Property Taxes and Declining Valuation and Proposed TPP and Utility Reimbursements

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Introduction

- Overview
  - How valuation changes are determined
    - Use of sales ratios
  - What is expected for residential real property in 2011
  - What are the implications of flat or declining values
    - Impact on inside millage revenue
    - Impact on voted levies

  - Explanation and examples of the TPP and SB3 reimbursement changes in the Executive Budget

Determining Valuation Change

- At reappraisal, a visual inspection of all property
- At triennial update, sales ratios based on property transferred during the three preceding years

Determining Valuation Change

- The Department of Taxation oversees the process throughout the state to ensure that taxable values are properly reflective of market values

- The department uses sales ratios to analyze both reappraisal and update valuation changes

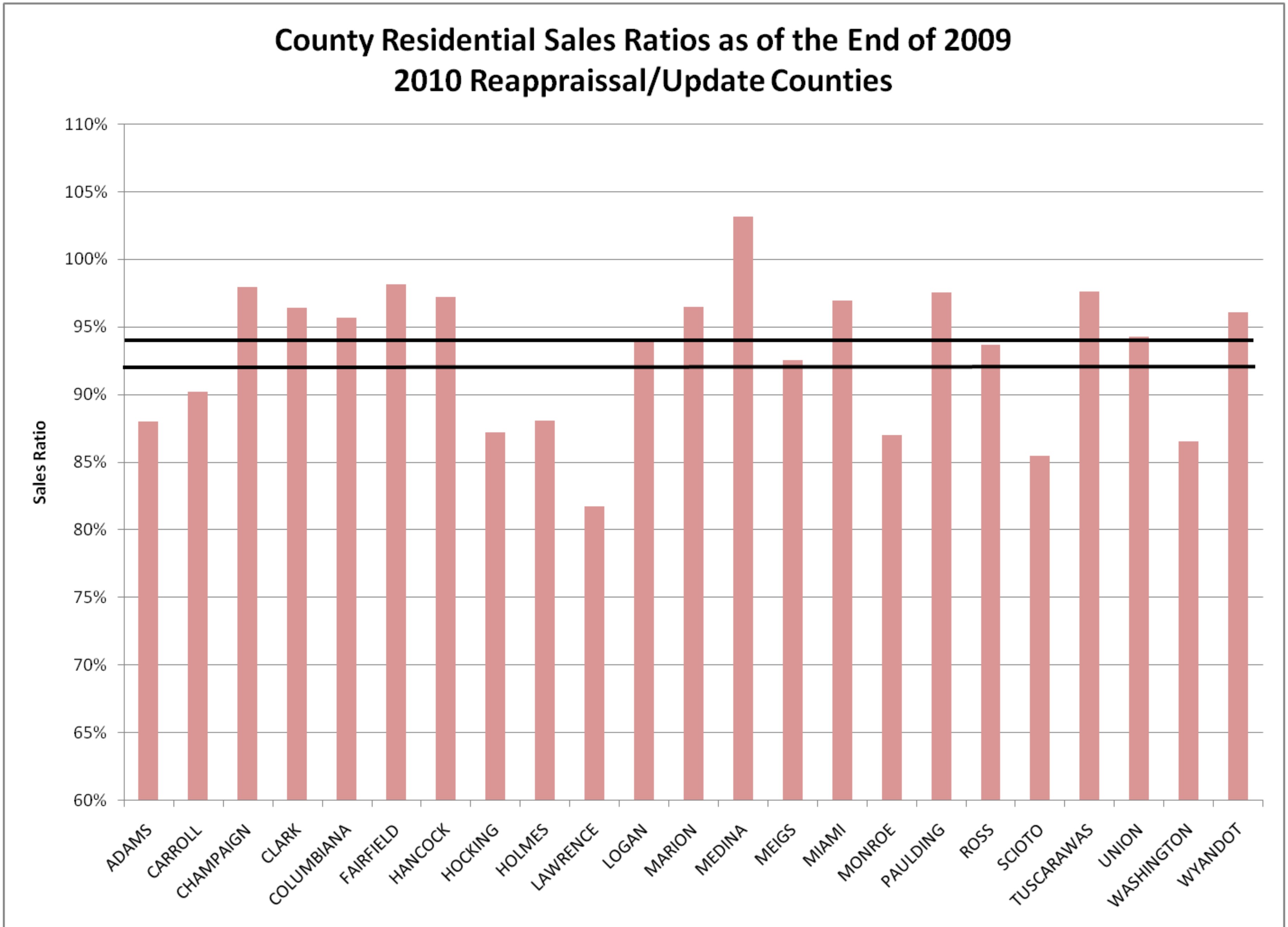
Determining Valuation Change

- Sales used in the ratio studies do not include:
  - Sales of new homes
  - Foreclosure sales
  - Sales between family members
  - Other sales that are not arms-length transactions

