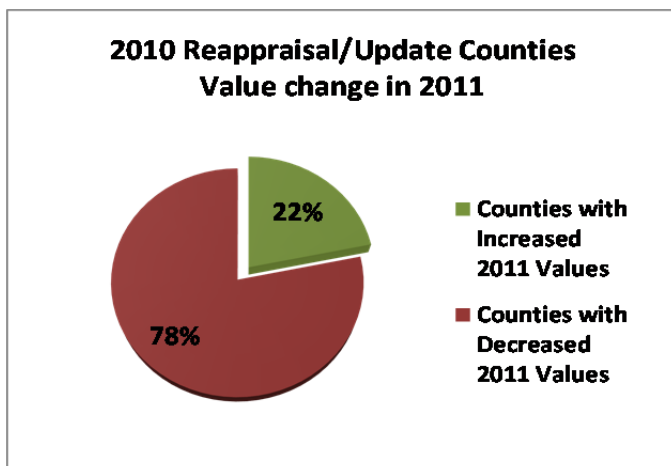


CAN WE FINALLY BEGIN TO PROJECT VALUATION INCREASES

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So, you think housing values have stabilized and we can begin forecasting our way back to normal annual valuation AND revenue increases? Let's take a look at the most recent Ohio Department of Taxation data available, Median Home Values for Tax Year 2011.

For the 23 of Ohio's 88 counties that went through a sexennial reappraisal or triennial update in 2010 we now have the data available for the next full year (2011) after the appraisal or update. During these reappraisal or update cycles, Ohio wants the median home value for tax calculations to be in a range of 92% to 94% of their true market value after a reappraisal or triennial update. Here is what the actual data shows:

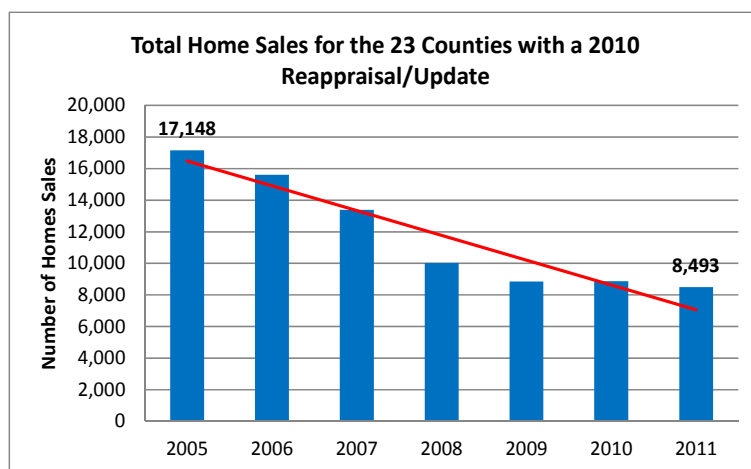


Eighteen (78%) of the 23 counties actually saw the median home value decrease from 2010 to 2011.

The average of those 18 counties Deflation was 3.01% in just one year, including two counties that saw more than a 6% Deflation.

Fourteen (61%) of the 23 counties now Exceed 94%, the top of the desired range, and Five of those now have Median Home Values between 98% to 100% of their Taxable Value.

Just as troublesome is that from the height of the housing boom, these counties saw total home sales drop from a high of more than 17,000 in 2005 to a low of less than 8,500 in 2011. That's more than a 50% decline in the number of home sales since 2005. 4.3% of that decline was from 2010 to 2011. The graph at the right shows a slight increase in 2010, likely the product of the first time buyer incentive. Until the number of home sales increases, prices will likely remain low.





What does this data tell us? First, in many parts of the State, we have not yet seen the bottom of the housing market drop. Values and number of valid sales continued to drop through 2011. Secondly, for school districts across the State, this could also mean a drop in property tax collections or a least a stagnation or flat-lining of those revenues.

As school district CFO's, we must be constantly keeping our eye on several key pieces of information to more accurately forecast:

- Effective tax rate versus full voted millage. As values decrease you will see a “reverse reduction factor” impact on the effective rates. That is, your effective rate will increase rather than decrease. If you have been on the 20 mill floor, you might see your effective rate start to move above the floor. With the exception of inside millage, this increase of the effective rate will keep your revenue the same as the prior year.

However, each individual levy effective rate can only rise to the full voted millage. If your effective rate reaches the full voted millage only any levy and your district continues to experience deflation, you will begin to lose tax revenue from that levy. This is most likely, and perhaps probable, to occur for recently passed levies, those in the past 1 to 5 years. This will also be the case if you pass a new levy in a reappraisal or update year in which values decline. The new levy will generate less money than you might have been anticipating. Emergency Levies and Bond Issues will not experience this revenue loss since their rate is set to bring in the same dollar amount annually. The County Auditor would have to increase those tax rates to generate the same amount of revenue.

Full Rate		2010 Effective Rate	% Value Change	New 2011 Effective Rate	If: 2010 Valuation was:	2010 Tax Revenue would be:	2011 Tax Revenue would be:	Revenue Change
3.00	Inside	3.000	-10.0%	3.000	500,000,000	1,500,000	1,350,000	(150,000)
18.00	Pre-1976	7.850	-10.0%	8.635		3,925,000	3,925,000	-
2.00	1985	0.750	-10.0%	0.825		375,000	375,000	-
4.00	1999	1.250	-10.0%	1.375		625,000	625,000	-
5.00	2004	2.500	-10.0%	2.750		1,250,000	1,250,000	-
5.00	2009	4.650	-10.0%	5.115		2,325,000	2,250,000	(75,000)
37.00	Total	20.000		21.700		10,000,000	9,775,000	(225,000)

This example shows a simplified calculation of a decrease property valuation impact on the effective tax rate. If a district currently on the 20 mill floor as shown above were to experience a 10% decline in valuation, levy rates would be adjusted upward in an attempt to generate the same tax dollars as the previous year. Essentially the reverse of what we were accustomed to seeing in the past.



Since Inside Millage is not subject to reduction factors, it always saw a revenue benefit during increasing values and will now see a revenue loss during declining values as shown above. What we have to be aware of is a levy that has little or no capacity to be increased. Above, the 2009 levy cannot exceed its 5.0 full voted mills. A 10% reduction of property values would take this levy to 5.115. However, it is “capped” at 5.0 resulting in a loss of 0.115 mills of revenue collection, hence the \$75,000 loss.

- Median Market to Price Ratios. It is important, especially now, to monitor your district’s valid sale price compared to the value used by the County Auditor for tax purposes. Nearly all county auditors have this data posted to their website or available in reports. A good working relationship with the County Auditor goes a long way in obtaining information. Getting this data more often and more current than the semi-annual updates from the Department of Taxation is a critical piece to making adjustments to your projected property tax valuations and revenue. It also is an important piece to levy planning.

A final word, the data analyzed here is at the county level. Most district boundaries do not exactly match their county. In most cases you will need to use the ODT report by picking your largest cities, villages, and townships to more closely determine your district’s ratio and trend. You can find these reports on the Ohio Department of Taxation website or at www.pfrcfo.com.