

# Property Taxation and Property Valuation

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## Introduction

### Contents:

- ▶ How Mass Appraisal Works
- ▶ Taxes & Value: How Levies are Calculated
- ▶ What the Joint Committee on Property Tax Review and Reform should examine
- ▶ House Bill 187 & Tax Year 2023
- ▶ Q&A

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# How Mass Appraisal Works

- ▶ Mass Reappraisal:
  - ▶ Requirements
  - ▶ Process
- ▶ Reappraisal Timeline
- ▶ Sexennial Reappraisal vs. Triennial Update
- ▶ Level of Assessment

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## Mass Reappraisal

- ▶ All county Auditors in Ohio are **required by state law** to update the value of all properties by conducting a reappraisal every six years (Ohio Revised Code section 5713.01), with a Triennial Update at the 3-year midpoint between reappraisals.
- ▶ This is an effort to **accurately reflect property value changes** in the current real estate marketplace.
- ▶ **The Ohio Department of Taxation makes the final determination** as to whether updated property values determined by the Auditor are accurate and acceptable.

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## Mass Reappraisal

- ▶ Completed every six years
- ▶ Establish auditors value, reflecting the market, and equity
- ▶ All properties are reviewed using a combination of desktop tools including aerial and street-level 360-degree photographs as well as actual field visits by appraisers
- ▶ Neighborhood delineation
- ▶ Sales verification and analysis
- ▶ Property owners will be notified of their tentative values and have access to informal hearings to discuss new value
- ▶ It takes approximately 2 ½ years to complete the process

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## How Does Mass Reappraisal Work?

Data is collected from multiple sources to establish updated property values, including:

- ▶ **Recent home sales** in a neighborhood - this is one of the most significant factors.
- ▶ **Neighborhood data** such as infrastructure quality and proximity to community amenities and resources is another important measure used by appraisers in determining home value.
- ▶ A **visual exterior inspection** of the condition of your property relative to other properties in the neighborhood is conducted to determine **physical characteristics** such as age, condition, and recent home improvements which will also affect appraised value.
- ▶ *All data collected is then aggregated to re-establish baseline Auditor property valuations and ensure each property value countywide aligns with the current housing market.*
- ▶ Property Owners are notified either online, by mail, and sometimes with property value reviews. Different counties use different techniques.

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## 2023 Reappraisal Timeline

- ▶ **2021**
  - ▶ Entered contract with Tyler Appraisal
  - ▶ Begin data collection
  - ▶ Desktop review for all parcels
- ▶ **2022**
  - ▶ Continue data collection including in the field, aerial photography, 360 street level
  - ▶ Build models for cost, income, and market sales
- ▶ **2023**
  - ▶ Spring: finalize abstract to submit to the Department of Tax
  - ▶ Summer: layer in annual maintenance
  - ▶ Fall: informal hearings, finalize values

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## Reappraisal vs. Triennial

### Sexennial Reappraisal

- ▶ Completed every six years
- ▶ Establish market value and equity
- ▶ Each individual property is reviewed
- ▶ Exterior inspections only (interior data & condition estimated) - Viewed by aerial photography and drive-by or in-person
- ▶ Neighborhood delineation
- ▶ Property owners will be notified of their tentative values and have access to informal value review hearings to discuss new value (varies county by county)

### Triennial Update

- ▶ Completed on the **three-year midpoint between reappraisals**
- ▶ Updates values based on neighborhood market trends
- ▶ Sales verification and analysis
- ▶ Establishes uniform trend analysis for each neighborhood to reflect current market conditions
- ▶ Property owners will be notified of their tentative values and have access to informal value review hearings to discuss new value

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## Level of Assessment

- ▶ The level of assessment or sales ratio is a key number in determining how values will be set.
- ▶ The LOA is how the Department of Taxation makes recommendations and determines if changes are sufficient.
- ▶ The International Association of Assessing Officers standards require goals of between 90% and 110% of market as a successful reappraisal.
- ▶ Ohio Department of Taxation looks for between 90% and 94%.
- ▶ This is really the number that H.B. 187 as passed by the house would seek to change-picking a level of valuation that is an average of three years rather than the lien date.

