Ohio Legislative Service Commission

www.lsc.ohio.gov

Office of Research and Drafting

Legislative Budget Office

S.B. 159
134th General Assembly

Fiscal Note & Local Impact Statement

Click here for S.B. 159's Bill Analysis

Version: As Introduced

Primary Sponsor: Sen. Craig

Local Impact Statement Procedure Required: Yes

Philip A. Cummins, Senior Economist

Highlights

Fund	FY 2023	FY 2024	Future Years
State General Revenue Fund			
Expenditures	Possible increase of tens of millions	Possible increase of tens of millions	Possible increase of tens of millions per year
County auditors			
Expenditures	Possible increase	Possible increase	Possible increase

Note: The fiscal year for the state, school districts, and certain other local governments runs from July 1 through June 30 and is designated by the calendar year in which it ends. For other local governments, the fiscal year is identical to the calendar year.

- The bill would require reimbursement from the state GRF of local revenue losses caused by a 5% limit on yearly property tax increases for qualifying owner-occupied homes of lower income homeowners.
- The cost to the GRF could range to tens of millions of dollars annually, could be expected to vary widely from year to year, would tend to grow rapidly in the first three years of implementation of its provisions (due to recent rapid growth in market prices for real estate), and is subject to considerable uncertainty.
- County auditors would incur added costs for assessments required by the bill, for required mailings, and for administration. The Department of Taxation (TAX) would incur administrative costs.

Detailed Analysis

The bill would reduce current taxes due from qualifying homeowners on their owner-occupied homes and on two- and three-unit residential properties in which the owner occupies one of the units, to the extent that the property taxes would otherwise increase by more than 5% from the previous year. To qualify, the owner must claim the owner-occupied credit (2.5%), and the total income of the owner and spouse must not exceed the median income of the county in which the property is located. Current taxes are defined in the bill as those charged and payable after tax reduction factors, the 10% rollback, and the 2.5% owner-occupied credit. In this calculation, current taxes for the previous year would also be reduced by any amount required a year earlier to limit that previous year's increase to 5%. Revenue losses to units of local government would be reimbursed from the state GRF, holding those governments harmless apart from the timing of payments.[1]

Several exclusions apply. Special assessments and taxes on some properties on which improvements are made would not be reduced by the bill. If an improvement to a property either increases the habitable floor area by at least 200 square feet or 10%, or causes the county auditor, for appraisal purposes, to reduce the effective age of the property by at least 20 years, then the reduction in taxes under this bill would not be made in the year of the improvement.[2] The required assessments may increase county auditors' costs. Taxes of less than $500 would not be reduced. If ownership of the property is transferred to another person not related to the preceding owner, and the property otherwise qualifies, the reduction in taxes would not apply in the next ensuing tax year in which a sexennial reappraisal or triennial update occurs. Taxes would not be reduced for a property exempted in whole or in part from taxes, except one on which payments in lieu of taxes are made as part of a tax increment financing agreement.

The yearly cost to the GRF would vary depending on how much taxes would go up in the absence of the bill's cap. In years when taxes on qualifying properties would go up by 5% or less, the GRF would incur no cost. When taxes would go up by more than 5% in the absence of the cap, the bill's cost would depend on the magnitude of the difference. The cap would be imposed at the individual property level, so some homeowners' taxes could be reduced under the bill while those of others might not be.

Background on property taxes

The owner-occupied primary residences of homeowners who remain in the same home from one year to the next are a subset of carryover property. The effective rates on some

[1] Tax reduction factors eliminate the effect of changes in valuation of carryover real property on revenue from certain voted taxes. Carryover real property is property taxed in the same class for both the current and preceding tax years. The 10% rollback applies to qualifying levies on all residential and agricultural property. Qualifying levies are those approved by voters prior to September 2013, renewals of such levies, inside millage, and certain others. The 2.5% owner-occupied credit also is limited to qualifying levies. State reimbursements for the owner-occupied credit, the 10% rollback, and the homestead exemption are received by local governments after their property tax settlements.

