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Office of Research and Drafting

Legislative Budget Office

H.B. 447
135th General Assembly

Fiscal Note & Local Impact Statement

Click here for H.B. 447's Bill Analysis

Version: As Introduced

Primary Sponsor: Rep. Loychik

Local Impact Statement Procedure Required: Yes

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Highlights

Fund	FY 2025	FY 2026	Future Years
State General Revenue Fund			
Expenditures	Reduction of $180 million	Reduction of $214 million	Ongoing reductions
School districts			
Revenues	Loss of $528 million	Loss of $657 million	Ongoing losses
Local governments			
Revenues	Loss of $9 million	Loss of $9 million	Ongoing losses

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 reduces property tax revenues of school districts by an estimated $294 million for tax year (TY) 2023, $451 million for TY 2024, and $581 million for TY 2025 by changing the 20-mill floor.
- Alteration of the formula for determining farmland's current agricultural use value (CAUV) would reduce revenue to each of school districts and local governments by an estimated $9 million per year, starting in TY 2024.
- Expansion of the homestead exemption in TY 2023, TY 2024, and TY 2025, and permanent enhancements to benefits for disabled veterans and for surviving spouses and minor

children of veterans killed in the line of duty, would result in revenue losses for the three years totaling $597 million, fully reimbursed from the state GRF to local governments and reimbursed 50% to schools, at a three-year cost to the schools estimated at $181 million.

- Revenue losses for TY 2023 with the bill would be in addition to those summarized in the table above.

Detailed Analysis

Reduction of school district current expense floor from 20 mills

The bill would change the calculation of effective mills on outside current expense levies of school districts, allowing them to decline further than in current law. Total taxes charged and payable for current expenses include those from inside general fund levies plus those from outside current expense levies. Inside mills are the 1% (ten mills) that may be set administratively, without a vote of taxpayers. Effective tax rates on the outside (voter approved) fixed-rate levies are set by calculating the percentage reduction required in order to levy the same amount of taxes in the current year as in the prior year on carryover property, for both Class 1 (residential and agricultural) and Class 2 (all other) real property. For current expense levies of school districts, resulting total taxes charged and payable, both the inside and outside levies, are then compared in current law with 2% of all real property. This is referred to as the 20-mill floor.

If the calculated percentage reduction, to hold revenues from carryover property unchanged, would lower total taxes charged and payable for current expenses as a percent of real property to less than this threshold, the percentage reduction would be adjusted (made smaller) so that taxes for current expenses match the threshold. An exception in current law applies if the sum of the rates at which those taxes are authorized to be levied (the outside current expense millage rates approved by voters plus inside general fund mills) is less than the 20-mill floor, in which case taxes would be levied at the authorized rates.

In a school district that is at the 20-mill floor, the current expense rate remains at the 20-mill floor in the following year, unless taxable values decline. With a taxable value increase, tax revenue rises by the same percentage as the valuation increase. In contrast, if school district revenue from current expense levies is well above 2% of total taxable value, an increase in value is offset by a decrease in the effective tax rate, resulting in no change in tax revenue on the carryover property. An intermediate case occurs if a school district is above the floor but near enough that the increase in taxable value would reduce the effective rate to below 20 mills, except for the limit set by the floor.

The bill would change calculation of the floor by incorporating in the formula for floor millage the percent changes in the consumer price index (CPI) and in total taxable value.[1] The revised formula would reduce the floor or leave it unchanged, depending on whether taxable value increases by more than the CPI. Floor millage would not be permitted to increase. Revenues of school districts away from the floor would be unaffected by the change. The floor calculated with the bill is the same for Class 1 and Class 2 real property, but generally would differ between school districts. Also, the calculation appears to differ from that for effective millage in the two

[1] Valuation is inferred in this fiscal note to be for real property only, since that is explicitly stated in line 121 of the As Introduced bill, though not in the previous calculation step in lines 112-118.

classes in being based on the year-to-year change in taxable value from all sources, including new construction. Carryover property is not mentioned in the description of the floor millage calculation.

For a school district at the floor in the previous year, if the floor is reduced in the current year, the district would incur a revenue loss on outside current expense millage, compared with current law. If the floor remains unchanged, revenue from outside current expense millage would also be unchanged. Tax revenues from other types of levies would be unaffected by the bill.

The As Introduced bill would alter calculation of TY 2023 taxes, even though first half real property tax payments have already been made.[2] The bill would reduce tax revenues of an estimated 244 school districts for that year by $294 million. Comparable estimates for the next two years are 365 districts with a revenue loss of $451 million for TY 2024, and 476 districts with a revenue loss of $581 million for TY 2025. Depending on the timing of enactment of the bill, some or all of the revenue loss for TY 2023 might be realized in FY 2025.