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## Taxes & Values: How Levies are Calculated

- ▶ Why Values Change
- ▶ Types of Levies
  - ▶ Inside Millage
  - ▶ Outside Millage
    - ▶ Fixed Sum
    - ▶ Fixed Rate
    - ▶ Substitute & Incremental
- ▶ Levies & Effective Tax Rate

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## Taxes & Values: Why Values Change

- ▶ Reappraisal Changes:
  - ▶ Physical characteristics of the property have not changed, but value has changed due to market conditions
  - ▶ While reappraisal changes occur every year most occur during a sexennial reappraisal or triennial update
- ▶ Non-Reappraisal Changes:
  - ▶ Physical characteristics of the property have changed
    - ▶ New Construction
    - ▶ Demolition
    - ▶ Exemptions
    - ▶ Reclassified Real Property
    - ▶ CAUV savings

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## Taxes are Relative to Value

- ▶ Levies, excluding inside millage, adjust the rate for reappraisal changes.
- ▶ The rate is adjusted based on the value of the subdivision, not the individual property
- ▶ One rate is established for the entire subdivision for each levy
- ▶ Not everyone's value changes by the same percentage
- ▶ Taxes change based on your relative value to the total value of the subdivision
- ▶ Think of the total revenue to be generated by a levy as a pie
  - ▶ The percentage of your property's value compared to the total value of the subdivision is your share of the pie (liability)
  - ▶ If the percentage increase in your value is greater than the average percentage increase for the subdivision, your share of the liability increases relative to the average and your taxes will increase even though the levy will produce the same amount of revenue

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### Relative Taxes Example:

	Owner A	Owner B	Total
Assessed Value	\$35,000	\$35,000	\$70,000
Tax Rate	2.00	2.00	2.00
Taxes	\$70.00	\$70.00	\$140.00
Reappraisal Change	\$5,000	\$2,000	\$7,000
New Value	\$40,000	\$37,000	\$77,000
New Effective Tax Rate	1.818182	1.818182	1.818182
New Taxes	\$72.73	\$67.27	\$140.00

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### Types of Levies

- ▶ Inside
- ▶ Fixed Sum
- ▶ Fixed Rate
- ▶ Substitute & Incremental

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## Types of Levies: Inside Millage

- ▶ Unvoted
- ▶ Maximum 10 mills for a taxing district
- ▶ Shared among subdivisions that existed in 1933
- ▶ As values change
  - ▶ Revenue and cost change by an equal percentage
  - ▶ Rate does not change

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## Types of Levies: Fixed Sum Levies

- ▶ Voted
- ▶ Intended to produce a specific amount of money over a specified number of years
- ▶ Bond and Emergency levies
- ▶ Rate is set by the Budget Commission each year to produce the specified revenue
- ▶ As values change
  - ▶ Revenue does not change
  - ▶ Rate is adjusted to produce the specified amount of money

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## Types of Levies: Fixed Rate Levies

- ▶ Voted
- ▶ Most common type of levy
- ▶ Can be for a specified period of time or indefinite for certain types of levies
- ▶ Value changes due to reappraisal changes
  - Revenue does not change
  - Rate is adjusted (effective tax rate)
- ▶ Value changes due to non-reappraisal (new construction) changes
  - Revenue changes
  - Rate does not change

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	Reappraisal Change	Non-Reappraisal Change
Assessed Value	\$500,000	\$500,000
Tax Rate	2.00	2.00
Estimated Revenue	\$1,000	\$1,000
Value Change	\$5,000	\$5,000
New Value	\$505,000	\$505,000
New Effective Tax Rate	1.98	2.00
New Revenue	\$1,000	\$1,010

## Fixed Rate Levy Example

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## Types of Levies: Substitute & Incremental Levies

- ▶ Like a fixed sum levy:
  - ▶ Guaranteed to generate at least the amount of money it did in the previous year
- ▶ Like a fixed rate levy:
  - ▶ Allows for additional revenue to be realized for non-reappraisal changes
    - ▶ Incremental Levy - the incremental increase is contained in the ballot language
    - ▶ Substitute Levy - increased revenue from the prior year’s tax rate applied to the sum of the non-reappraisal changes
    - ▶ If the sum of non-reappraisal change is negative the rate is set to generate the same amount of money it did in the prior year

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## Substitute Levy Calculation

Prior Year Revenue	200,000
Prior Year Value	50,000,000
Prior Year Rate	4.00
Value Change for Non-Reappraisal Items	500,000
Prior Year Rate	4.00
Additional Revenue to Generate	2,000
New Taxes To Generate	202,000
New Valuation	51,000,000
New Tax Rate	3.96

