

# IT'S YOUR MONEY

A QUARTERLY NEWSLETTER FROM YOUR COUNTY AUDITOR

## UNDERSTANDING TAX INCREASES AND THE 20 MILL GUARANTEE



**CRAWFORD COUNTY COURTHOUSE**

### Special points of interest:

- Understanding Tax Increases during Reappraisal
- A Look at the County's General Operating Fund for the First Quarter of 2006
- A Brief Discussion on School Funding and Phantom Revenue

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**DEDICATED TO SERVING CRAWFORD COUNTY WITH ACCOUNTABILITY, INTEGRITY AND PROFESSIONALISM**

### Introduction

This publication is being written to help the taxpayers of Crawford County understand how property taxes in Ohio work and how taxes can increase during the reappraisal process.

While these tax increases benefit all local governments that rely on property tax revenues, this report will focus more on school property taxes for two reasons: First, schools are the only local government entity that are guaranteed a millage floor (20-mills including inside millage), and second, schools make up the largest recipient of local property tax dollars.

### Unvoted Millage vs Voted Millage

Ohio property taxes consist of voted and unvoted millage. One mill is equal to **one dollar for every one thousand** dollars of taxable valuation or one-tenth of one percent.

Under provisions of the Ohio Constitution, the inside millage (referred to as unvoted) may not exceed 10 mills. This inside millage is divided between county government, city government, township government, and school districts. While the 10 mills are allocated differently between each governmental entity that comprises a taxing district, the total of all inside millage rates cannot exceed the 10 mills.

If a governmental entity or school district's financial situation requires additional

funding, then Ohio law requires approval from the voters. This is referred to as voted or "outside" millage and can be as high as voters in a particular taxing district are willing to approve.

### Protection for the Taxpayer

H.B. 920 in 1976 was passed to protect the property owner from paying additional taxes when property values go up. **Here's how it works:** every three years, the county auditor's office is ordered by the State Tax Commissioner to review property values.

If property values increase, the Ohio Department of Taxation then calculates how much tax rates have to be **reduced** to eliminate **most** of the tax increase that would result from the value increase. This reduced tax rate is called the effective rate and is used to calculate taxes.

Typically, property value increases mean small increases in property taxes. However, because the inside millage is not reduced by the State, property taxes will increase by the amount of inside millage.

The actual dollar increase depends on the increase in taxable value but generally will not exceed \$3.50 for every \$1,000 the property valuation increases.

### Property Tax 101

Property taxes start with a determination of the fair market value, which is estab-

lished by the appraisal process. That value is reduced to 35%, which becomes the taxable value or assessed value.

The assessed value of your property is then multiplied by the effective tax rate (remember the effective rate is the combination of inside millage or tax rate and the voted tax rates adjusted for changes in property valuations).

As you can see, there are two important numbers, the assessed value and effective rate. When either of these numbers goes up, taxes will increase.

### Protection for the Schools

The legislature passed another law, referred to as the 20-mill guarantee, for school districts. This guarantee is commonly referred to as the 20-mill floor. In essence, Ohio law requires that school property tax rates for current operating purposes, cannot be reduced below 20 mills, including the inside millage. As such, as reappraisal or equalization causes real property values to increase, the operating tax rate of a school district cannot be reduced below 20 mills; **no matter how much the property values go up.**

Since school districts generally get about two-thirds of all property tax revenues, there can be an impact on taxes from the 20-mill guarantee.

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## ***UNDERSTANDING TAX INCREASES AND THE 20-MILL GUARANTEE, CONTINUED FROM PAGE 1***

### **20-Mill Guarantee Calculation**

By law, certain tax levies are excluded in the 20-mill guarantee calculation. Bond issues, permanent improvement levies, emergency operating levies and income tax levies are all excluded from the 20-mill guarantee calculation.

To supplement current operating levies, school districts have two options under Ohio law. One option is to approve an emergency operating levy and the second option is to approve an income tax levy. These levies are not included in the 20-mill guarantee calculation so a school district will generate additional revenue without losing the growth on existing operating millage that occurs from being at the 20-mill guarantee.

