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Ohio Legislative Service Commission

Office of Research and Drafting

Legislative Budget Office

H.B. 263
(l_135_1360-2)
135th General Assembly

Fiscal Note & Local Impact Statement

Click here for H.B. 263's Bill Analysis

Version: In House Ways and Means

Primary Sponsors: Reps. Isaacsohn and Hall

Local Impact Statement Procedure Required: No

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Highlights

Fund	FY 2025	FY 2026	Future Years
State General Revenue Fund			
Expenditures	Increase of $33.9 million	Increase of $102.9 million	Increases will compound as property taxes grow
County auditors			
Expenditures	Small Increase	Small Increase	Small 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 freezes property tax payments for qualifying homeowners. Assuming an effective date of tax year (TY) 2024, the bill would freeze property tax payments for qualifying homeowners at the amount they paid in TY 2023. LBO estimates that 721,000 homeowners will benefit from this bill in its first year.
- The GRF will reimburse local taxing authorities for the bill's property tax reduction. Under the assumed effective date, GRF expenditures would increase in the second half of FY 2025 whereas FY 2026 is the first full year of GRF reimbursements.
- County auditors would incur added costs to process homeowner applications required by the bill, and for administration of this permanent freeze in property taxes.

Detailed Analysis

The bill proposes a property tax reduction for householders who meet all of the following requirements: the householder is at least 65 years of age or older, has continuously lived in their home for two or more years, has an annual total income less than or equal to $50,000 (as adjusted for inflation in subsequent years), and has a home that has a true value less than $500,000.

In order to qualify for this tax reduction, the bill requires the owner to file an application with the county auditor of the county in which the owner's homestead is located. It must be accompanied by documentation sufficient to prove that the applicant meets all qualifications for that reduction.

The bill's provisions would first apply to real property for the tax year ending on or after the bill's effective date, and would apply to manufactured homes for the tax year beginning on or after the bill's effective date. LBO assumes that the reduction for real property will begin in tax year (TY) 2024, and the reduction for manufactured homes will begin in TY 2025. Property taxes on behalf of both types of property would generally be due in calendar year 2025.

Continuing law in R.C. 323.156 requires local governments to be reimbursed by the GRF for their losses arising from certain property tax reductions.

Property tax reduction

For those qualifying homeowners, the value of the property tax reduction equals the amount of property taxes owed for the current tax year minus the amount of property taxes owed for the preceding tax year, where the amount of property taxes owed for the preceding tax year includes any previous reductions applied by the bill's provisions. For instance, if the bill was made effective in TY 2024, the value of the property tax reduction would equal the amount of property taxes owed for TY 2024 minus the amount of property taxes owed for TY 2023. In TY 2025, the value of the property tax reduction would equal the amount of property taxes owed for TY 2025 minus the amount of property taxes owed for TY 2024, which incorporates the previous reduction that was applied to TY 2024. Essentially, the amount of property taxes paid by qualifying homeowners would be "frozen" at the amount they paid for TY 2023 for all subsequent tax years.

The losses to local government property tax collections as a result of the bill will be reimbursed by the GRF, thus local government revenues will not be affected.

Fiscal effect

The following table details the estimated GRF expenditures as a result of the bill for TY 2024 to TY 2026.

Additional GRF Expenditures for Each Selected Tax Year	
Tax Year	**GRF Expenditures**
TY 2024	$67.7 million
TY 2025	$138.1 million
TY 2026	$211.1 million
Total, TY 2024-TY 2026	**$416.9 million**

Note: Additional GRF costs will continue to accrue in future years, but only the first three years are displayed.

Since the bill's property tax reduction essentially acts as a "freeze" of property tax payments for TY 2023, the GRF expenditure of $67.7 million for TY 2024 represents LBO's estimate of the total property tax increase from TY 2023 to TY 2024 for qualifying homeowners. The GRF expenditure for TY 2025 of $138.1 million represents LBO's estimate of the total property tax increase from TY 2023 to TY 2025, and so forth. By the conclusion of TY 2026, LBO estimates that the GRF will have spent a total of $416.9 million on the bill's property tax reduction since its assumed effective date of TY 2024. This cost will compound in future years, as property tax payments generally increase due to the introduction of new levies and rises in property values. The number of qualified homeowners in future years will constantly vary as existing qualified homeowners will move or pass away, and new homeowners will qualify as they eventually meet the bill's requirements.

LBO arrived at these figures by first estimating the total amount of property tax paid by qualifying homeowners in TY 2021 using data from the American Community Survey (ACS).[1] This amount was then increased to TY 2022 levels by using available data from the 2022 ACS survey and the latest state spending for the owner-occupied (also referred to as the "2.5%") rollback. Property tax payments in future years are assumed to grow at an annual rate of 3.85%, which was calculated using the 12-year trend growth in owner-occupied property tax collections.[2] The described annual rate is intended to project long-term growth; deviations from this rate year to year are entirely possible.

Additionally, county auditors would incur added costs to process homeowner applications required by the bill, and for administration of this permanent freeze in property taxes.

Synopsis of Fiscal Effect Changes

- The substitute bill modifies the requirements necessary to qualify for the property tax freeze.

[1] TY 2021 corresponds to the most recent available microdata from the ACS. LBO estimates that 721,000 homeowners will benefit from this bill in its first year (TY 2024).

[2] Self-reported residential property tax collections can be found on the ACS data tables.

- The substitute bill lowers the maximum income threshold from $70,000 to $50,000; lowers the minimum age requirement from 70 years old to 65 years old; lowers the maximum eligible value of the homeowner's homestead from $1.0 million to $500,000; and lowers the required length of residency from ten years to two years.
- The substitute bill permanently increases the bill's annual fiscal effect in all future years. For FY 2025, the bill's cost increases from $21.2 million to $33.9 million, and in FY 2026, the bill's cost increases from $64.4 million to $102.9 million.
- The increased GRF expenditures are due to the additional number of homeowners that would qualify under the substitute bill's modified requirements. LBO estimates that the substitute bill would benefit 721,000 homeowners, as opposed to the As Introduced (previous) bill that would have benefited 455,000 homeowners.

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