax base among different classes of property over the last ten years. The second part investigates the ability of local taxes to meet the demands imposed by the school funding system during that period. The third part examines the distribution of property wealth among school districts over the same ten- year period.

Part I Findings: Changes in the Tax Base

1. In the period from 1990 to 2000, residential and agricultural real property has grown from 53% to 61% of total taxable valuation. General personal property valuation has shrunk from 15% of 1990 total value to 12% of 2000 total value.
2. General and public utility personal property paid a higher percentage of taxes than accounted for by their taxable valuation. Together such property accounted for 25% of value in 1990 but 32% of taxes. In 2000, they accounted for 19% of total value and 27% of total property taxes.
3. While the statewide average effective tax rate on personal property increased by over seven mills in ten years, the effective tax rate on residential and agricultural property declined by 0.4 mills over the same period.
4. Annual taxes on residential and agricultural property increased by \$1.7 billion in ten years and taxes on other classes of property increased by a total of \$1.1 billion. Total taxes per pupil increased by about \$116 per year from 1990 to 2000.

Part II Findings: Failure to Match Local Taxes to School Funding Demands

1. Phantom revenue occurs when the state school funding formulas assume that a higher local contribution from school districts occurs, but, in fact, the tax laws do not allow that assumed increase in local revenues.
2. Demand for local contributions increased for three reasons between 1990 and 2000:
 - a. Valuation increased.
 - b. The 20 mill chargeoff rate increased to 23 mills.
 - c. A new contribution took effect for vocational and special education.
3. In 211 school districts, property taxes increased faster than the demands for a local contribution imposed by the school funding formulas between 1990 and 2000. The amount of the excess equaled \$527 million.
4. In 400 school districts, the demand from school funding formulas exceeded property tax growth by \$395 million. This amount represents a measure of phantom revenue.

Part III Findings: Changes in Property Wealth Equity Across Districts

1. Some measures of relative equity reveal improvements in the overall distribution of property wealth across Ohio's school districts. Both the coefficient of variation and the 95th/5th percentile ratio indicate increased equity for all classes of property wealth with the exception of the smallest (utility tangible property).
2. The McLoone Index, which focuses on equity among the 303 districts below the median, reveals a decrease in equity, for both Class 1 real property and total property wealth. This suggests that there are different patterns of change among wealthier and less wealthier districts within the overall distribution.
3. Analysis of property wealth quintiles reveals improvements in equity relative terms and a decrease in equity in absolute terms. Further, the rate of relative increase in equity among the least wealth districts is slow enough that it will be many many years before the gap is narrowed in absolute terms in any meaningful sense.
4. Finally, the analysis of property wealth changes across different types of districts reveals that rural and small town districts have made the greatest strides in terms of percentage increases, but still lost ground in absolute terms. Significantly, large high poverty urban districts fared the worst over the ten-year time frame of this study. Average increases in property wealth for these districts were lowest in terms of both dollars per pupil and percentage rate, suggesting that the gulf between these districts and others in the state has only widened.

Conclusions

1. Ohio's tax base has become increasingly reliant upon the residential and agricultural components of taxable property.
2. Ohio's property tax structure reduces effective tax rates on real property and forces regular increases in voted mills to offset those reductions. As a result, the system piles more and more tax mills on personal property, a shrinking portion of the tax base.
3. Nearly two-thirds of all Ohio school districts failed to raise sufficient additional property taxes necessary to match the increases in the local contribution assigned to them by the school funding statutes.
4. Improvements in the equity of the distribution of Ohio's property tax base are modest, and are not distributed evenly across district types or among relatively poor and wealthy school districts.
5. The property wealth gulf between large, high poverty urban districts and others in the state has widened over the ten-year period of the study.