### **State Perspective on 20-Mill School Districts**

According to the Ohio Department of Taxation, of the 613 school districts in Ohio, 350 or about 57% were at the 20-mill floor in tax year 2003. This percentage can be compared to 30% in 1995. Of the 350 school districts at the 20-mill floor, 65 percent had either emergency or income tax levies. About 72 percent of the districts levying an income tax are at the 20-mill floor for property taxes.

The result is that school districts will receive the growth on property values for current expense levies as reappraisals and equalization occurs and the taxpayers will see a tax increase.

### **Effects of the 20-Mill Guarantee in Crawford County**

Of the six school districts in Crawford County, there are two school districts at the 20-mill floor and two more districts that may reach the 20-mill floor in the near future. Final determination as to whether a school district has reached the 20-mill floor is made by the Department of Taxation based on the various value and tax rate abstracts submitted by the County Auditor's Office.

Crawford County is comprised of approximately 33,000 parcels of land and buildings. If four of the school districts reach the 20-mill floor, approximately 60% of the parcels within the County could see a tax increase due to the 20-mill guarantee.

Since tax year 2006 (for taxes paid in 2007) is a reappraisal year, the 2007 tax rates may reflect increases due to the effect of inside millage and any adjustments for the 20-mill guarantee.

Bucyrus School District and Buckeye Central School District are currently at the 20-mill floor and Crestline and Col. Crawford may reach the floor with the next reappraisal. How quickly a school district reaches the 20-mill floor depends on how much or if residential property values increase and how long it has been since taxpayers have authorized a current expense levy for that particular school district.

According to the Ohio Department of Taxation, taxpayers in Bucyrus School District will realize an increase in taxes due to the 20-mill guarantee equivalent to the percentage increase in residential property values. As such, if residential

property values increase 10%, property taxes will also increase 10% on the 20 mills.

Buckeye Central School District taxpayers would also see a similar increase in property taxes due to the 20-mill guarantee.

Crestline School District taxpayers could see an increase of taxes due to the 20-mill guarantee if the residential/agricultural property tax base of the school district increases more than 2.8%.

Col. Crawford School District taxpayers will only see an increase of taxes due to the 20-mill guarantee if the residential/agricultural property tax base of the school district increases more than 11%.

### **Summary**

After the reappraisal or equalization of real property values, taxpayers will pay higher taxes, lower taxes or about the same amount of taxes. The change in taxes depends upon the percentage increase or decrease in taxable value of their property.

All taxpayers whose property values increase due to reappraisal or equalization will see a tax increase from the inside millage of the taxing district where they reside (maximum 10 mills).

Residential/agricultural taxpayers will see tax increases due to the 20-mill guarantee if they live in Bucyrus or Buckeye Central School Districts.

Final determination as to whether other local school districts and local taxpayers will be effected by the 20-mill guarantee, will be made by the Department of Taxation when final reappraisal values are determined in the fall of 2006.

## ***UNDERSTANDING TAX INCREASES AND THE 20-MILL GUARANTEE, CONTINUED***

The following tables illustrate how taxes can increase during the reappraisal process due to the ten mill limitation and the 20-mill guarantee.

The taxable value of property is 35% of the market value. As such, if the market value of a property is \$100,000, then multiply **\$100,000 by 35% to determine the taxable value**. \$35,000 is the taxable value of this property.

### **TAX INCREASE DUE TO INSIDE MILLAGE**

The following table illustrates how taxes will increase because of the ten mill limitation or inside millage. This example **assumes a property value of \$100,000 (taxable value \$35,000)**. The actual tax increase would depend on the inside millage of each entity where the property is located. For this example, **the maximum of 10 mills has been assumed**.

