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Bill Analysis

Version: As Introduced

Primary Sponsor: Rep. Grendell

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SUMMARY

- Authorizes a county, township, or municipal corporation to partially exempt certain homes occupied by persons who are at least 65 years of age from taxes and special assessments.
- Bases the exemption amount on the increase in taxes and special assessments on the home from (generally) the first year in which the occupant occupied the home while over age 64.
- Requires that improvements to the home after that tax year be taxed and assessed at the tax rate and value that applied the first year the improvements were completed.
- Requires a subdivision that opts to allow the exemption to reimburse taxing units for the resulting decrease in tax and assessment receipts, and that no exemption be allowed until such reimbursements can be fully funded.
- Requires a subdivision that seeks to allow the exemption to establish funds to make investments and hold required taxing unit reimbursements.
- Requires those funds to be managed by the township fiscal officer or the board of trustees of the county's or municipal corporation's sinking fund, as applicable.
- Penalizes a fund manager found to have misused the funds by removal from office and, potentially, forfeiture of a surety bond.
- Requires a subdivision that opts to allow the exemption to contribute 1% of its eligible receipts to an investment fund until it generates enough interest revenue from government bonds to fully fund taxing unit reimbursements.
- Requires the county budget commission to annually verify that the subdivision has met this 1% contribution requirement and notify the Tax Commissioner of any deficiency.

- Requires the Commissioner to divert local government fund (LGF) payments that would otherwise be deposited to the subdivision's general fund to remedy that deficiency.
- Authorizes interest income from the investment fund's bond investments to either be reinvested in more bonds or allocated to a separate fund to cover taxing units' reimbursements, but requires principal income to be reinvested.
- Allows money saved or invested in connection with the exemption to be used for other purposes if the subdivision is determined to be in a fiscal crisis.

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DETAILED ANALYSIS

Overview

The bill authorizes a county, township, or municipal corporation to partially exempt from taxes and special assessments certain homes occupied by persons who are 65 years of age or older. The amount of the exemption is based on the increase in taxes and assessments on the homestead following the occupant's "base tax year," i.e., the first tax year ending after the bill's 90-day effective date in which the occupant both lives in their current homestead and meets the minimum age requirement. Improvements to the homestead made after the occupant's base tax year are taxed and assessed at the value and rates that apply for the first tax year that the improvements appear on the tax list. In essence, the bill allows subdivisions to freeze taxes and special assessments on senior-occupied homesteads.

The exemption is triggered only if the subdivision is able to allocate enough revenue to fully reimburse taxing units for tax or assessment revenue forgone as a result of the exemption. To accrue this revenue, the subdivision must create two funds – a senior citizen investment fund and a senior citizen tax relief fund (referred to in this analysis, respectively, as the "investment fund" and "tax relief fund"). The subdivision must annually contribute 1% of its eligible receipts, i.e., all moneys that can lawfully be contributed for such purposes, to the investment fund. A fund manager then invests the deposits in government bonds to generate interest revenue for the tax relief fund. Revenue in the tax relief fund is used to reimburse taxing units. The exemption applies in a taxable year only if the fund manager determines that the balance of the tax relief fund is sufficient to cover the reimbursement for that year.

A subdivision must continue to make annual deposits to the investment fund until the balance of the tax relief fund is sufficient to fully reimburse taxing units for the cost of the exemption. The objective of the two-fund arrangement is to build an investment portfolio large enough to generate annual interest revenue sufficient to fully fund these reimbursements without further contributions to the subdivision's investment fund.

Establishment and administration of funds

Adopting the ordinance or resolution

To initiate the process of granting the exemption, a county, municipality, or township must establish, by ordinance or resolution, an investment fund and a tax relief fund. Before doing so, the subdivision's board or legislative authority must hold at least one public hearing to accept public comments and recommendations. The board or authority must provide 30-day public notice of the time and place of the hearing and, during that 30-day period, publish the proposed ordinance or resolution on the subdivision's website. In addition, the board or authority must make a physical copy available for public examination in the office of the county auditor, township fiscal officer, or clerk of the legislative authority of the municipal corporation, as applicable to the subdivision.[1]

Fund manager

Once a subdivision establishes both funds, they are administered by a fund manager. Funds established by a township are administered by the township's fiscal officer, while those established by a county or municipal corporation are administered by the board of trustees of the subdivision's sinking fund, i.e., the board responsible, under continuing law, for paying the debt charges on bonds issued by the county or municipal corporation. A county's board consists of the prosecuting attorney, county auditor, and county treasurer; a city's (>5,000 population)

[1] R.C. 5705.76(A) and (B).