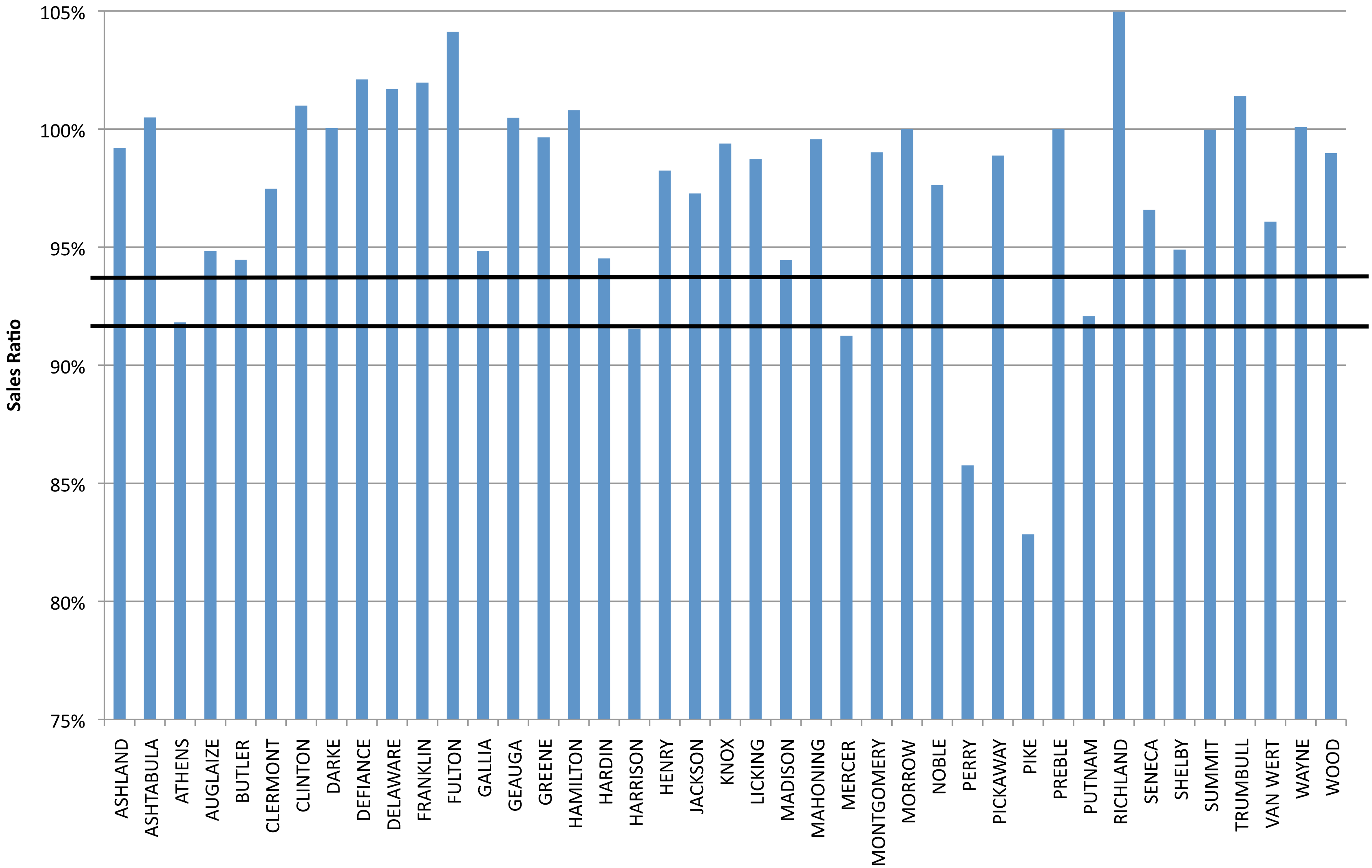
Determining Valuation Change

- The department's goal, based on national standards, is to have the median value for tax purposes at about 92 – 94 percent of median market value