Percentage Increase of Taxable Value	5%	10%	15%	20%	25%	30%
Taxable Value Increase	\$1,750	\$3,500	\$5,250	\$7,000	\$8,750	\$10,500
Taxable Value Multiplied by 10 Mills	\$0.010	\$0.010	\$0.010	\$0.010	\$0.010	\$0.010
<b>Tax Increase Due to Inside Millage</b>	<b>\$17.50</b>	<b>\$35.00</b>	<b>\$52.50</b>	<b>\$70.00</b>	<b>\$87.50</b>	<b>\$105.00</b>

The following table illustrates what each political entity will receive from the inside millage if property values increase by the percentages listed below. The taxing district in this example does not include a township.

Political Entity	Tax Rate/Inside Millage	5%	10%	15%	20%	25%	30%
County	2.20	\$ 3.85	\$ 7.70	\$11.55	\$15.40	\$19.25	\$23.10
School District	3.50	\$ 6.13	\$12.25	\$18.38	\$24.50	\$30.63	\$36.75
City	4.30	\$ 7.52	\$15.05	\$22.57	\$30.10	\$37.62	\$45.15
<b>Totals</b>	<b>10.00</b>	<b>\$17.50</b>	<b>\$35.00</b>	<b>\$52.50</b>	<b>\$70.00</b>	<b>\$87.50</b>	<b>\$105.00</b>

### **TAX INCREASE DUE TO THE 20-MILL GUARANTEE**

The following table illustrates how taxes will increase if a school district is at the 20-mill floor.

For this example the same **\$100,000 property value is used (taxable value \$35,000)**. The school district is at the 20-mill floor. As property values increase, the taxes will increase on the guaranteed 20 mills. **The 20 mill guarantee calculation includes the inside millage of the school district**.

Percentage Increase of Taxable Value	5%	10%	15%	20%	25%	30%
Taxable Value Increase	\$1,750	\$3,500	\$5,250	\$7,000	\$8,750	\$10,500
Taxable Value Multiplied by 20 Mill Guarantee	\$0.020	\$0.020	\$0.020	\$0.020	\$0.020	\$0.020
<b>Tax Increase Due to 20-Mill Guarantee</b>	<b>\$35.00</b>	<b>\$70.00</b>	<b>\$105.00</b>	<b>\$140.00</b>	<b>\$175.00</b>	<b>\$210.00</b>

## ON THE YEAR; GENERAL FUND REVENUES, EXPENDITURES AND CASH

*The General Fund is the chief operating fund of the County. It is used to account for resources traditionally associated with governments which are not required legally or by sound financial management to be accounted for in a separate fund. There is only one General Fund of the County as contrasted with multiple special revenue, debt service, capital projects, fiduciary and proprietary funds.*

Actual operating revenues of the General Revenue Fund for the first three months of 2006 were \$2,516,813.90 or 31.08% of the \$8,098,999.56 estimated by the County Budget Commission in January. Operating revenues collected for the same period last year were \$2,490,245.63. The 1.06% increase in operating revenue for 2006 can be attributed in large part to charges for services revenue. Small increases were also realized in property tax revenues and interest revenues.

On the year, sales tax revenue is down by \$26,578.16. Charges for services revenue is up by \$60,945.37. The increase in charges for services revenue is attributed in large part to fees associated with the Elections Board and for conveyance fees collected.

First quarter operating expenditures totaled \$2,867,986.28 or 27.06% of the \$10,600,489.42 appropriated. Operating expenditures for the same period last year totaled \$2,722,755.75, indicating an increase in expenditures of \$145,230.53. The increase in expenditures can be attributed to increases in utility costs, the timing of worker's compensation payments, and increases in health insurance premiums.

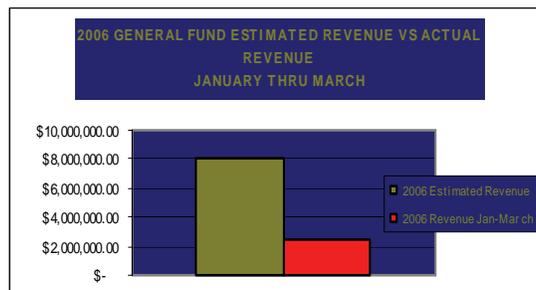
For the first quarter of 2006, General Fund operating expenditures exceeded operating revenues by \$351,172.38. For 2005, operating expenditures exceeded operating revenues by \$232,510.12.