The estimates for TY 2023 rely primarily on statistics for that and the prior year already published. A number of simplifying assumptions are made to derive estimates of the bill's effects. Percent changes in taxable values are based on a prediction issued in February 2024 by S&P Market Intelligence, an economic forecasting firm used by LBO, of the average price of existing Ohio homes. These percent changes are used for all three classes of property. Valuation changes for each reappraisal or triennial update year are based on the percent change in the home price index from four years earlier to one year earlier, as an approximation of the reappraisal and update process to determine valuation as of January 1 of each tax year. These percent changes – 24.8% in TY 2024 and 23.9% in TY 2025 – are applied uniformly to all counties undergoing reappraisal or update in each year, in the absence of forecasts down to the county level. School districts are assigned to counties based on the "home" county of each district, with no account taken of school districts with territory in more than one county. Consequently, the revenue loss estimate over the full three-year period is likely more reliable than year-by-year estimates.

Lower school district revenues imply lower rollbacks on qualifying levies, including the 10% nonbusiness tax reduction and the 2.5% tax reduction for owner-occupied homes. Lower school district tax rates imply smaller homestead exemption reductions. The state GRF reimburses these losses to local taxing authorities. The smaller property owner savings imply smaller reimbursements from the GRF, by an estimated $73 million in FY 2026.

Current agricultural use valuation (CAUV) formula change

The bill provides that the capitalization rate used in the CAUV formula to convert annual farm operating revenue and expenses to a valuation must be 10% or higher, effective for TY 2024 and thereafter. The capitalization rate (or cap rate) reflects both the time value of money invested in a farm operation and a "tax additur" to account for a portion of farm proceeds being paid out as taxes rather than retained as a return to operation of the business. Representative yearly revenue and expense budgets for numerous soil types are divided by the cap rate to derive valuations.

[2] R.C. 319.301 as amended by the bill alters calculation of TY 2023 taxes, but Section 3 of the bill says that amendment of that section applies to TY 2024 and thereafter.

In TY 2023 the cap rate was 8.0%, up from lower rates in the previous three years. Dividing an operating budget by 10.0% instead of 8.0% is equivalent to reducing the valuation by 20%. A 20% value reduction in CAUV land in TY 2023 would have amounted to about $1.9 billion. However, some CAUV land is valued at an administratively set minimum value rather than a calculated value. The value reduction taking account only of the land valued at the calculated amount cannot be determined with precision from figures published by the Department of Taxation, but is here estimated at about $1.7 billion.

A reduction in tax revenue of this magnitude would result in lower tax revenue from inside millage for schools and local governments. Rates charged on most outside levies would adjust upward to offset the reduced property value and raise the same amount of tax revenue as in the prior period. The rates on levies imposed to raise fixed sums of money, such as bond and school emergency levies, would fully adjust. Effective rates on fixed-rate levies would also adjust upward to raise the same amount of money on real property that is taxed in the same property class in the current and prior period, subject to the constraint that the effective rate cannot rise higher than the rate approved by voters. Fixed-rate levies at the voted rate, or that adjust upward to the voted rate, and so could not fully adjust to offset the value reduction, are estimated to result in a smaller loss of revenue than that on inside millage. In total, school districts are estimated to incur a revenue loss from this part of the bill of about $9 million per year and local governments are estimated to incur an annual revenue loss of a similar amount.

Reduced tax revenue from CAUV land implies that the 10% rollback, reimbursed from the state GRF, would also be smaller. The savings to the GRF are estimated at about $2 million.

Homestead exemption changes

Separately, the bill would increase homestead exemption benefits for three years, and permanently increase benefits for disabled veterans and for surviving spouses and minor children of veterans killed in the line of duty.

Temporary enhanced reduction

The bill would temporarily expand and enhance the homestead exemption for TY 2023, TY 2024, and TY 2025 for real property (TY 2024, TY 2025, and TY 2026 for manufactured homes). The true (or market) value of the current exemption is $26,200 for TY 2023.[3] The bill increases that amount to $35,000 in TY 2023, $37,500 in TY 2024, and further increases it for inflation in TY 2025. The enhanced exemption for surviving spouses of public safety officers killed in the line of duty would similarly increase, from $52,300 to $65,000 in TY 2023 and $69,600 in TY 2024, with a further increase in TY 2025 based on inflation. Disabled veterans would receive a $52,300 exemption under current law, but the bill includes those veterans alongside others benefitting from the enhanced exemption for TY 2023 only. In lieu of the increases in the second two years of the temporary expansion described above, the bill permanently expands the exemption beginning in TY 2024.

