



TESTIMONY

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Testimony to the Joint Committee on Property Tax Review and Reform

Chairs Roemer and Blessing and members of the committee: My name is Zach Schiller and I am the research director of Policy Matters Ohio, a nonpartisan, nonprofit research institute with the mission of creating a more vibrant, equitable, inclusive and sustainable Ohio. I am here today with our tax researcher Bailey Williams to talk about two elements of Ohio's property tax system: How to provide targeted property-tax relief, and tax abatement. Specifically, we recommend that the General Assembly create a circuit breaker to provide property-tax relief to those who need it. And we propose a number of changes to make tax abatement in the state both more transparent and accountable.

As you've heard in eloquent testimony from both homeowners and experts, sharp rises in home assessment values have made property-tax relief a pressing issue. While various bills may provide a partial answer to the property tax squeeze being felt by some Ohioans, there is a better solution. It's one that has been embraced by states across the country: A property tax circuit breaker. As the name implies, much like an electrical circuit breaker prevents electric current overloads, it would reduce the load if property taxes are too high a share of income.

Property tax reductions must be aimed specifically and only at those who truly need them. That's exactly what a circuit breaker does, targeting those who are paying an outsized share of their income in property taxes. Those with high incomes are unaffected.

The typical circuit breaker mechanism works like this: A qualifying household pays property taxes up to a threshold percentage of income. If the household's property tax bill exceeds this limit, the state picks up all or a portion of the tax payments made above it (up to a cap in many places). Crucially, as with Ohio's existing homestead exemption, the state pays the cost, protecting schools, counties and other taxing entities. This state support is standard across the country. The best style of circuit breaker would cover any household, regardless of the age of the homeowner or renter, and cover renters, who pay for property tax through their rent.

Policy Matters Ohio issued a [report](#) earlier this year outlining two possible circuit breakers, and the Institute on Taxation and Economic Policy (ITEP), a Washington, D.C. nonprofit with a sophisticated model of state and local tax systems, modeled them for us. Both options would be worth up to \$1,000 a year for homeowners and renters with income under \$60,000. The proposals are based on renters paying an estimated 15% of their rent in property tax. Each of the two proposals includes a cap on the home value or rent of those eligible for the credit. These are set based on the median home value and monthly rent in the county where those are highest.

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Policy Matters Ohio is a nonprofit, nonpartisan state policy research institute with offices in Cleveland and Columbus.



Option One kicks in when property tax exceeds 5% of income and would benefit about one in six Ohio taxpayers. More than 40% of low-income Ohioans, earning under \$22,000, would receive an average tax cut of \$698. Almost a quarter of those with earnings between \$22,000 and \$45,000 would get an average benefit of \$620. Overall, ITEP estimates this would cost \$768 million a year. Senate Bill 271 introduced last week by Senators Blessing and Craig is incorporates the features of this plan.

The second option we outlined would kick in when property tax exceeds 3% of income for those with earnings under \$20,000. It includes those who pay tax of \$600 plus 4% of earnings between \$20,000 and \$40,000, and those who pay tax of \$1,400 plus 5% of income between \$40,000 and \$60,000. This illustrates that the General Assembly can structure a circuit breaker in different ways; each state does it differently.

A new circuit breaker program in Ohio could be provided as an income-tax credit and as a standalone rebate to those who don't pay income tax. Utilizing an income tax credit allows lawmakers to provide tax relief while avoiding unintended consequences that may come with property tax reform. Specifically, a circuit breaker would not violate Article XII, Section 2 of the Ohio Constitution requiring property taxation to be uniform according to value. The circuit breaker does not change the assessment process while its credit value is based on income and property taxes paid. Further, as an income-based credit, the circuit breaker would not interfere with the fair school funding plan. The state could pay for such a program by rolling back special-interest tax breaks like the business income deduction, the sales-tax deduction for data centers and the Commercial Activity Tax exemption for suppliers to big pharmaceutical warehouses.

This is the most targeted form of property tax relief: It goes to those who most need it because property tax takes a hefty share of their income. One can set the parameters differently, of course, as well as what limits to place on it. The state would also need to do outreach to make people aware of this; experience in other states has shown that not everyone applies. Homeowners would still pay their full property-tax bills and get income-tax refunds or rebates afterward.