When comparing actual revenues and expenditures, advances made to other funds or received as a repayment are not considered as operating revenues and expenditures because these items only affect cash flow. Thus, in order to accurately reflect operating revenues and expenditures these loans have been removed from the totals and the financial data presented in this newsletter.

The cash balance of the General Fund at March 31, 2006 was \$3,530,783.75 as compared to \$2,864,456.12 at March 31, 2005. The increase in cash position can be attributed to one-time transfers that were made from the Auto License and Gas Tax Fund for fees associated with indirect costs from prior years and for transfers that were made from the Municipal Court Capital Projects Fund for reimbursement of costs associated with renovating the municipal court facility. Also, advance repayments to the General Fund totaled more than \$128,000 for the first quarter of 2006 as compared to \$3,000 for the same period in 2005.

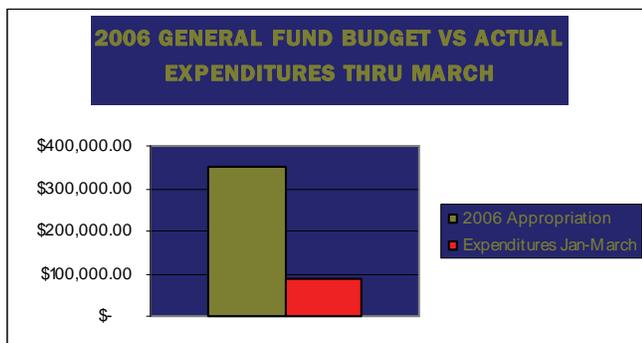
## 2006 GENERAL FUND BUDGET VS ACTUAL REVENUES

	2006 ESTIMATED	2006 ACTUAL REVENUE	PERCENT
	<u>REVENUE</u>	<u>JANUARY-DECEMBER</u>	<u>COLLECTED</u>
PROPERTY TAXES	\$ 1,275,000.00	\$ 637,981.89	50.04%
SALES TAXES	\$ 3,150,000.00	\$ 834,196.10	26.48%
CHARGES FOR SERVICES	\$ 1,651,600.00	\$ 555,276.47	33.62%
LICENSES AND PERMITS	\$ 3,410.00	\$ 810.00	23.75%
FINES AND FORFEITURES	\$ 150,000.00	\$ 43,401.05	28.93%
INTERGOVERNMENTAL	\$ 1,445,258.00	\$ 377,274.37	26.10%
INTEREST	\$ 300,000.00	\$ 31,226.06	10.41%
OTHER	\$ 123,731.56	\$ 36,647.96	29.62%
<b>TOTAL OPERATING REVENUE</b>	<b>\$ 8,098,999.56</b>	<b>\$ 2,516,813.90</b>	<b>31.08%</b>
ADVANCE REPAYMENT		\$ 128,858.55	
TRANSFERS IN		\$ 382,158.52	