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## Levies & Effective Tax Rate

- ▶ Effective tax rate is calculated by measuring the percentage of value change due to the reappraisal and reducing the voted rate so that the levy does not generate additional revenue from the reappraisal change
- ▶ Theory
  - ▶ If your value increases due to a reappraisal change it doesn't mean it costs more money to provide services
  - ▶ If your value increases due to new construction, there is a greater demand for services and thus additional revenue is generated

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## Effect of Value Change on Each Levy Type

	Inside Levies	Fixed Sum Levies	Substitute Levy	Fixed Rate Levies	Total
Assessed Value	\$35,000	\$35,000	\$35,000	\$35,000	\$35,000
Base Effective Tax Rate (in Mills)	10.00	8.00	4.00	20.00	42.00
Taxes on Assessed Value	\$350.00	\$280.00	\$140.00	\$700.00	\$1,470.00
Reappraisal Change (2.86%)	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000
New Construction Change (1.43%)	\$500	\$500	\$500	\$500	\$500
New Value (4.29% Higher)	\$36,500	\$36,500	\$36,500	\$36,500	\$36,500
New Effective Tax Rate (in Mills)	10.00	7.67	3.89	19.44	41.01
Taxes on New Value	\$365.00	\$280.00	\$142.00	\$709.72	\$1,496.72
Analysis of Changes					
% Change in Value	4.29%	4.29%	4.29%	4.29%	4.29%
% Change in Taxes	4.29%	0.00%	1.43%	1.39%	1.82%
% Change in Tax Rate	0.00%	-4.11%	-2.74%	-2.78%	-2.37%

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## What the Joint Committee on Property Tax Review and Reform Should Examine

- ▶ The 20 Mill Floor
- ▶ CAAO Suggestions
  - ▶ Including Targeted and Need-Based Property Tax Relief
- ▶ Exemptions, Abatements, and Tax Increment Financing

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## 20 Mill Floor - Schools

- ▶ If general fund levies are in excess of 20 mills the effective rate of the general fund levies cannot go below 20 mills
- ▶ If you have general fund levies less than 20 then the full rate is the floor
- ▶ Excludes Emergency, Incremental, Substitute, Bond, Permanent Improvement and Class Room Facilities Levies
- ▶ If reappraisal changes would cause the rate to decrease below 20 mills the rate is adjusted upwards to 20 mills so you receive additional revenue from reappraisal changes
- ▶ The 20 mill floor adjustment is annual and not cumulative
  - ▶ Value increases from reappraisal changes increase the base revenue that the voted fixed-rate levies will produce
  - ▶ If values decrease in the future due to reappraisal changes the base revenue will not decrease, instead the effective tax rate will increase to produce that base revenue

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## Example of the 20 Mill Floor's Impact

	Inside	Voted	Total
Effective Tax Rate	4.00	16.00	20.00
Assessed Value	\$1,000,000	\$1,000,000	\$1,000,000
Revenue	\$4,000	\$16,000	\$20,000
Reappraisal Change	\$10,000	\$10,000	\$10,000
New Value	\$1,010,000	\$1,010,000	\$1,010,000
New Effective Tax Rate	4.00	16.00	20.00
New Revenue	\$4,040	\$16,160	\$20,200
Reappraisal Change	(\$10,000)	(\$10,000)	(\$10,000)
New Value	\$1,000,000	\$1,000,000	\$1,000,000
New Effective Tax Rate	4.00	16.16	20.16
New Revenue	\$4,000	\$16,160	\$20,160

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## Why the 20 Mill Floor is Important

- ▶ 403 of the 611 school districts are at the 20 mill floor
- ▶ An additional 145 school districts are within 20% of the 20 mill floor
- ▶ The floor increases the % of the millage that is directly correlated with value increases

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## CAAO Suggestions

The CAAO Property Taxation and Valuation Committee is working on proactive proposals where auditors can mostly reach consensus. These are not final but the draft list includes.