- The standard is not to aim for 100 percent because then 50 percent of homes would be valued for tax purposes above what they could be sold for on the open market


County Residential Sales Ratios as of the End of 2009
2010 Reappraissal/Update Counties
Sales Ratio
110%
105%
100%
95%
90%
85%
80%
75%
70%
65%
60%
ADAMS
CARROLL
CHAMPAIGN
CLARK
COLUMBIANA
FAIRFIELD
HANCOCK
HOCKING
HOLMES
LAWRENCE
LOGAN
MARION
MEDINA
MEIGS
MIAMI
MONROE
PAULDING
ROSS
SCIOTO
TUSCARAWAS
UNION
WASHINGTON
WYANDOT

County Residential Sales Ratios as of the Middle of 2010
2011 Reappraissal/Update Counties



Housing Bust Impact on Levies

- Implications of Zero Increases or Decreases in Residential Property Values
  - No growth in revenue from inside millage or charter millage (or actual declines)
  - Other levy rates will be adjusted upward, to the extent possible, to offset valuation declines

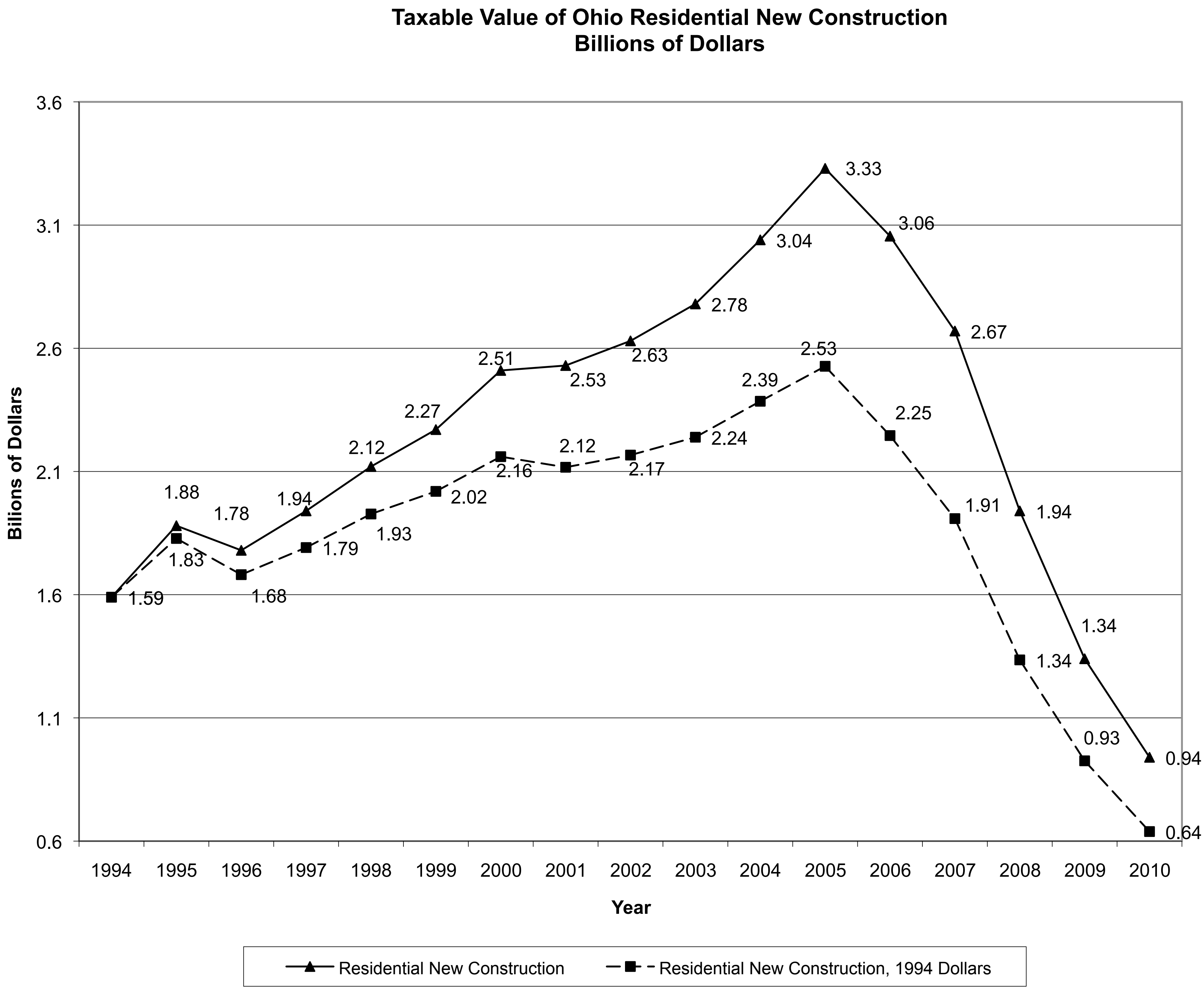
EXAMPLE OF IMPACT OF VALUATION DECLINES

County	Township	Levy Year	Levy	Gross Rate	Class 1 Rate	2010 Class One Taxes	2011 Class One Taxes	2010 Class One Rate	% Change Class 1 Rev.
LICKING COUNTY	BUCKEYE LAKE CORP		GENERAL FUND	2.20	2.200	$75,807	$72,864	2.20	-3.9%
LICKING COUNTY	BUCKEYE LAKE CORP	2000	POLICE	3.00	2.165	$74,601	$74,601	2.2524	0.0%
LICKING COUNTY	BUCKEYE LAKE CORP	2008	FIRE & E.M.S.	5.00	4.955	$170,738	$165,600	5.0000	-3.0%
LICKING COUNTY	BUCKEYE LAKE CORP	2009	CURRENT EXPENSE	1.00	0.991	$34,148	$33,120	1.0000	-3.0%
			TOTALS	11.20	10.31	$355,294	$346,185	10.45	-2.6%

Current Ratio	98.7%		
	2010	2011	
Residential Value	34,203,430	32,493,259	-5.0%
Agricultural Value	254,490	626,821	146.3%
Class 1 Value	34,457,920	33,120,080	-3.9%

Housing Bust Impact on Ohio School Finance

- Besides the low growth in carryover values, there has also been a weakening of new construction


Taxable Value of Ohio Residential New Construction