## 2006 GENERAL FUND BUDGET VS ACTUAL EXPENDITURES

	2006 <u>Appropriation</u>	Expenditures <u>Jan-March</u>	Unexpended <u>Balance</u>	Percent <u>Expended</u>
<b>General Fund Operating Expenditures and Transfers</b>	<b>\$ 10,600,489.42</b>	<b>\$ 2,867,986.28</b>	<b>\$7,732,503.14</b>	<b>27.06%</b>
<b>Department Breakdown</b>				
COUNTY COMMISSIONERS	\$ 352,463.45	\$ 86,541.29	\$ 265,922.16	24.55%
COUNTY AUDITOR	\$ 371,806.62	\$ 79,382.39	\$ 292,424.23	21.35%
COUNTY TREASURER	\$ 113,279.48	\$ 28,553.30	\$ 84,726.18	25.21%
PROSECUTING ATTORNEY	\$ 519,746.92	\$ 147,553.32	\$ 372,193.60	28.39%
BUDGET COMMISSION	\$ 500.00	\$ -	\$ 500.00	0.00%
BOARD OF REVISION	\$ 500.00	\$ -	\$ 500.00	0.00%
BUREAU OF EXAMINATION	\$ 68,125.43	\$ -	\$ 68,125.43	0.00%
COUNTY PLANNING	\$ 35,000.00	\$ 10,000.00	\$ 25,000.00	28.57%
DATA PROCESSING	\$ 113,529.98	\$ 29,190.58	\$ 84,339.40	25.71%
COURT OF APPEALS	\$ 33,223.82	\$ 17,878.81	\$ 15,345.01	53.81%
COMMON PLEAS/JURY	\$ 665,185.00	\$ 166,480.78	\$ 498,704.22	25.03%
JUVENILE COURT/PROBATION	\$ 826,942.88	\$ 186,618.88	\$ 640,324.00	22.57%
PROBATE COURT	\$ 128,176.82	\$ 32,494.14	\$ 95,682.68	25.35%
CLERK OF COURTS	\$ 266,478.13	\$ 64,627.47	\$ 201,850.66	24.25%
CORONER	\$ 131,306.16	\$ 26,101.00	\$ 105,205.16	19.88%
MUNICIPAL COURT	\$ 545,121.64	\$ 129,904.21	\$ 415,217.43	23.83%
BOARD OF ELECTION	\$ 327,747.61	\$ 63,615.56	\$ 264,132.05	19.41%
CT HOUSE ADMIN/COMMISSIONERS	\$ 751,643.42	\$ 260,687.71	\$ 490,955.71	34.68%
SHERIFF ROAD PATROL ONLY	\$ 2,037,588.16	\$ 472,253.61	\$1,565,334.55	23.18%
RECORDER	\$ 197,660.39	\$ 42,560.59	\$ 155,099.80	21.53%
EMERGENCY MANAGEMENT	\$ 75,000.00	\$ -	\$ 75,000.00	0.00%
AGRICULTURE	\$ 290,591.03	\$ 151,942.93	\$ 138,648.10	52.29%
T.B. HOSPITAL	\$ 500.00	\$ -	\$ 500.00	0.00%
REGISTRATION VITAL STATISTICS	\$ 1,000.00	\$ -	\$ 1,000.00	0.00%
OTHER HEALTH	\$ 80,998.21	\$ 1,736.81	\$ 79,261.40	2.14%
VETERANS SERVICES	\$ 347,640.43	\$ 88,675.72	\$ 258,964.71	25.51%
PUBLIC ASST - GRANT	\$ 275,252.00	\$ 190,252.00	\$ 85,000.00	69.12%
CHILD WELFARE GRANT	\$ 215,000.00	\$ -	\$ 215,000.00	0.00%
VICTIMS OF CRIME GRANT	\$ 11,695.00	\$ -	\$ 11,695.00	0.00%
SANITARY ENGINEER	\$ 10,846.00	\$ 2,241.40	\$ 8,604.60	20.67%
COUNTY ENGINEER	\$ 135,295.00	\$ 25,073.19	\$ 110,221.81	18.53%
LAW LIBRARY	\$ 62,724.84	\$ 11,437.16	\$ 51,287.68	18.23%
LIABILITY INSURANCE	\$ 385,622.00	\$ 50.00	\$ 385,572.00	0.01%
TRANSFERS/MISCELLANEOUS	\$ 1,222,299.00	\$ 552,133.43	\$ 670,165.57	45.17%
<b>TOTAL OPERATING EXP/TRANSFERS</b>	<b>\$ 10,600,489.42</b>	<b>\$ 2,867,986.28</b>	<b>\$7,732,503.14</b>	<b>27.06%</b>
LOANS TO OTHER FUNDS		\$ 120,000.00		
<b>TOTAL EXPENDITURES AND ADVANCES</b>	<b>\$ 10,600,489.42</b>	<b>\$ 2,987,986.28</b>		



The 2006 appropriation includes all encumbrances carried forward from 2005 and any adjustments to the budget approved by the County Commissioners on January 1, 2006. 2005 encumbrances totaled \$116,193.89 and adjustments made to the 2006 budget during the year totaled \$12,079.23.