- ▶ Reforms of the Owner Occupied, Non-Business, and Homestead exemption programs. Goal: more relief where needed, improve targeting.
- ▶ Local controlled exemptions/abatements for need rather than development.
- ▶ Budget Commission modernization for checks on the spending side.
- ▶ Eliminate abatements and exemptions that are a bad return on investment.
- ▶ Change the 20-mill floor
- ▶ Circuit breaker via Ohio income tax credits for excessive property tax

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## Exemptions & Homeowner Tax Relief

- ▶ Owner-occupied credit and non-business credit
- ▶ Homestead Exemption

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## Owner-Occupied & Non-Business Credits

- ▶ Under current law, owner-occupied property and property not used in business activities receive a 2.5% and 10% tax credit for qualifying levies
  - ▶ This used to apply to all levies, but in 2013 the legislature removed the credit from new, additional, or replacement levies
  - ▶ These credits will shrink as new or replacement levies are passed
- ▶ The state of Ohio reimburses local governments for these credits-the change in the amounts of the credits reduces what the state must pay, shifting that cost to property owners
- ▶ Non-business includes for example residential, agricultural, and lands that will be used for those purposes

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## Homestead Exemption

- ▶ The homestead exemption, initially enacted in the Ohio constitution in 1970 allows for specific reductions for homeowners aged 65 or older and those who are permanently disabled.
  - ▶ The exemption has been adjusted by the legislature many times since initial enactment
  - ▶ In 2007, all income eligibility testing was removed
  - ▶ In 2013, the income threshold was reinstated.
  - ▶ In 2013 the value of the exemption was fixed at \$25,000
  - ▶ In 2023, the homestead exemption was tied to the rate of inflation.
- ▶ An enhanced homestead at a \$50,000 exemption is available for completely disabled veterans and surviving spouses of first responders killed in the line of duty.
- ▶ The state of Ohio reimburses local governments for this exemption.

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## Homestead Expansion

- ▶ Need to right size both eligibility and benefit amount to meet the need
- ▶ State reimbursement should be maintained-both for equity and recognizing complications on levy certifications and debt service
- ▶ Eligibility should be at least \$50,000 in income for the household as opposed to current law \$36,100
- ▶ Benefit amount currently \$25,000 will now increase with inflation
  - ▶ Should likely be at least \$50,000 or tied to property value changes
- ▶ Note: a significant portion of homestead recipients are still those who qualified when the income threshold was removed

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## Residential Stability Zones

- ▶ Locally controlled abatement programs for homeowners at or below 80% AMI
- ▶ Exempts from taxation increases in value that result from reappraisals or triennial updates (but will tax increases that result from new construction)
- ▶ Local governments can set additional parameters. For example:
  - ▶ Could lower the income threshold or include asset limits
  - ▶ Could target based on age or length of ownership
  - ▶ Could exempt only a portion of value increase
- ▶ This would work well with existing residential abatement programs to minimize displacement that comes with value increases after investment
- ▶ Inside millage would be foregone, levies would still collect intended amounts through equalization

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## Budget Commission

- ▶ Currently comprised of Auditor, Treasurer, and Prosecutor-prosecutors have been asked to be replaced.
  - ▶ Option of adding public members.
- ▶ Certifies tax budgets and expenditures for local governments.
- ▶ Can theoretically reduce millage to be collected for any levy, but law is antiquated, and prosecutors differ
- ▶ Ask: state law would be cleaned up to give the budget commission clear authority to rollback levies

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## Abatements

- ▶ Abatements are tax incentives in the form of exemptions from paying part or all of the taxes owed toward a property in exchange for the construction or remodeling of that property as well as meeting other possible benchmarks.
- ▶ Types of abatements:
  - ▶ Enterprise Zone (EZ) (R.C. 5709.62, 5709.63, 5709.632)
  - ▶ Environmental Protection Agency (EPA) (R.C. 5709.87, 3706.041(B))
  - ▶ Community Reinvestment Area (CRA) Abatements (R.C. 3735)

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## Community Reinvestment Areas

- ▶ Community Reinvestment Areas are created by the municipal corporation or county (for unincorporated areas) the ordinance must include:
- ▶ Where the CRA is and what types of property investment will qualify-new construction vs remodeling, commercial, industrial, or residential (which gets a consistent percentage abated throughout the area-e.g. 15 year, 100% abated)
- ▶ The ordinance must create a housing officer, publish the ordinance, and file with the director of development.
- ▶ The director will issue a unique identifier at which point abatements can begin
- ▶ Once created, the area is open for abatements

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## Tax Increment Financing

### General Purposes & Structure

- ▶ Per Article XII Section 5 of the Ohio constitution, taxes must be used for their intended purpose as collected
  - ▶ TIFs are an alternative to the limitations on property tax by exempting an amount of real property taxes and then collecting the same amount for the designated infrastructure purposes of the TIF
- ▶ TIFs can be created under R.C. 725.02 or Chapter 5709 with the latter being more common
- ▶ TIFs can be created in different types of incentive districts by counties, municipal corporations, or townships
- ▶ Approval by the state tax commissioner is required and can often take 18-24 months for approval but is retroactive to the timeline in the creating ordinance