The bill also temporarily expands the exemption to include elderly or disabled homeowners with a household income of $80,000 or less. The income limit for TY 2023 is $36,100, except that homeowners who qualified for the exemption in 2013 (2014 for

[3] Equal to $9,170 taxable value at the state's 35% assessment rate for real property.

manufactured homes) are exempt from this means test, as are disabled veterans and surviving spouses of public safety officers killed in the line of duty. Household income is measured as modified adjusted gross income (MAGI), which is Ohio adjusted gross income plus any business income that was deducted in calculating income taxes due. Real property taxes are paid a year in arrears; taxes on manufactured homes are paid concurrently.

Homeowners subject to the means test who make more than the income limit but not more than $80,000 would receive an exemption of less than $35,000 for taxes payable in 2024, with each homeowner's exemption amount based on income as shown in the following table. Exemption amounts for future years, as well as the current income limit, rise with inflation.

Exemption Amounts for Elderly or Disabled Homeowners Subject to Means Testing, for Taxes Payable in 2024	
MAGI	Market Value of Exemption
$36,100 or less	$35,000
$36,101-$51,000	$26,250
$51,001-$66,000	$17,500
$66,001-$80,000	$8,750
More than $80,000	$0

The bill's increased exemption amounts and higher income limit for beneficiaries is estimated to increase the taxpayer savings from the homestead exemption by $174 million for taxes payable in 2024, $187 million for 2025, and $197 million for 2026, after which the bill's enhanced homestead exemption would end. As of this writing, first half payments for TY 2023 have generally already been made, so implementation of the bill effective for TY 2023 would require that reduction in amounts due either be accommodated in second half payments or as credits against future obligations.

Disabled veterans

The bill amends the definition of "disabled veteran" for TY 2024 and thereafter for homestead exemption purposes. In current law, a disabled veteran is a member of the U.S. armed forces, reserves, or National Guard, honorably discharged, who received a total disability rating or a total disability rating for compensation based on individual unemployability for a service-connected disability or combination of service-connected disabilities. The bill, instead of a total disability rating, requires only that the veteran have received a 10% or greater disability rating. It retains unchanged the portion of the definition pertaining to unemployability for a service-connected disability or disabilities. Disabled veterans would continue not to be subject to means testing. That is, they would qualify without regard to their incomes. They could claim either the homestead exemption based either on their disabled veteran status or another part of homestead exemption law for which they qualify, but not both.

The bill provides that the reduction for a disabled veteran with a total disability rating, or a total disability rating for compensation based on individual unemployability, equals all current taxes charged and payable against the homestead for the tax year. In current law, such a veteran qualifies for a property tax reduction equal to the taxes on up to $50,000 market value of the homeowner's primary residence. This is the most costly of the changes to the homestead exemption for disabled veterans.

For a disabled veteran with a disability rating of less than a total but at least 70%, the reduction with the bill is equal to the property taxes due on $12,000 market value of the primary residence. Disability ratings are assigned in ten percentage point increments, so this reduction would apply for veterans with 70%, 80%, or 90% disability ratings. The same tax reduction would apply for a veteran (1) 65 years of age or older with a disability rate of at least 10%, (2) totally blind in one or both eyes, or (3) who has lost the use of one or more limbs.

Veterans with a lower disability rating would qualify for smaller tax reductions. A veteran with a disability rating of 50% or 60% would qualify for a reduction equal to the property taxes due on $10,000 market value of the primary residence. One with a disability rating of 30% or 40% would qualify for a reduction equal to the property taxes due on $7,500 market value of the primary residence. One with a 10% or 20% disability rating would qualify for a reduction equal to the property taxes due on $5,000 market value of the primary residence.

A surviving spouse of a disabled veteran is entitled to a property tax reduction equal to the amount that was authorized for the disabled veteran. Eligibility for the reduction continues through the tax year in which the surviving spouse dies or remarries.

The cost of changes to the homestead exemption for disabled veterans is estimated at $20 million. This estimate is based on American Community Survey (ACS) query results for numbers of Ohio homeowners with service-connected disability ratings in 2021 and on national Veterans Benefits Administration (VBA) data for federal fiscal year 2023. The ACS is conducted annually by the U.S. Census Bureau and is used by LBO for statewide estimates, based on responses of a sample of Ohioans to questionnaires. The VBA national data provide additional detail and are used for estimates of Ohio attributes not included in the ACS data.