**A QUARTERLY NEWSLETTER FROM YOUR COUNTY AUDITOR**

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UPCOMING DATES TO REMEMBER

- April 1, 2006 - Monthly financial statements filed with County Commissioners.
- April 30, 2006 - Last day to file or request extension of tangible personal property tax forms.
- May 1, 2006 - Monthly financial statements filed with County Commissioners.
- May 15, 2006 or about - County Auditor required to make tangible personal property tax distributions to schools, townships, villages and cities.
- May 30, 2006 - Annual financial statements filed with State Auditor.
- June 1, 2006 - Monthly financial statements filed with County Commissioners.
- June 5, 2006 - Last day to file homestead and 2 1/2 percent rollback tax credit forms with County Auditor.
- June 12, 2006 - Tentative Value Abstract for new appraisal values due to State Department of Taxation for review and approval.
- June 15, 2006 - Last day to file tangible personal property tax return if extension granted.
- June 20, 2006 - Last day to pay 2nd half real estate taxes without penalty.

**ABOUT YOUR COUNTY**

**With 11 employees, the County Auditor serves as both the Chief Financial Officer and the Real Property Assessor for all political subdivisions within the County.**

**It is the goal of this office to provide the citizens of Crawford County with the most cost effective and efficient office possible while never forgetting the people we serve. In addition to the County Auditor, there are seven elected administrative officials and three judges who operate independently as set forth by Ohio law. These officials are: Clerk of Courts, Coroner, Engineer, Prosecuting Attorney, Recorder, Sheriff, Treasurer, two Common Pleas Judges and a Municipal County Judge. All of these officials serve four-year terms except for the judges, who serve six-year terms.**

**The County was formed by an act of the General Assembly on April 1, 1826 and includes 400 square miles and has an estimated population of 46,966.**

# DEPARTMENT FOCUS

**Overview**

Since the primary focus of this newsletter has been on how school property taxes can increase due to the 20-mill guarantee, it is only appropriate that the Department Focus this quarter briefly address some of the school funding programs. There will also be a discussion on a phenomenon that occurs at reappraisal time known as "Phantom Revenue".

**School Funding, a Shared Responsibility**

Basically, school funding in Ohio is considered to be a shared responsibility between the state and local school district.

To ensure that the responsibility for school funding be shared, the legislature created a school foundation method to allocate state re-

sources for the basic education of each student.

The local share of school funding is based on the property wealth of the school district and is referred to as the 23 mill (2.3 percent) charge-off. Essentially, this law states that the more property wealth a school district has, the more local monies it must contribute for educational purposes through a charge-off of state aid.

**23 Mill Charge-off and the 20 Mill Guarantee**

In addition to the 23 mill charge-off, a school district is required to levy at least 20 mills for current operating purposes in order to qualify for state aid.

Since each district must levy 20 mills to qualify for state aid (and because prior to 1993, the charge-off was 20

mills rather than the current 23 mills), the legislature set the 20-mill guarantee in place to make sure local revenues could not fall below the charge-off and the qualifier.

**Phantom Revenue**

Because of the interaction between the property tax system and the school funding formula, "phantom revenue" occurs as properties are revalued.

Remember, if property values increase due to reappraisal, then the district becomes nominally wealthier and state aid is reduced by an amount equal to the increase in the 23-mill charge-off.

If that district is not at the 20-mill floor, local revenues do not increase by an amount equal to 23 mills times the

increase in values due to revaluation. Local revenues, in this instance only grow by the increase in values, times the inside millage rate. The difference between the growth in local revenues on inside millage and the loss in state aid defined by 23 mills times the increase in values from reappraisal is considered "phantom revenue."

**Summary**

What is important for taxpayers to understand is that while their individual property taxes are increasing locally, the state is deducting these increases through the state's school funding programs.

School districts at the 20-mill floor will realize additional taxes locally if reappraisal values increase.

**Written by: Robin Hildebrand and Mike Sobul, Section Chief, Dept of Taxation**