[2] Effective age is defined in an appraisal reference guide as the typical age of a structure equivalent to the one in question with respect to its utility and condition as of the appraisal date (from *Glossary for Property Appraisal and Assessment, Second Edition, International Association of Assessing Officers, 2013*).

fixed-rate levies are adjusted annually to raise the same amount of revenue as the year before on carryover property. These adjustments are applied at an aggregate level, for all residential plus agricultural property subject to each levy and separately for all other real property subject to the levy, so some individual real property owners might owe more while others owe less. The current expense levies and permanent improvement levies on which electors may vote are subject to this adjustment. Levies voted by electors are also called outside millage. Inside mills, the taxes on the ten mills (1%) of taxable value that may be imposed by local governments without a vote of electors, are not subject to this adjustment. Voted bond levies and emergency levies, another type of outside mills, also are not subject to this adjustment, but instead are adjusted annually to raise fixed sums of money in total from real property plus public utility tangible personal property. These adjustments for bond levies and emergency levies also are applied at an aggregate level, so the effects would vary among individual property owners.

In view of the foregoing brief summary of Ohio property taxes, costs to the GRF from the bill could arise from three sources. One is new levies. Tax increases resulting from new levies would be partially offset by tax decreases as other levies expire. The net effects of new levies and levy expirations could be expected to vary greatly from one jurisdiction or taxing district to another.

Another source of costs to the GRF is inside mills on increases in taxable value not arising from sizable improvements. Inside mills on increases in taxable value would vary greatly among taxing districts and also among individual homeowners within districts.

A third source of GRF costs is the differing effects on individual homeowners of taxes from outside millage, even though in the aggregate the millages are adjusted to raise fixed amounts of revenue.

Estimates of the cost of the bill

A full assessment of the potential effect on the GRF would require analysis at the individual parcel level. What follows is instead an attempt to use published aggregate data by taxing district to assess the potential effect. The estimate tends to be understated in that it does not include costs to the GRF from differences in tax increases among individual properties within taxing districts. For example, in a taxing district in which current taxes increase 5%, some qualifying homeowners' taxes might increase by more than this, in the absence of the bill, and some by less. Those with larger tax increases would have their tax increases reduced to 5%, with the difference reimbursed to local governments from the GRF. The understatement of this reimbursement in the taxing district-level analysis could be substantial. The estimate is overstated in that it does not include a downward adjustment for properties on which less than $500 is owed.

A calculation of the increase in carryover residential real property taxes in the six tax years 2015 through 2020 by taxing district indicates that increases in taxes exceeded 5% in an average of 1,068 taxing districts per year, or 26% of more than 4,100 statewide taxing districts. Properties in all 88 counties in the state were subject to reappraisal and update during this period. The number of districts with estimated tax increases on carryover property in excess of 5% varied greatly from year to year, from 501 districts or 12% of statewide districts in 2015 to 1,744 or 42% in 2020.

For this estimate, carryover property was approximated as the taxable value of residential property in the previous year minus the value of residential buildings destroyed or demolished. The increase in the value of this carryover property was represented by adding valuation changes from reappraisal, update, or annual equalization, to approximate the change for a typical homeowner. The dollar value of the change in each taxing district in excess of 5% was multiplied by that district's owner-occupied share of total residential taxable value, and by 87.5% to adjust for the 10% and 2.5% rollbacks.

The total of these estimated increases in current taxes on owner-occupied properties in excess of 5% averaged about $62 million per year, and ranged from $12 million in 2015 to $136 million in 2020. This range does not include the effect of the sharp rise in market prices of real property in 2021, which will be reflected in property tax reappraisals and updates in tax years 2022 through 2024. Also, as discussed above, taxes due from some homeowners in the absence of the bill could go up by more than 5% even if the aggregate increase for the taxing districts in which their properties are located is 5% or less. Consequently, any estimate based on taxing district-level calculations is too low. The extent to which it is too low is unknown. The bill's cost would be higher than indicated by a taxing district-level analysis, perhaps substantially higher.