board consists of four residents appointed by the mayor; and a village's (<5,000 population) board consists of the mayor, clerk, and chairperson of the finance committee of the village's legislative authority.[2]

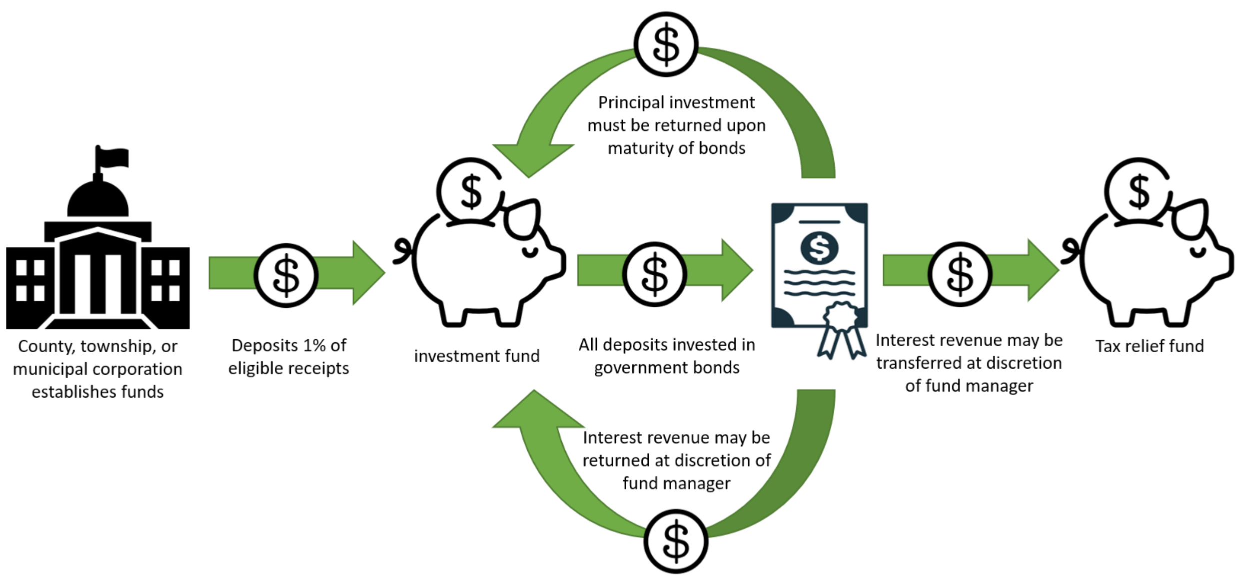
Misuse of funds

If the fund manager misuses funds deposited to the subdivision's investment fund or tax relief fund, the fund manager may be found guilty of misconduct in office. The bill specifies that, upon conviction, the fund manager must forfeit their public office and may be required to surrender any surety bond furnished upon their election or appointment to that office.[3]

Investment fund

Purpose

A subdivision's investment fund consists of funds received by the subdivision that may lawfully be used to reimburse taxing authorities for the bill's senior citizen tax exemption (referred to in this analysis as "eligible receipts"). Money in the investment fund must be invested in government bonds that, in turn, generate interest revenue for the subdivision's tax relief fund. The basic functions of an investment fund are illustrated in the graphic below.[4]



Minimum deposit

Starting the first fiscal year after a subdivision establishes an investment fund, the subdivision must deposit an amount equal to at least 1% of its eligible receipts for the last fiscal

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[2] R.C. 5705.75(C), 5705.76(C), 327.01, 327.02, 327.04, 507.081, 739.02, 739.07, 739.08, and 739.15; R.C. 703.01, not in the bill.

[3] R.C. 5705.78(C).

[4] R.C. 5705.75(A) and 5705.78(A).

year. The subdivision may make one annual deposit or a series of deposits throughout the year as long as total deposits meet this 1% threshold.

Deposits to the investment fund must continue each fiscal year until the fund manager certifies that enough money is available in the subdivision's tax relief fund to cover the cost of a senior citizen tax exemption (see "**Tax relief fund**," below). The subdivision is not required to make deposits to the investment fund in any fiscal year that the fund manager certifies such an exemption, or for either of the following two fiscal years. The subdivision may continue making deposits to the fund during those years, but there is no minimum deposit requirement. If the fund manager does not certify a tax exemption in two consecutive fiscal years, the minimum deposit requirement recommences after the second such year.[5]

Investment in bonds

The fund manager must invest all amounts deposited to the investment fund in United States government bonds, Ohio bonds, or bonds of Ohio municipal corporations, schools, townships, or counties. Upon maturity of the bonds, the amount of the principal investment must be returned to the investment fund for reinvestment by the fund manager. Interest earnings may, at the discretion of the fund manager, be returned to the investment fund for reinvestment or transferred to the subdivision's tax relief fund.[6]

Report to county budget commission

A subdivision that establishes an investment fund must annually report to the county budget commission the subdivision's eligible receipts for the second preceding fiscal year and the subdivision's deposits to its investment fund for the preceding fiscal year. The report must be submitted by July 15 or, in the case of Cincinnati (whose fiscal year aligns with the calendar year), January 15. The report may be incorporated into the subdivision's tax budget which, under continuing law, must be submitted to the county budget commission by the same date.

