

Testimony before the Ohio Joint Committee on Property Tax Review and Reform

January 10, 2024

Co-Chairs Roemer and Blessing and members of the Joint Committee on Property Tax Review and Reform, thank you for the opportunity to testify today on the Ohio Department of Taxation's (ODT) role in administration of Ohio's property tax system. My name is Matt Chafin, and I serve as Deputy Tax Commissioner over the Audit, Criminal Investigations, and Tax Equalization Divisions for ODT.

In an effort not to duplicate information already presented to the committee, much of my remarks today will be confined to the specific functions that ODT performs regarding property tax administration. There are numerous constitutional, statutory and regulatory components involved in the property tax system, and these have evolved significantly over time, as have ODT's responsibilities.

Much of Ohio's property tax system is directly administered at the local level, with ODT serving a supervisory role. Administration, collection and distribution of property tax is handled locally within counties. The Ohio Tax Commissioner, through the Division of Tax Equalization (DTE), carries out the statutory roles and responsibilities necessary for the administration of this tax.

Background

Beginning in 1803, the main revenue source in Ohio was a general land tax, with local assessors rating and taxing land according to different quality classes. By 1825, Ohio had abolished the land classification system in favor of ad valorem property taxation, or the taxation of property according to value, a system which remains in place today.

The state's role in property tax administration pre-dates the Department of Taxation itself. In 1906, a committee was appointed to review the state's tax laws. Among other reforms, the committee recommended the formation of a State Tax Commission to carry out property tax oversight functions, which was later enacted by the General Assembly in 1910. In 1939, the State Tax Commission was replaced by the Department of Taxation, consisting of a Tax Commissioner and the Board of Tax Appeals, which was nominally within the Department, but outside the jurisdiction of the Tax Commissioner. Supervision of the

real estate assessment process was managed by the Board of Tax Appeals. In 1976, following another tax study commission recommendation, supervision of the property valuation process was transferred from the Board of Tax Appeals to a cabinet-level administrative body, known as the Department of Tax Equalization. In 1983, the General Assembly disbanded the Department of Tax Equalization, and moved its responsibilities within the Department of Taxation, where it is currently located.

The following are the key current responsibilities of the department regarding property tax administration:

Oversight of Real Property Valuation

Article XII, Section 2 of the Ohio Constitution requires that all land and improvements thereon be taxed in a uniform manner and based on fair market value of the property. To accomplish this, county auditors reappraise or update all real property within a county every three years. Every six years, a sexennial reappraisal is conducted by the county auditor based on an examination of each parcel. A triennial update is conducted after the third year of the sexennial cycle, which allows for the statistical adjustment of property values within the county in place of a physical inspection of each parcel. County auditors hire private mass appraisal firms to assist in setting new values during the sexennial reappraisal.

It is the Tax Commissioner's responsibility to review county auditors' valuations during both the sexennial reappraisal and the triennial update to ensure constitutional uniformity. The Commissioner is responsible for ensuring that property is being assessed at 35% of its fair market value.

To accomplish this, DTE conducts sales ratio studies to analyze the county's proposed property value changes against recent sales data submitted to the department by counties. As part of these studies, the Department reviews property sales data submitted by counties from the three immediately preceding years. In reviewing proposed values, it is longstanding DTE practice to place greater emphasis on the most recent year of sales data, as sales closest to the tax lien date (January 1) are widely considered to be the best indicator of market value.

Based on the sales ratio studies, the Tax Commissioner may either accept or reject the auditor's proposed values. If rejected, the Commissioner shall order the county auditor to increase or decrease the aggregate value of the class of property within the county so that it aligns with the value as determined by the sales ratio study. County auditors that disagree with the Commissioner's determination may appeal the order to the Ohio Board of Tax Appeals.

For the committee's benefit, I have included as a supplement to my testimony a copy of *Reynolds v. McClain*, BTA Case No. 2022-120. This expansive decision examines the Commissioner's authorities and

responsibilities in administering oversight of real property valuation. Regarding the weighting of sales ratio studies, the Board held that “the Commissioner’s emphasis on more recent sales ... comports with standard appraisal practice and existing real property valuation law.” This decision and others help guide the Commissioner’s interpretation of her constitutional and statutory responsibilities in this area.

Calculation of Effective Tax Rates

Another key DTE responsibility is the calculation of effective tax rates. Effective tax rates are the rates of taxation that are applied to property values, which determine the taxes levied on property owners. Dependent upon the type of levy, effective tax rates often differ from the millage approved by voters. It is DTE’s responsibility to conduct these tax rate calculations.