Billions of Dollars
3.6
3.1
2.6
2.1
1.6
1.1
0.6
Bilions of Dollars
3.33
3.06
3.04
2.78
2.67
2.53
2.51
2.53
2.63
2.39
2.27
2.25
2.12
2.12
2.24
2.16
2.17
2.02
1.88
1.78
1.94
1.91
1.94
1.93
1.83
1.79
1.59
1.68
1.34
1.34
0.93
0.94
0.64
1994
1995
1996
1997
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
Year
Residential New Construction
Residential New Construction, 1994 Dollars

Overview

- The Governor's budget proposal plans significant changes to the reimbursement of TPP replacement dollars

- It also proposes changes to SB3 (public utility) reimbursements

Overview

- The concept of how the new phase-outs will work are the same for both TPP and SB3
- There is not a defined date by which the phase-out will be complete, except that no payments will be made beyond 2030
- The amount phased down in any given year is capped at two percent of total defined resources

Overview

- Under current law, the direct TPP reimbursements for fixed-rate levies are phased down beginning in August 2011

- In August and October 2011, reimbursements are 14/17ths of the prior year, then all payments decline by 3/17ths in 2012 and 2/17ths each year thereafter

- 30 percent of CAT revenue has been earmarked for non-schools, but that begins to decline in state FY 2012, when it falls to 24.7 percent; the local share continues to decline during the phase-out period

Overview

- Under current law, reimbursements of fixed-rate levies under SB3 are to continue through August 2016
- 2011 is the last year non-schools receive reimbursements at 80 percent of the initial reimbursement level
- From 2012 through 2016 the reimbursement level goes down by 13.3% per year, until reaching 13.5% in 2016 and zero in 2017

Executive Budget Proposal

- The budget proposal would change the phase out of both the TPP and SB3 fixed-rate reimbursements