Within 30 days after receiving the report, the county budget commission must determine whether the subdivision complied with the bill's deposit requirements and notify the subdivision of its determination. If the county budget commission determines that the subdivision's deposits were less than the amount required, the subdivision has a 30-day period to correct the deficiency. If the subdivision does not deposit the required amount within the grace period, the commission must certify the name of the subdivision and the amount of the deficiency to the Tax Commissioner.[7]

In general, a county budget commission is comprised of county officials and charged with reviewing local budgets and tax levies.[8]

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[5] R.C. 5705.76(D) and (E).

[6] R.C. 5705.76(F).

[7] R.C. 5705.76(G) and (H).

[8] R.C. 5705.27, not in the bill.

Local Government Fund penalties

The bill requires the Tax Commissioner to withhold a subdivision's Local Government Fund (LGF) payments upon receiving notice from a county budget commission that the subdivision failed to meet the bill's deposit requirements. The Commissioner must then deposit an amount equal to the LGF withholdings to the subdivision's investment fund. LGF payments to the subdivision resume once deposited amounts equal or exceed the deficiency reported by the county budget commission.[9]

Under continuing law, 1.66% of GRF tax receipts are credited monthly to the LGF to provide revenue to political subdivisions and other local taxing units.[10] About 92% of that money is divided between the undivided local government funds of each county (CULGFs) and distributed to the county and subdivisions in that county under a formula either prescribed in state law or adopted by the county budget commission (county CULGF payments). The remaining money is distributed directly, generally on a per capita basis, to municipalities with a population of over 1,000 (direct municipal payments) and through supplemental payments to municipalities below that population threshold and townships based in part on the road miles in that municipality or township (supplemental township and village payments). Distributions are made monthly.

The LGF penalties required by the bill are administered similarly to the LGF penalties imposed under continuing law on subdivisions that collect traffic camera fines. The Commissioner first withholds any direct municipal payments or supplemental township and village payments that the subdivision would have otherwise received. Then the Commissioner notifies the county auditor and county treasurer that county CULGF payments to the subdivision must stop until further notice. In the case of a county, the Commissioner must notify the county auditor and county treasurer of that county. In the case of a municipal corporation or township, the Commissioner notifies the county auditor and county treasurer of each county within the territory of which the municipal corporation or township is located. The state's monthly distributions to the CULGF of each such county are reduced by the amount of payment the subdivision would have otherwise received from that fund.

Once the Commissioner deposits an amount to the subdivision's investment fund that equals or exceeds the deficiency reported by the county budget commission, the Commissioner must reinstate standard direct payments, supplemental payments, and state CULGF distributions, as applicable to the subdivision. The Commissioner must also notify the county auditor and county treasurer of the appropriate counties that county CULGF payments to the subdivision are to resume as normal.[11]

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[9] R.C. 5747.502.

[10] R.C. 131.51(B), not in the bill.

