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OHIO LEGISLATIVE SERVICE COMMISSION

Office of Research and Drafting

Legislative Budget Office

S.B. 242
135th General Assembly

Fiscal Note & Local Impact Statement

Click here for S.B. 242's Bill Analysis

Version: As Introduced

Primary Sponsor: Sen. O'Brien

Local Impact Statement Procedure Required: Yes

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Highlights

- The bill exempts real and personal property from taxation when a contractual agreement exists between the owner and a lessee, if one of the two is a religious institution and the other is a tax exempt entity.
- The loss in property tax collections will depend on the value of properties with such arrangements but could potentially be in the tens of millions of dollars per year for political subdivisions across the state.

Detailed Analysis

Property tax exemption

The bill exempts real and personal property from taxation when the property is owned by a religious institution and used by one or more other charitable, religious, or educational institutions; the state; or political subdivisions (hereinafter, "tax exempt entities") under a lease, sublease, or contractual arrangement. The bill also exempts real and personal property from taxation when the property is owned by a tax exempt entity and used by a religious institution. The decrease in property tax revenues resulting from the bill depend on three factors:

1. The value of properties owned by religious institutions that have contractual arrangements with other tax exempt entities.
2. The value of properties owned by tax exempt entities that have contractual arrangements with religious institutions.
3. The amount of new contractual arrangements that will arise between religious and other tax exempt entities as a result of the tax incentive.

Lease agreements are neither submitted to Ohio county auditors nor readily available to LBO staff, so the most likely outcome cannot be reliably estimated; instead, the bill's potential fiscal effect is the subject of the following analysis.

Properties owned by religious institutions

Appraisal data from the county auditors suggest that the amount of property taxes owed by religious institutions is in the range of tens of thousands to hundreds of thousands of dollars in rural counties and millions of dollars in the metropolitan counties.[1] Such a circumstance occurs because although a religious organization's house of worship is exempt from taxation, the organization may own other taxable properties (e.g., commercial office space). The table below lists the estimated property taxes owed by religious institutions for tax year (TY) 2023 in two metropolitan counties and three rural counties located in different regions of the state. For example, the amount of property taxes owed by religious institutions, which could be eliminated by the bill depending on a given property's contractual arrangements, in Franklin County is nearly $4.0 million.

Potential Property Tax Loss from Religious Institutions	
Geography	**TY 2023 Taxes Owed (in millions)**
Hamilton County	$4.4
Franklin County	$4.0
Ottawa County	$0.2
Washington County	$0.1
Clinton County	$0.1
Ohio (extrapolated estimate)	**Up to $45.1**

Source: TY 2023 taxes owed were derived from county auditors' parcel data. Ohio's estimated statewide loss additionally utilizes population data from the U.S. Census Bureau's 2023 Annual Estimates of the Resident Population for Counties (CO-EST2023-POP).

Property taxes owed by religious institutions across counties appears to be strongly correlated with population. The 2023 U.S. Census Bureau's population estimates imply that the per-capita property taxes owed by religious institutions from the counties sampled is $3.83 overall, or $3.89 in metropolitan counties and $2.85 in rural counties. Multiplying the sample average to the latest estimates of Ohio's population (11,785,935 residents) yields an estimated statewide property tax loss of $45.1 million for political subdivisions from properties owned by religious institutions ($3.83 potential loss per person x 11,785,935 people = $45,140,131 potential loss). On the other hand, a different methodology that applies the metropolitan

[1] Properties owned by religious institutions were identified by the name of the property owners.

average to Cuyahoga County and the rural average to all other counties yields an alternative statewide estimate of $37.1 million.

The estimated potential tax loss for the state is thus up to $45.1 million. Any potential loss will only be realized for a property if it is being used or becomes used by a tax exempt entity under a contractual agreement with the religious institution that owns the property.

Properties leased to religious institutions

The statewide calculations in the above table only include properties owned by religious institutions that may become exempt. It does not include properties owned by other tax exempt entities that may become exempt, if they are leased to religious institutions. The difficulty in identifying all tax exempt institutions by name using auditor data renders such an estimate infeasible.[2] As such, the figure presented in the table is an incomplete illustration of the potential tax loss. Since the tax exempt entities include charitable or educational institutions, the state, or political subdivisions, it is possible that the potential tax loss from properties owned by these entities could be greater than that from religious institutions. If this is the case, then the potential property tax loss for the state could be even higher than the scenario presented above.

Prospective contractual arrangements

The bill provides incentive for religious institutions and tax exempt entities that own property currently not exempt from taxation to enter contractual arrangements to lower their tax liability. For example, a church may own an unused commercial building that it pays property taxes on. The bill would allow the church to find an educational institution that could make use of the building through a contractual arrangement in order to remove their tax liability on the property. Although the bill provides an increased incentive to engage in such arrangements, there is no guarantee that any eligible properties that are currently taxable would become tax exempt. The amount of new contractual arrangements between religious institutions and tax exempt entities depends entirely on their desire and ability to form such agreements. Any such behavioral response is an indirect fiscal effect and not incorporated into revenue estimates described in preceding sections.

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[2] The Ohio Department of Taxation is not able to provide a full list of tax exempt entities in a manner that can be easily matched to county auditors' data for this purpose.