- In 2011, there is no change to any reimbursements that occur before June 30

- Beginning with the second payment in 2011, the reimbursements are phased-out, but the phase-out is limited to no more than two percent of ‘total resources” each year

Executive Budget Proposal

- Total Resources
  - TY 2009 property taxes (collected in 2010)
  - TY 2008 MIT
  - 2010 TPP and SB3 reimbursements
  - TY 2009 rollbacks and homestead reimbursements
  - TY 2010 LGF
  - Median 2006-2009 estate taxes (munis only)
  - 2008 admission taxes

Executive Budget Proposal

- Inside or Charter debt levies are broken out and treated as under current law, based on 2010 rates

- For municipalities, levies are broken between current expense and non-current expense, determined by the levy purpose

Executive Budget Proposal

- Non-current expense purposes are
  - airport resurfacing; bond or any levy name including the word bond; capital improvement or any levy name including the word capital; debt or any levy name including the word debt; equipment or any levy name including the word equipment, unless the levy is for combined operating and equipment; employee term. fund; fire pension or any levy containing the word pension, including police pensions; fireman's fund or any practically similar name; sinking fund; road improvements or any levy containing the word road; fire truck or apparatus; flood or any levy containing the word flood; conservancy district; county health; note retirement; sewage, or any levy containing the words sewage or sewer; park improvement; parkland acquisition; storm drain; street or any levy name containing the word street; lighting, or any levy name containing the word lighting; and water.

Executive Budget Proposal

- In the second half of 2011, for the TPP reimbursement, the test to determine the amount reimbursed is to take 6/7ths of the 2010 reimbursement and subtract from that two percent of total resources, with the difference, if greater than zero, being the amount reimbursed
- The calculation is the same for the SB3 payment, except that one-half is used instead of 6/7ths

Executive Budget Proposal

- In subsequent years, the test is to take the 2010 total reimbursement and subtract an additional two percent of total resources each year
- As long as that results in a positive number the payment continues as the difference between the two numbers

Executive Budget Proposal

- For municipal non-current expense levies (excluding bonds, debt, and sinking fund), the reimbursements are phased-out over 4 years, beginning in the second half of 2011

- Bond, debt, and sinking fund levies reimbursements remain in place subject to current law (2017 for TPP and 2016 for SB3)

Executive Budget Proposal

- The three payments per year under the TPP reimbursement are reduced to two, with the August (3/7ths) and October (3/7ths) payments combined into a single 6/7ths November payment

- The payment is made by November 20 to the county; the treasurer has 40 days (previously 45) to turn it around to ensure the payment gets to local jurisdictions before December 31

TPP Example

- I will do an example using three municipalities in Clinton County

TPP Example

Muni	CE TY 10 Reimb.	Total Resources	Reliance Ratio
Blanchester	$105,577	$533,310	19.8%
Clarksville	$485	$32,376	1.5%
Wilmington	$432,549	$9,067,694	2.33%

Muni	2% of Resources	CY11 Payment	CY12 Payment
Blanchester	$10,666	$94,911	$84,245
Clarksville	$648	$69	0
Sabina	$181,384	$251,169	$69,781

TPP Example--Blanchester

	CE TY 10 Reimb.	TY11Payment	TY12 Payment
Blanchester:			
Current Law	$105,577	$89,607	$68,315
Proposed Law	$105,577	$94,911	$84,245

	TY13 Payment	TY14 Payment	TY15 Payment
Blanchester:			
Current Law	$55,894	$43,473	$31,052
Proposed Law	$73,579	$62,913	$52,247

	TY16 Payment	TY17 Payment	Total TY11 - 18
Blanchester:			
Current Law	$18,631	$6,210	$313,182
Proposed Law	$41,581	$30,915	$440,341

TPP Example—Non-CE

Muni	Non-CE FY 10	TY 11	TY 12
Wilmington	$16,744	$13,156	$8,372

District	TY 13	TY 14
Wilmington	$4,186	0

TPP Other Issues

- Inside millage debt levies are treated the same as under current law, meaning they get full reimbursement through 2016

- Remember, any levy must still be in place after 2010 for reimbursements to continue

- Any of these calculations are appealable for 2 years, so check carefully what we did