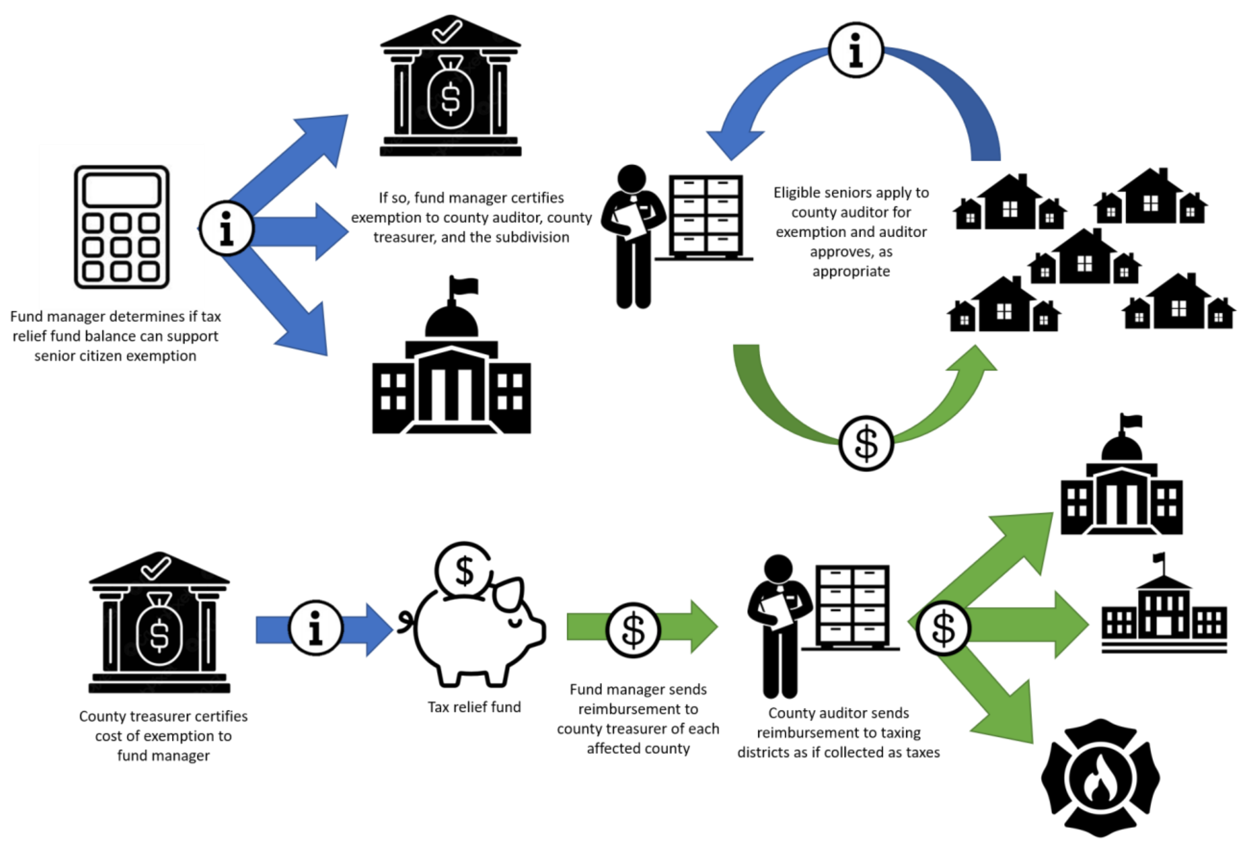
[11] R.C. 5747.502(F), (G), and (J).

If the traffic camera and investment fund LGF penalties apply simultaneously to the same subdivision, the Commissioner must first deposit the amount of the traffic camera LGF penalty to a state fund used to pay for transportation safety projects. Any remaining withheld LGF revenue is directed to the investment fund.[12]

Tax relief fund

Purpose

The tax relief fund consists of interest revenue derived from investments of the investment fund. As explained above (see "**Investment fund**"), the fund manager may either retain interest revenue in the investment fund for reinvestment or transfer it to the tax relief fund. Once transferred to the tax relief fund, the revenue must eventually be used to reimburse taxing units for reductions in property tax, manufactured home tax, and special assessments resulting from the senior citizen exemption authorized under the bill.[13] The basic functions of the tax relief fund are described in the graphic below.



[12] R.C. 5747.502(K).

[13] R.C. 5705.76(F) and 5705.78(A).

Annual certification of exemption

On or before January 15, beginning the first full year after a subdivision establishes an investment fund and a tax relief fund, the fund manager must determine if the unencumbered balance of the tax relief fund is sufficient to fully reimburse taxing units, including the subdivision, for revenue forgone because of the bill's senior citizen tax exemption (see "**Exemption amount**," below). The county auditor and county treasurer of each county that includes homes eligible for the exemption must provide the fund manager any information necessary to estimate such costs. If the fund manager determines that the unencumbered balance of the fund equals or exceeds the estimated costs of the exemption, the fund manager must certify that an exemption applies for that year to the county auditor and county treasurer of each such county and to the subdivision that established the fund. Notice of the exemption must be published on the subdivision's website.