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## Tax Increment Financing

### Collecting and Spending Options

- ▶ Generally, TIFs begin when improvements occur to property subject to the TIF but timing can be included in the ordinance and can, parcel by parcel have a value trigger for the TIF to begin.
- ▶ Current or future projects that will place demand on public infrastructure and current or future improvements to public infrastructure must be identified as part of the need for the TIF.
- ▶ Generally, projects like capital investments and direct building of infrastructure in the area covered by the TIF is contemplated while certain expenses-like police and fire equipment specifically excluded.

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## Foregone Revenue: Exemptions, Abatements, and TIF

### Statewide:

- All Real Property Exemptions total value exempted (TY 2022): \$68,069,424,000
- Homestead Exemption cost to the state:
  - TY21 (payable 2022 for real property): \$349,379,007
  - Increase in cost projected as benefit increases with inflation:
    - FY2024: 11 Million
    - FY2025: \$28 Million
- The Governmental Accounting Standards Board does not require all Abatements (TIFs Specifically) to be reported, meaning a statewide number of foregone revenue is not available.

### Franklin County (foregone revenue):

- Abatements: \$159,081,886.85
- Tax Increment Financing: \$127,659,140
- Real Property Exemptions: \$15,846,521

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## Best Practices for Residential Property Relief

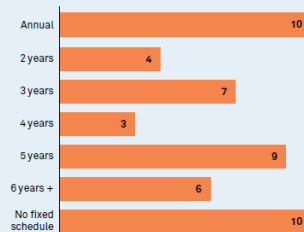
- ▶ Implement Quality Assessment Practices with Regular Revaluation
- ▶ Utilize Well-Designed State Aid Formulas
- ▶ Provide Targeted and Cost-Effective Tax Relief with Circuit Breakers and Deferrals
- ▶ Allow Homeowners to Pay Property Taxes on a Monthly Basis
- ▶ Avoid Tax Limitations

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## Improving Assessment Practice & Implementing Regular Revaluation

- ▶ “Assessment accuracy is enhanced by statistical valuation techniques, state oversight of local assessments, and effective appeals systems open to taxpayer questions and objections”
  - ▶ Ohio largely meets this standard through full reassessments every 6 years with an update three years after the full reappraisal.
  - ▶ Appeals are available
  - ▶ There is state oversight of the values, but it does not fully incorporate IAAO standards.

Figure 5.2  
Maximum Reassessment Cycle Allowed Under State Law in U.S. States (2017)



Note: Data based on survey responses.  
Source: Dornfest et al. 2019.

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## Utilizing State-Aid Formulas

- ▶ “A frequent criticism of the property tax is that poorer communities with low property tax values cannot supply adequate public services at affordable tax rate.”
- ▶ “State aid is the only way to address these disparities and ensure that all localities have sufficient resources, especially with regard to public education.”
- ▶ Ohio has two primary means of transferring state funds to local government: the local government fund, and support for local public schools.
- ▶ Both distributions are incredibly complex but have some relationship with property values though not exclusively and amounts available are not directly related to need.
- ▶ The need to pass levies also complicates this system in Ohio as some jurisdictions with ability to pay may refuse to pass necessary millage and other jurisdictions with limited ability to pay may not pass needed levies due to fear of the resulting tax burden.

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## Targeted Relief Through Circuit Breakers and Deferrals

- ▶ This recommendation is where Ohio law is most lacking.
- ▶ Outside of the incredibly limited homestead exemption there are no programs for property tax relief based on financial need.
- ▶ Circuit breakers provide relief when a homeowner’s property tax bill exceeds a set percentage of their income.
  - ▶ Found to be less expensive, and more cost-efficient, than broad across-the-board relief.
  - ▶ 32 states already utilize income-based circuit breaker programs.
- ▶ Deferrals allow property owners to delay payment of property taxes until ownership of the home is transferred.
  - Allows you to draw on your home equity to pay tax bills, imposes no long-term costs on other taxpayers.

