

Current Law on Moving Inside Mills

"Inside mills" (secs. 5705.01, 5705.04, 5705.05, and 5705.06)

Taxing authorities, including school boards, are authorized to levy so-called "Inside millage"--property taxes that do not have to be approved by voters before they are levied. School boards may levy inside millage for current expenses, permanent improvements, repaying debt, and school district libraries.

The total number of inside mills levied on any article or parcel of property by all overlapping taxing authorities cannot exceed 10 mills per dollar of the property's taxable value. The amount of inside millage allocated to a particular taxing authority is based primarily on the taxing authority's historical share of inside millage at the time the 15-mill limitation on unvoted millage was decreased to the current 10-mill limitation (1934); each taxing authority is entitled to a minimum of two-thirds of the millage it levied before the decrease took effect (subject to some exceptions). The allocation is made by the county budget commission. The New Richmond Exempted Village School District was allotted 3.5 inside mills in 1934. Revenue raised from inside millage is not limited by the H.B. 920 revenue limitation law; the revenue is permitted to increase in proportion to property value appreciation.

Public hearings when inside millage is altered to raise more revenue (sec. 5705.314)

Current law requires school boards to hold a public hearing before changing its inside millage "in a manner that will result in an increase in the amount of real property taxes." The public hearing must be held solely on the subject of the change, and two notices must be published to publicize the meeting and the reason it is being held.

H.B. 920 Revenue Limitation (sec. 319.301)

The "H.B. 920" property tax revenue limitation law limits the amount of revenue that can be collected from each of two classes of real property:

- I Residential and agricultural real property, and
- II All other real property (commercial and industrial).

Generally, the amount of tax charged against each class of property is not permitted to increase in response to property value appreciation in that class. Taxes charged may increase only in proportion to the value of additions of property to the class (either through new construction or reclassification). As the value of property in a class appreciates, the amount of taxes raised under the H.B. 920 limitation becomes a smaller percentage of the value of that property. Thus, the implicit or "effective" tax rate is reduced. To illustrate, 10 mills raises \$1,000 from \$1 million in taxable property. If the value of that property appreciates to \$1.25 million, the H.B. 920 law allows only \$1,000 to be charged; the effective tax rate therefore is 8 mills ($\$1,000/\1.25 million). But the actual calculation of tax may be further affected by the operation of another mechanism, known as the 20-mill floor and discussed later in this analysis, which may counter the tax-reduction effects of H.B. 920 with regard to 20 mills of current expense levies.

Notice of Plans to Change Inside Millage

Property taxes in Ohio can be authorized by a local taxing district (inside millage) or approved by a vote of the individuals in the district. Under current law, real property

tax rates on *voter-approved levies* are reduced to insure that inflationary increases in the value of property do not result in higher tax payments. This reduced tax rate is known as the effective rate of taxation.

In the case of school districts, the tax rate for inside millage plus the effective tax rate on voted millage cannot fall below 20 mills when these taxes are used to pay for current operating expenses. This is commonly referred to as the 20-mill floor and it does not include emergency, bond, or permanent improvement levies.

The New Richmond Exempted Village School District has 3.5 inside mills dedicated to current operating expenses. However, districts are not required to use inside millage for operating expenses and some districts have opted to dedicate all or a portion of their inside millage to pay for permanent improvements or debt service.

If a district is currently using voted general operating millage to pay for permanent improvements or debt service, the district can realign its inside millage to pay for all or a part of these expenses. Since a school district's total effective rate for operating millage cannot fall below 20 mills, if this district is also at the 20-mill floor and has additional voted operating mills above its effective rate on voted operating mills, realigning inside millage increases the total tax rate.

While almost all districts can theoretically switch the allocation of inside mills, only about one-half of all districts -- the districts at or near the 20-mill floor would realize an increase in tax revenues from a change in inside millage allocation. In addition, the district must also have non-operating expenses that are being funded with general operating millage. Finally, these districts must choose to realign inside millage, if the district meets all three of these requirements.

Converting inside millage for current expenses prohibited (sec. 5705.061)

1 A mill is one-tenth of a cent; thus, a tax rate of 10 mills per dollar of taxable value is equivalent to 1% of taxable value. Additional unvoted millage may be levied by a municipal corporation if its charter permits.

Legislative Service Commission -2- H.B. 604