If the fund manager determines that the cost of the exemption exceeds the unencumbered balance of the tax relief fund, the fund manager may not certify an exemption for that year.[14]

Reimbursement of taxing units

The bill requires the fund manager to semiannually reimburse taxing units for reductions in property tax and special assessment revenue resulting from the bill's senior citizen exemption. The process is similar to one used by the state to reimburse taxing units for revenue losses resulting from the homestead exemption, the 10% rollback for property not used in a trade or business, and the 2.5% rollback for owner-occupied homesteads. Within 30 days after the April and September tax settlements, the county treasurer must certify to the fund manager one-half of the amount by which property taxes and special assessments were reduced under the subdivision's exemption. If more than one subdivision certifies an exemption that applies to the same home, the cost of that exemption is divided equally among those subdivisions. Within 30 days after receiving the certification, the fund manager must reimburse the county treasurer from the tax relief fund. After deduction of several administrative fees to the county auditor and treasurer to cover the cost of administering the exemption, the remainder is distributed by the county auditor to the various taxing units as though it was collected as taxes and special assessments.[15]

A similar process applies for reimbursing taxing units for reductions in manufactured home tax revenue. The only difference is that the county treasurer certifies the reduced amount only once each year, on or before the second Monday in September. Therefore, the fund manager is required to reimburse taxing units for reduced manufactured home tax revenue annually rather than semiannually.[16]

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[14] R.C. 5705.77.

[15] R.C. 323.156.

[16] R.C. 4503.068.

Senior citizen exemption

Timing of exemption

For real property taxes and special assessments, the exemption applies to the tax year in which it is certified by the fund manager. For manufactured home taxes, the exemption applies to the following tax year.[17] The reason for the difference is that real property taxes and special assessments are payable in arrears and manufactured home taxes are paid concurrently with the tax year. The lien for real property taxes and special assessments attaches on the first day of the current tax year. However, the taxes are not billed and payable until the following January. One-half of the tax bill must be paid in January of the following year, and the other half must be paid in June of the following year.[18] Conversely, manufactured home taxes must be paid concurrently with the tax year. One-half is due by March 1 of the current tax year, and the balance is due by July 31 of the current tax year.[19]

Eligibility

A person seeking an exemption under the bill must first apply to the county auditor of the county in which their home is located. Timing and administration of the application process is the same as for the homestead exemption. The applicant must establish all of the following to obtain the exemption: (1) the applicant was or will be at least 65 years of age during the tax year that is the subject of the application (including applicants having their 65th birthday during the taxable year), (2) the applicant owns and occupies a dwelling or manufactured home, or occupies a unit in a housing cooperative, (3) that homestead is located in a subdivision that has established an investment fund and a tax relief fund, and (4) the subdivision's fund manager certifies an exemption for the tax year that is the subject of the application.[20]

Exemption amount

Taxes and special assessments on real property and manufactured homes that are approved for the exemption are reduced by an amount determined as follows:

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[17] R.C. 5705.77(C).

[18] R.C. 323.12 and 323.13, not in the bill. The statute sets a due date of December 31, but extensions are routinely made.

[19] R.C. 4503.06, not in the bill.

[20] R.C. 323.151, 323.152, 323.153, 4503.065, and 4503.066.

Taxes and assessments charged and payable for the **current tax year** − (Taxes and assessments charged and payable for the **occupant's base tax year** + Taxes and assessments charged and payable on improvements for the **first tax year those improvements appear on the tax list** (if after the occupant's base tax year))

In computing the exemption amount, the taxes "charged and payable" are determined before application of any exemption authorized by the bill, but after application of the homestead exemption, 10% and 2.5% rollbacks, and H.B. 920 tax reduction factor, as applicable to the home.

The occupant's "base tax year" is the first tax year ending after the bill's 90-day effective date in which the occupant was 65 years of age or older and owned and occupied that home or, in the case of a unit in a housing cooperative, occupied the unit. An occupant's base tax year cannot be earlier than the tax year after the most recent year in which the occupant did not own or occupy, as applicable, the occupant's current home. Thus, any move resets the individual's base tax year, even if the occupant moves to a home in which the occupant previously lived.

If a home is located within more than one subdivision that certifies an exemption for the same tax year, the occupant receives only one exemption. The exemptions cannot be aggregated.[21]

Financial crises

The bill temporarily suspends the spending rules that apply to a subdivision's investment fund and tax relief fund during periods of financial crisis. If the fund manager determines that the subdivision is in financial crisis, the subdivision may use the unencumbered balances of those funds for any purpose for which the subdivision may use moneys in its general fund. In addition, the subdivision may direct the fund manager to sell bonds purchased using investment fund revenues and use the moneys generated from such sales for any such purpose. The expanded spending authority applies for six months following the fund manager's determination that the subdivision is in financial crisis.

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[21] R.C. 323.151, 323.152, 4503.064, and 4503.065.

A fund manager may determine that the subdivision is in a financial crisis only if both of the following apply: (1) state GRF receipts are less than state budget estimates for 12 consecutive months, and (2) the inflation-adjusted GDP has decreased for two consecutive quarters.[22]

HISTORY

Action	Date
Introduced	01-24-22

H0546-I-134/ts

[22] R.C. 5705.78(B).