The need for calculation of effective tax rates is driven by tax reduction factors. Tax reduction factors, often referred to as “920 reduction factors” due to their creation via House Bill 920 in 1976, are a statutory process that limits the effect of changing property values on property taxes paid. Tax reduction factors are based on the changes in value of carryover property from the previous year to the current tax year. As carryover property values increase, tax reduction factors increase to reduce a levy’s effective millage to prevent windfall revenue collections. Conversely, when carryover property values fall, reduction factors are decreased to hold revenue collections stable. However, effective millage may not increase to the point it exceeds the original voted millage.

Tax reduction factors do not apply to all tax levy types. Inside millage, charter millage, levies required to produce a specified amount of tax money, levies to fund debt charges, and school district operating levies on the 20-mill floor are all exempt from reduction factor adjustments.

Once property values across all 88 counties are finalized, DTE begins the process of calculating effective tax rates for all applicable levies in the state. Once completed, effective tax rates are sent to counties where they are used by county treasurers to produce property tax bills for property owners.

Total Levies in 2023:	17,105
Inside Millage Levies:	4,989
Outside Millage Levies:	12,116
Subject to Tax Reduction Factor:	10,830
Not Subject to Tax Reduction Factor:	1,286

Bringing these concepts together, setting uniform and accurate values for real estate sets the table for creating effective tax rates to produce revenue consistent with what the local voters have approved.

Current Agricultural Use Value Calculation

An exception to Ohio's constitutional requirement valuing all property at fair market value is Ohio's Current Agricultural Use Value (CAUV) program. Made possible by a 1973 constitutional amendment, the CAUV program allows for the valuation of agricultural land with respect to its current use value as farmland, rather than its highest and best use (i.e., market value). This alternative method of valuation has historically generated substantial tax savings for program participants.

Ignoring two of the three approaches to value (comparable sales and the cost approach), CAUV focuses exclusively on the income approach to value based on the use of the property for crop production. The CAUV valuation formula incorporates numerous variables such as crop yields and prices, cropping patterns, production costs and capitalization rates to determine CAUV values for approximately 3,500 soil types found across the state. Responsibility for data collection and calculation of CAUV values resides with DTE based on statutory requirements. Similar to traditional real property, CAUV values are updated in a county once every three years according to the reappraisal/update schedule. An Agricultural Advisory Committee, comprised of representatives from farm-related organizations and public agencies, annually advises the Tax Commissioner on economic and technological developments that may be considered in CAUV calculations.

Real Property Tax Exemption Applications

Current statute allows for exemption from property taxation for certain facilities and organizations. Major exemption areas include the following:

- Primary and secondary schools
- Public colleges, academies and state universities
- Churches and property used for public or charitable purposes
- Government and public property
- Public recreational facilities used for athletic events
- Nature preserves

Similarly, property may be exempted in Ohio by local governments through the granting of tax abatements. These programs include tax increment financing abatements, enterprise zone abatements, community reinvestment area abatements, municipal urban renewal abatements, and community urban redevelopment corporation abatements. Local communities often pursue these abatement programs to foster urban renewal and economic development.

County auditors are provided statutory authority to grant exemptions for property used as a public roadway or highway, property belonging to the federal government, and additions or improvements to property belonging to the state or political subdivisions that is already exempt and used for a public purpose. All other property tax exemption applications are administered by the Tax Commissioner.

The Tax Commissioner's review of property tax exemption applications, particularly for charitable use exemptions, often requires an in-depth review and analysis of the specific use of the property seeking exemption. DTE staff review over 3,000 exemption applications annually. For tax year 2022, of the approximate \$372 billion of assessed real property value in the state, \$68 billion, or just over 18%, was exempt from taxation. Additional historical data on exempt property can be found in Table 1 at the end of my testimony.

Reimbursement of Local Governments

Ohio has three significant real property tax credit programs. These programs include the 10% non-business credit, the 2.5% owner-occupied credit and the homestead exemption. All of these programs produce tax savings for qualifying property owners. LSC has provided the committee details on the mechanics of each of these programs, but I will highlight ODT's role in reimbursing local governments for forgone revenue.

Each February and August, the Tax Commissioner provides for payment to county treasurers the amount by which real property taxes were reduced by these programs. A similar process takes place for reimbursement to local governments for forgone revenue on manufactured homes due to these programs. Reimbursements are then distributed by county auditors among the taxing districts within the county.

In Calendar Year 2022, approximately \$1.8 billion of property tax relief attributable to these programs was distributed to local governments by ODT.

Review of Property Tax Bill Contents

Under current statute, the contents of property tax bills are required to contain certain information, such as the taxes charged against the property, the effective tax rate, and notices regarding delinquency and misapplication of the owner-occupied credit. It is DTE's responsibility to review the contents of draft property tax bills prepared by county treasurers to ensure that the tax bill and any inserts are limited to only those items described in statute.

