OHIO LEGISLATIVE SERVICE COMMISSION

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Office of Research and Drafting

Legislative Budget Office

H.B. 133
134th General Assembly

Fiscal Note & Local Impact Statement

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Version: As Introduced

Primary Sponsor: Rep. Hillyer

Local Impact Statement Procedure Required: Yes

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Highlights

- **Pandemic-related property value reductions**. The bill includes provisions for adjustment of tax valuations of property for tax years 2020, 2021, and 2022 to take account of the effects of the COVID-19 pandemic or a state COVID-19 order. Tax revenue losses to local governments could be sizable, possibly in the tens or hundreds of millions of dollars.

- **County boards of revision and Board of Tax Appeals**. Appeals of 2020, 2021, and 2022 property tax valuation cases to boards of revision and to the Board of Tax Appeals could increase substantially, resulting in rising case backlogs and long delays reaching decisions.

- **Ohio Residential Mortgage Lending Act**. The bill may minimally increase the number of mortgage lenders, servicers, or brokers registered under the Ohio Residential Mortgage Lending Act overseen by the Department of Commerce. The annual registration fee is $500 per office location and deposited into the Consumer Finance Fund (Fund 5530).

- **GrowNOW**. The bill removes specific interest rate requirements under the Treasurer of State's existing business linked deposit program, or GrowNOW. Each linked deposit marginally reduces GRF revenue by the difference between investment earnings at the linked deposit rate and counterfactual investment earnings at the market interest rate.

- **County utility supply contracts**. Allowing counties to contract for lighting, heating, or power under a joint purchasing program for periods in excess of ten years, the current law limit, could result in some long-term savings in utility costs.

Detailed Analysis

The bill temporarily authorizes a county board of revision, pursuant to a valuation complaint filed for tax year 2020, 2021, or 2022 to make an adjustment to account for a reduction in the property's value due to circumstances related to the COVID-19 pandemic or state COVID-19 orders. Additionally, the bill makes several changes to various laws including the Ohio Residential Mortgage Lending Act and the business linked deposit program overseen by the Treasurer of State. The fiscal effects of these provisions are discussed below. For more detail on all of the bill's provisions, please consult the LSC bill analysis.

Pandemic-related 2020 property value reductions

The bill would let property owners and their representatives request, in valuation complaints for tax year 2020, that the value of properties be determined as of October 1, 2020, instead of January 1, 2020. For such filings to be allowed, the valuation complaints must assert that reductions in the value of the properties that occurred between those two dates was due to circumstances related to the COVID-19 pandemic or state COVID-19 orders. The valuation complaints must allege "with particularity" how such circumstances or orders caused the reduction in value, otherwise boards of revision are directed by the bill to dismiss the complaints. Boards of revision that find satisfactory evidence of declines in value due to the pandemic or related government orders are to reduce tax year 2020 valuation to reflect the diminished valuation. The bill further allows persons to file such complaints even if they previously filed any property complaint in the same interim period, defined as the years between each sexennial appraisal and interim update.

Some types of commercial property appear to be most likely to be the subject of the change in the valuation complaint process that would be made by the bill. Retail businesses involving direct in-person interaction between customers and staff, such as bars and restaurants, have been closed or had their hours of operation reduced during the pandemic. Tourism, travel, and related businesses have also suffered reduced demand for services. Many office workers have worked from home during the pandemic, leaving office buildings with fewer occupants. In contrast, other types of businesses appear to have done relatively well, such as grocery stores and warehouses. Other classes of real property, including residential and agricultural, appear less likely to have property complaints filed for them as a result of the bill.

Commercial real property in the state had a taxable value in 2020 of about $46.8 billion, equivalent to market value of $134 billion at Ohio's 35% assessment rate for real property. The statewide average effective tax rate on Class II real property, which includes commercial real property, was about 75 mills or 7.5% in 2019. The implied tax on commercial real property was about $3.5 billion. These figures imply that for each 1% decline in the statewide average value of commercial real property that results from the provisions of the bill, tax revenue to school districts and other units of local government would decline about $35 million. Although LBO does not have a basis for estimating the magnitude of the decline in property values that might result from the bill, the tax revenue loss to local governments clearly could be sizable, in the tens or hundreds of millions of dollars statewide.

The bill could be expected to increase, likely greatly increase, the number of valuations appealed to boards of revision. This anticipated bulge of cases could in turn increase the number of cases appealed to the state Board of Tax Appeals. Processing this many appeals at the local and state levels would plausibly result in lengthening backlogs of cases, and long delays for appellants, as these tribunals determine the merits of the increased number of cases.