While homestead exemptions for the elderly are helpful and expanding Ohio's existing such exemption would provide limited aid to some, a circuit breaker of this kind can provide significant tax relief and cover other homeowners who are affected just as elderly homeowners are. This includes those who live in gentrifying neighborhoods and those who may face a loss of income from unemployment or divorce. It should be structured to help renters, who are also affected by rising property values. At the same time, there are long-time elderly homeowners who are able to afford their taxes and don't need state support. Ohio already provides insulation against tax hikes for many, and it's important that any additional property-tax relief be carefully tailored.

Seventeen states, including Michigan and West Virginia, offer circuit breakers with one or more income thresholds like the example above. Another dozen states have similar income-based programs but ones that provide a flat dollar amount or a percentage of property tax; among them is Pennsylvania, which recently expanded its program. Such programs vary considerably, but they are offered in a wide variety of states, from Oklahoma to Vermont. ITEP found in a report last year that of the states that have these programs, 21 extend their program to at least some renters, while 13 make them available to non-seniors. Michigan, for instance, does both. Ohio can establish its own parameters.

The Ohio General Assembly should create a circuit breaker, the most targeted form of property tax relief.



Property tax abatement

As you have already heard, property-tax abatement has grown dramatically in Ohio. Overall, it grew from property valued at \$5.17 billion in 2002 to \$9.22 billion in 2012 to \$19.37 billion in 2022. This represented 5.2% of taxable and exempt real property in the state in 2022, up from 2.38% twenty years earlier.

A rough calculation, based on the amount of abatement and the Class 2 effective millage in each county, shows that the overall amount of tax revenue abated is about \$1.4 billion a year. This is heavily concentrated in the big urban counties, along with suburban counties near them. Franklin County alone accounts for 30% of that; together with Hamilton and Cuyahoga counties, it adds up to 62% of the tax abatement. Another seven counties – Delaware, Butler, Montgomery, Summit, Licking, Clermont and Warren – account for another 23%, so the top 10 counties account for 85% of the abatement. Note this is only a rough estimate; it uses county averages, not the actual millage that applies to each individual abatement (see footnote for further explanation).¹ Still, this underlines that tax abatement has grown to affect significant amounts of revenue.

The fastest-growing and biggest part of abatement in Ohio has been through tax increment financing. Property subject to TIF grew from \$1.13 billion in 2002 to \$4.36 billion in 2012 to \$10.60 billion in 2022. That's a 143% increase over the decade.

The Lincoln Institute of Land Policy found in a 2018 report that while there was some evidence TIFs worked in certain cases, "Taken together, this review of the rigorous evaluation literature suggests that in most cases, TIF has not accomplished the goal of promoting economic development."²

More transparency and accountability is needed. House Bill 66 from the last General Assembly, which required the biennial tax expenditure report to include information on property tax exemptions, was a step in the right direction, but did not go far enough. Currently, local tax incentive review councils are charged with reviewing abatements annually and making recommendations on their continuation. While some TIRC data is easily available, such as Franklin County's, in many cases it is not. The state maintains online databases on TIF, Community Reinvestment Area and Enterprise Zone programs. But there, too, key data are not available. For TIFs, for example, it does not include the assessed value of the affected property, how much there is in lost revenue, or whether the schools or other taxing jurisdictions are protected. Databases from other states such as Iowa and Wisconsin on local tax increment districts include how much tax revenue was captured in each district and an itemized list of project expenditures. They also report changes in districts' fund balances, so one can track their fiscal health.

Local governments and school districts that use Generally Accepted Accounting Principles must report on tax abatements in their financial reports under a rule from the Governmental Accounting Standards Board known as GASB 77. For example, the Cleveland school district reported a loss of \$28 million in revenue from Enterprise Zone abatements in Fiscal Year 2023; the Cincinnati schools said it lost \$19.6

¹ These calculations are based on the [PE-3](#) and PR-6 reports from the Ohio Department of Taxation. The most recent millage numbers from the PR-6 report are for Tax Year 2021, while the assessed value numbers from the PE-3 report are for Tax Year 2022, so this could understate the actual amounts now. It assumes the bulk of the abatement is for Class 2 property. Some of the abatement would reflect a tax shift, not a reduction in taxes collected, since abatements of property covered by fixed-sum levies would result in other taxpayers paying more, not an outright reduction in revenue. School districts also would see an increase in state aid based on their lower property valuations and in some instances, they receive compensation from the jurisdictions approving the abatements for their revenue losses. Thus, the amount of taxes abated is not the same as the net revenue loss.