A Resource for Local Officials

Beyond the specific statutory requirements detailed above, DTE serves as a resource for local officials on property tax issues. The complexity of Ohio's property tax system naturally generates many questions from county auditors and their staff as well as other local officials. DTE staff welcome questions from our local partners to reduce confusion and promote efficient tax administration.

DTE routinely publishes county bulletins and notices, available on the ODT website, to offer guidance to county auditors and treasurers on administration of Ohio's real property laws. These documents serve as comprehensive instruction manuals for local officials on key issues such as administration of the homestead exemption, real property exemption applications and more. ODT also publishes a large volume of property tax data as part of its Tax Data Series, which is available on the ODT webpage.

Public Utility Personal Property

Much of my remarks today have centered around the administration of Ohio's real property tax. However, I will briefly mention that ODT also plays a role in administering property taxes on tangible personal property of public utilities. Public utilities subject to this tax include electric, rural electric, natural gas, pipeline, waterworks, water transportation and heating companies. Like real property, tax rates vary by taxing jurisdiction, dependent upon the effective millage in place.

Unlike real property, responsibility for calculating public utility tangible personal property values resides with the Tax Commissioner. For most public utility personal property, value of the property is determined by capitalized cost less composite annual allowances. Determination of true value for electric company production equipment, property of a rural electric company and underground stored gas are valued by different methods. Similar to real property taxes, this tax is collected and retained locally.

Conclusion

Co-Chairs Roemer and Blessing and members of the committee, thank you again for allowing me to present today on ODT's role in the administration of property taxation in Ohio. I would be glad to entertain any questions that you or members of the committee may have for me.

Table 1: Exempt Real Property Data

Assessed Valuation of All Real Property (2002 - 2022)					
(Figures in Thousands)					
Tax Year	Assessed Value of Non-exempt Real Property	Assessed Value of Exempt Real Property	Total Assessed Value of Real Property	Percentage of Taxable to Total Real Property	Percentage of Exempt to Total Real Property
2022	\$ 304,370,216	\$ 68,069,424	\$ 372,439,639	81.72	18.28
2017	\$ 246,886,179	\$ 54,371,150	\$ 301,257,330	81.95	18.05
2012	\$ 225,256,753	\$ 46,504,292	\$ 271,761,045	82.89	17.11
2007	\$ 235,916,747	\$ 40,317,133	\$ 276,233,880	85.40	14.60
2002	\$ 186,456,855	\$ 30,884,334	\$ 217,641,188	85.81	14.19

Source: Ohio Dept. of Taxation PE-1 Tables

Assessed Valuation of Exempt Real Property: By Class (2002 - 2022)														
(Figures in Thousands)														
Calendar Year	United States of America	State of Ohio	County	Townships	Municipalities	Boards of Education	Conservancy Districts, Park Districts (Publicly Owned)	Schools, Colleges, Academies (Privately Owned)	Charitable Institutions (Privately Owned)	Churches	Cemeteries, Monuments	Tax Abatements	Other	Total Value
2022	\$ 1,728,020	\$ 6,792,300	\$ 3,666,578	\$ 514,660	\$ 6,966,732	\$ 9,633,363	\$ 948,065	\$ 3,757,592	\$ 8,852,520	\$ 4,911,345	\$ 280,652	\$ 19,372,559	\$ 645,039	\$ 68,069,424
2017	\$ 1,599,604	\$ 5,882,064	\$ 3,112,241	\$ 439,981	\$ 5,767,615	\$ 8,346,096	\$ 781,857	\$ 3,485,550	\$ 7,139,931	\$ 4,540,374	\$ 269,070	\$ 12,059,214	\$ 947,552	\$ 54,371,150
2012	\$ 1,571,634	\$ 3,679,209	\$ 2,791,470	\$ 393,932	\$ 5,372,347	\$ 7,403,276	\$ 715,353	\$ 4,321,331	\$ 5,661,358	\$ 4,282,924	\$ 257,628	\$ 9,218,364		\$ 46,504,292 *
2007	\$ 1,725,128	\$ 3,367,150	\$ 2,446,891	\$ 331,119	\$ 5,039,053	\$ 6,224,994	\$ 606,111	\$ 3,351,682	\$ 4,381,424	\$ 3,957,892	\$ 238,277	\$ 7,911,362		\$ 40,317,133 *
2002	\$ 1,259,678	\$ 2,781,804	\$ 1,977,228	\$ 251,740	\$ 4,218,900	\$ 4,701,345	\$ 470,308	\$ 2,549,037	\$ 3,435,258	\$ 3,215,708	\$ 208,556	\$ 5,169,908	\$ 644,864	\$ 30,884,334

* Includes "other" tax exempt organizations (i.e. Metropolitan Housing, Volunteer Fire Departments, etc.) not included in any of the listed categories

Source: Ohio Dept. of Taxation PE-2 Tables