Pandemic-related 2021 and 2022 property value reductions

The bill in addition includes similar provisions for adjustment of tax valuations for tax years 2021 and 2022 to take account of the effects of the COVID-19 pandemic or a state COVID-19 order on the value of the property. The value determinations would be as of January 1 of each year, rather than October 1, but otherwise the provisions are similar to those for 2020.

As with the provisions for 2020, LBO does not have a basis for estimating the magnitude of the decline in property values that might result for tax years 2021 and 2022. Clearly the tax revenue loss to local governments could be large, in the tens or hundreds of millions of dollars. The number of valuations for tax years 2021 and 2022 appealed to boards of revision and to the state Board of Tax Appeals could be sizable, though many such valuations may be lowered in complaints filed for 2020.

Ohio Residential Mortgage Lending Act

The bill makes several changes to the Ohio Residential Mortgage Lending Act (ORMLA) overseen by the Department of Commerce. One of the changes eliminates the existing requirements that a mortgage lender, servicer, or broker maintain an office location in the state and instead requires that the office be located in any U.S. state. As a result, the Department anticipates that the number of individuals registered by Ohio as mortgage lenders, servicers, or brokers may increase by a minimal amount. The annual registration fee is $500 per office location. These fees are deposited into the Consumer Finance Fund (Fund 5530). In FY 2020, there were over 2,000 registrants.

The bill also revises certain conditions under which people who sell manufactured homes, mobile homes, and industrialized units are exempt from registration and licensure requirements under the ORMLA. Specifically, the bill includes manufactured home park operators under this exemption. A current law restriction prohibiting any of the individuals mentioned above from discussing loan rates or terms or helping borrowers with loan applications is removed by the bill. Taken together, these changes could potentially decrease the number of mortgage loan originator licensees by an unknown amount. The annual license fee is $150 and deposited into Fund 5530.

The other changes the bill makes to the ORMLA do not appear to have a fiscal effect on the Department. Among these changes include (1) eliminating the temporary mortgage loan originator license and (2) exempting entities making fewer than five residential mortgage loans annually from the ORMLA. According to the Department, one temporary license was issued in FY 2020 and currently there are no such active licenses.

GrowNOW

The bill modifies statutes governing the Treasurer of State's (TOS) existing business linked deposit program, or GrowNOW. In concept, a linked deposit program encourages a financial institution to issue reduced-interest loans to targeted groups by agreeing to commit the deposit of state funds into the financial institution at a below-market interest rate.

The GrowNOW Program reduces interest rates paid by participating small businesses on loans under $400,000 in value. Under existing law, the interest rate reduction is set at either 2.1% or 3.0%, depending on the loan's current market interest rate; under the bill, the interest rate reduction offered on these loans would be placed under the discretion of the TOS. Each linked deposit marginally reduces GRF revenue by the difference between investment earnings at the linked deposit rate and counterfactual investment earnings at the market interest rate. The portfolio value of the GrowNOW Program was $23.8 million as of November 2020.

County utility supply contracts

The bill allows a board of county commissioners to contract for lighting, heating, or power under a joint purchasing program for periods in excess of ten years and may result in an indeterminate long-term savings on utility costs paid by counties. Under current law, such contracts are limited to a maximum term of ten years. Because the bill allows for longer term contracts, counties may be able to secure utilities pricing for future years (beyond ten) at rates lower than they otherwise enjoy under contracts at maximum intervals of ten years. It is difficult, however, to estimate any potential savings as they would depend on the future price of the contracted utility, which are quite variable.

Provisions with no apparent fiscal effect

The bill also contains provisions related to contracts consumers have with credit services organizations and the ability of a business to obtain credit reports from commercial credit reporting agencies. Neither provision appears to have any fiscal effect. Specifically, the bill modifies the allowable duration of a contract that a credit services organization has to provide services to a consumer from a current law limit of 60 days to 12 months as long as certain criteria are met. Credit services organizations offer credit repair and debt counseling advice and services. Currently, there are 24 credit services organizations licensed by the Department of Commerce's Division of Financial Institutions. The bill also contains a provision requiring a commercial credit reporting agency to provide a credit report to a business that is the subject of the report, when requested, at no greater cost than what is charged to third parties. It also establishes a procedure by which such a business may dispute information contained in a credit report.

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