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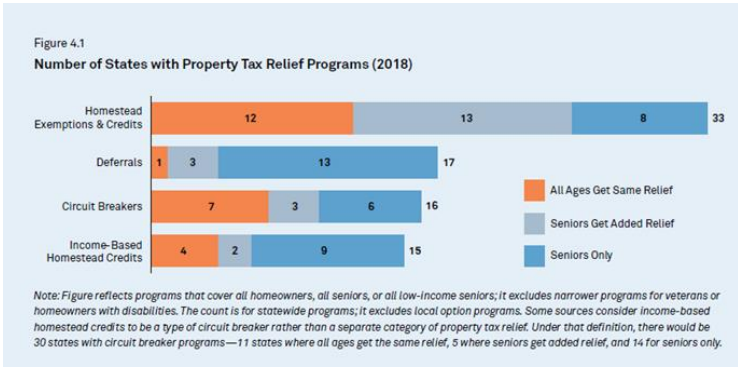
Table 4.4  
Summary of Property Tax Relief Programs

Good	Homestead Exemptions and Credits (Flat Dollar Only)
Better	Income-Based Homestead Exemptions and Credits
Best	Circuit Breakers Deferrals

Table 4.5  
Recommendations for Eligibility Criteria

Recommended	<ul style="list-style-type: none"> <li>✓ Cover All Ages</li> <li>✓ Cover Renters</li> <li>✓ Maximum Property Value</li> </ul>
Consider	<ul style="list-style-type: none"> <li>• Income Ceiling</li> <li>• Residency Requirements</li> </ul>
Avoid	<ul style="list-style-type: none"> <li>× Net Worth Limit</li> </ul>

### Additional Relief Considerations

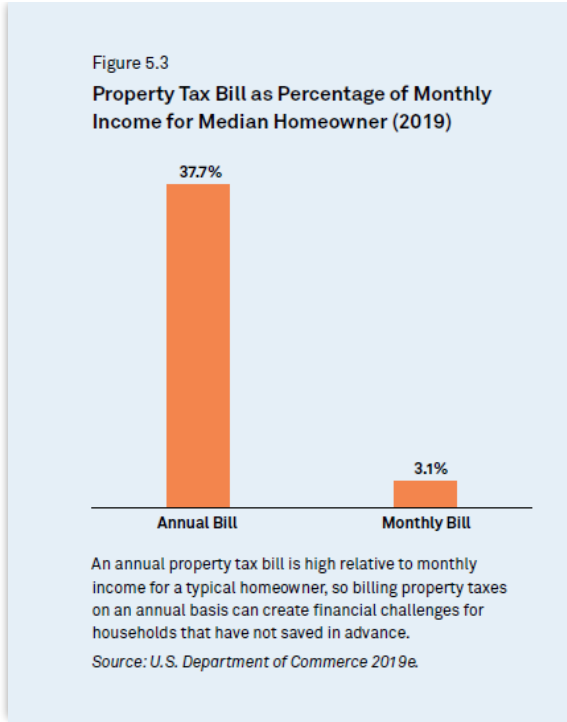


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## Allow Homeowners to Pay Property Taxes on a Monthly Basis

- ▶ The large once or twice-a-year payment structure “creates financial challenges for households that struggle to meet large, infrequent expenses, and it may increase tax delinquency.”
- ▶ Ohio allows for monthly payments known as a “Budget Payment” for property taxes.
- ▶ This is for homeowners who directly pay taxes to the county treasurer rather than escrowed through their mortgage.

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## Avoid Tax Limitations

- ▶ Tax limits are a poor relief option. “They are untargeted, they impose a one-size fits-all limit on very different local governments, and they erode fiscal autonomy.”
- ▶ “[Assessment Limits] create unpredictable winners and losers.”
- ▶ “Truth in Taxation measures are a better way to constrain growth in property taxes by requiring the same procedures for an increase in tax revenue as for a change in the tax rate, even if the revenue increase is due to rising property values.”

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## House Bill 187

- ▶ As passed by the House
  - ▶ Would require for TY23, 24, 25 an average rather than lien date value
  - ▶ Intended to address the very high value changes being seen in 2023
  - ▶ Because of levy equalization, most savings occur in 20-mill floor jurisdictions
  - ▶ Relief is not targeted but across the board and some would see a small increase compared to current law
- ▶ HB 187 in the Senate
  - ▶ Moving to a homestead model
  - ▶ Temporary increased benefit and additional eligibility with reduced benefit amounts
  - ▶ State only reimbursing for a portion of new benefit

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## Questions?

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