² Merriman, David, "Improving Tax Increment Financing (TIF) for Economic Development," Lincoln Institute of Land Policy, 2018 at <https://www.lincolninst.edu/publications/policy-focus-reports/improving-tax-increment-financing-tif-economic-development>



million to Community Reinvestment Act abatements, while it received almost \$11.2 million in compensation. However, schools and local governments are not required to report losses from most TIFs under the GASB rules. And reporting is not systematic and standardized. The General Assembly should mandate reporting on TIFs. Policy Matters Ohio previously has recommended a number of steps the auditor of state should take to require standardized and more extensive GASB 77 reporting by jurisdictions (See Appendix for links to these reports and some highlights of the recommendations).

Easily understandable data from across the state should be available online and aggregated at the state level. The General Assembly should ensure this is implemented.

You have heard numerous witnesses talk about the need to add guardrails so tax abatement in general and TIFs in particular are not abused. Here are a number of recommendations for the General Assembly to consider:

- Require a popular vote on TIFs over a certain size, including extensions of existing TIFs. Prior to the vote, the county auditor should provide estimates of what the foregone revenue will be for all affected taxing jurisdictions and the effect on fixed-sum levies for taxpayers.
- Allow for dissolution of TIFs if the property owner is out of compliance with the terms of the TIF, either because they are not making requisite service payments or do not complete the improvements specified in the ordinance or resolution. In cases where debt is issued based on the TIF service payments, ensure that remedies under existing law when the property owner stops making these payments are made clear upfront in TIF resolutions and bond documents. This includes a local government's right to foreclose on the property to recover the unpaid amounts and that the service payment obligation transfers to a new owner if the property changes hands. The committee should consider if other remedies should be made available.
- Expand approval rights of school districts, counties and other taxing jurisdictions that stand to lose revenue from TIFs and other abatements. For instance, counties should have such rights with parcel TIFs, not just incentive district TIFs. The General Assembly should increase sharing of increased municipal income tax revenues with schools and other jurisdictions covered by TIFs.
- Follow recommendations from previous witnesses that TIFs should be limited to funding public infrastructure that benefits the general public, not as a way to finance private development costs.
- Restrain the use of TIFs for residential development, and require any that do use at least 25% of tax increment revenues for affordable housing.
- Return tax abatement programs to their original purpose, by tightening or establishing distress criteria and ensuring that they are used in areas that are truly blighted.
- Require that companies receiving property-tax abatements provide good wages and benefits.
- Ban property tax abatement for companies that are relocating within Ohio except in rare instances. The General Assembly should require as a condition of permitting tax abatement in a local jurisdiction that it agree to abstain from seeking on its own to relocate any business from elsewhere in Ohio.



Some of the state's largest cities have begun to set some new limits and conditions on tax abatement for residential development. The General Assembly should add significant controls on tax abatement so that it truly serves the public interest. It should also consider a further review of broader property tax exemption policy, including that covering nonprofit hospitals. Some of these institutions have become among the largest employers in the state and pay little tax on their extensive properties.

Thank you for the opportunity to testify.

Appendix

Policy Matters Ohio issued two reports reviewing [local government](#) and [school disclosures](#) on tax abatement under the GASB 77 standard. Among other things, we recommended that the auditor of state:

- Ensure that all Comprehensive Annual Financial Reports have a clear section on abatements.
- Provide every local jurisdiction required to report under the GASB standard with a spreadsheet and instructions to complete it.
- Aggregate all of the GASB 77 data in one place, available and downloadable for Ohioans from a web site. This could be done by augmenting the existing [Summarized Annual Financial Reports](#) on the auditor's web site.
- Encourage local governments to go beyond the minimum requirements of GASB 77, as a number already do, and include the names of subsidy recipients, future liabilities of each subsidy program and payments to school districts to offset abatement they have made.