Effect of median income constraint

As noted above, the bill specifies an income limit for a homeowner to qualify for the 5% cap on the increase in property taxes on the person's owner-occupied residence. Specifically, to qualify, the total income of the owner and spouse must not exceed the median income of the county in which the property is located. Median income is to be that determined by the Department of Development under R.C. 174.04, which says in division (A) that the Department is to make an annual determination of the median income for persons in each county. The rest of R.C. 174.04 appears to apply only to other sections of Chapter 174, which pertains to the Housing Trust Fund.

LBO is uncertain how to apply this wording to assessment of qualification for the bill's tax reduction. Is the income of the homeowner to be compared with the median income of all persons in the county, a literal reading of this wording? For a homeowner and spouse, is their combined income to be compared with the median income of persons in the county, i.e., a single representative person? Alternatively, is a homeowner's income, including that of a spouse if present, to be compared with median household income in the county, or median family income?

The median income of households in owner-occupied residences historically has been higher than that of households in rental housing. Incomes of persons housed in institutions may also typically be lower than that of persons in owner-occupied homes. Consequently, limiting tax reductions to the county-wide median income, however defined, appears likely to preclude the bill's tax reduction for substantially more than half of owner-occupied residences. Such a reduction might lower the $62 million average annual cost estimated above to less than $31 million, perhaps considerably less.

Available data on households may be indicative of the size of this reduction, but are not specified in the bill as the way this calculation is to be done. Based on statewide Ohio income data for 2019, median household income during the year was $58,642. This figure is based not only on persons residing in owner-occupied housing but also on other persons in the state with other living arrangements. In 2019, 29% of property taxes on owner-occupied housing were paid by households with incomes at or below this amount. Calculations using county-level data might show different results. Both numbers are based on American Community Survey (ACS, from the U.S. Census Bureau) data. The ACS data also show median household income in 2019 by number of persons in the household. For one-person households, the median income statewide in 2019 was $31,088. Households in 2019 that did not include a spouse and had incomes at or below that level paid 31% of property taxes of such households. The statewide median for two-person households in 2019 was $67,188. Households in 2019 with spouse present and incomes at or below that level paid 20% of property taxes.

Summing up

Taking account of the differing increases in current taxes among individual homeowners could offset a substantial portion of the estimated reduction in the bill's cost from limiting the reduction to those with lower incomes. Taking account in addition of the delayed effects of the recent rapid increases in housing prices could add further to the cost to the GRF in the initial years following its implementation if enacted.

County auditors and the Department of Taxation could be expected to incur costs to administer the program. The county auditors would incur postage and handling costs in years when a reappraisal or update is scheduled in a county. In those years, a provision of the bill requires the auditor is to mail an application to each person in that county whose property taxes are reduced to no more than a 5% increase under this bill's provisions. The letter is to be used to report changes in the person's income if the changes would make the recipient of the letter ineligible to continue receiving the tax reduction.

We can illustrate the rising costs of the bill in years after the initial year with a simple example. Say current taxes on the primary residences of all homeowners rise 15% in counties subject to reappraisal or update in the first year that the bill is effective. The increase in taxes might be from inside millage or from new levies. Real property taxes owed by qualifying homeowners would rise 5%, and the GRF would reimburse the other 10% to local governments. In the second year that the bill is effective, assuming current taxes unchanged on primary residences of these homeowners, their real property taxes would rise another 5%, with the GRF reimbursing the remaining amount to local taxing units. In addition, assume a second group of homeowners in counties undergoing reappraisal or update in that second year also have a 15% increase in their current taxes. The property taxes they pay would rise 5%, and the GRF would pay the other 10% in addition to the amount reimbursed for the first group of homeowners. In a third year, with a third group of homeowners, the reimbursement from the GRF could rise still further. Clearly costs in future years could rise substantially resulting in sizable costs to the GRF.

Based on the information available at this time, the required additional outlay from the GRF could range to tens of millions of dollars, could be expected to vary considerably from year to year, and would be likely to grow rapidly in the first three years of implementation of the bill's provisions.

Although the bill states that it applies to tax year (TY) 2021 for real property and TY 2022 for manufactured homes, because of the passage of time since its introduction the table in the "**Highlights**" section above shows it first affecting GRF reimbursements to local governments in FY 2023.

SB0159IN/lb