Surviving spouse or minor child of veteran killed in action

The bill creates a property tax exemption for TY 2024 and thereafter for the homestead of a surviving spouse or minor child of a military veteran killed in the line of duty. Qualifying military veterans include members of the U.S. armed forces, reserves, or National Guard. The spouse qualifies from the tax year of the veteran's death through the year that the spouse remarries or dies. The deceased veteran's child must be age 17 or younger and unmarried to qualify. Currently a property tax exemption is available for a surviving spouse of a public service officer – a peace officer, firefighter, emergency medical technician, or other similar position – killed in the line of duty, but not for a spouse or for a minor child of a qualifying deceased military veteran.

The new exemption would be for the taxes due on $5,000 market value ($1,750 taxable value at the state's 35% assessment rate) of the homestead for the spouse, and an additional $5,000 market value for a child or children, a total of up to $10,000. If the deceased veteran had more than one child, the exemption still totals $5,000. A taxpayer may not claim both this new exemption and another homestead exemption, so those who qualify will generally claim the other exemption offering a larger tax benefit.

The United States Department of Defense publishes data on active duty military deaths by year, war, and manner of death. The data are at the national level and include no information on surviving spouses or minor children. In the past 43 years, from 1980 through 2022, about 61,000 active duty military deaths were reported. Of these, perhaps somewhat more than 2,000 may have been Ohioans, based on the state's 3.5% share of the population. Additional numbers of active duty military deaths occurred in the Vietnam (58,220) and Korea (36,574) conflicts. World War II is not included here because few spouses of those who died in that war now survive.

Of active duty military deaths among Ohioans in the past 43 years, perhaps half were married. This is no more than an educated guess, based in part on the fact that many were young.[4] Most of the spouses would likely still be living, and many may now be homeowners, possibly upwards of 80%. Combining these two estimates, surviving spouses who are also homeowners may be some 40% of the estimated active duty military deaths of Ohioans. In addition, surviving Ohio homeowners who were married to military members who died on active duty in Vietnam may amount to a few hundred, and fewer still for the Korea conflict.

Based on these considerations, Ohio has perhaps very roughly 1,200 surviving spouse homeowners whose military veteran spouses were killed in the line of duty. Additionally, some households may qualify for the minor child benefit. Only service members who died in late 2005 or more recently could now have children who are still minors. The same assumptions as used above imply about 300 Ohio surviving spouse homeowners in this age group, though homeownership may be less common among these younger surviving spouses. Perhaps 100 to 200 of these households included children.

Based on these considerations, the benefit on $5,000 exemptions from property taxes for these surviving spouses is estimated at about $375,000 per year.

Some who qualify for this benefit as well as a tax exemption under another homestead exemption may choose the other exemption instead of the new exemption under the bill. Older spouses who would have qualified for the homestead exemption in 2013, when no means test was required, would be better off with an exemption of $25,000 market value from that part of the homestead exemption program rather than with the bill's $5,000 exemption. Some spouses age 65 or older but who were not yet age 65 in 2013 may qualify for the $25,000 exemption based on low incomes, so would also generally favor that type of homestead exemption, not the bill's new program. Most spouses under age 65 would benefit from the new program.

The bill's benefit for surviving spouses is written as amending the Revised Code sections that provide for the homestead exemption. Revenue losses to school districts and local governments as a result of homestead exemptions are fully reimbursed from the state GRF. Consequently, the revenue losses from the bill would also be fully reimbursed.

Surviving spouses could claim this benefit starting in TY 2024 for real property and in TY 2025 for manufactured or mobile homes, both payable in 2025. GRF reimbursements lag

[4] An indication of the ages of active duty Ohioans who died in service is this compilation of pictures: ohiofallenheroes.org/fallen-heroes/.

property tax payments, and the reimbursements for second half TY 2024 real property tax payments are here assumed to occur in early FY 2026. Predictions shown in the "**Highlights**" section above are based on this assumed timing.

Homestead exemption reimbursements

Under current law, the state GRF reimburses the revenue losses of school districts and local governments arising from the homestead exemption, for homeowners who qualify for that exemption. The local taxing authorities are held harmless by the state reimbursements, and property owners pay lower taxes than otherwise, with the state paying the difference with reimbursements from the GRF.

Unlike current law, the bill would reimburse school districts for only 50% of the increased cost of the bill's changes to homestead exemption law, including the enhanced homestead exemption for TY 2023, TY 2024, and TY 2025; the changes to the homestead exemption for disabled veterans for TY 2024 and thereafter; and the homestead exemption benefit for surviving spouses and minor children of veterans killed in action. For purposes of the bill, "school district" means a city, local, or exempted village school district. Local governments and other educational entities including joint vocational school districts would be fully reimbursed.

For these homestead exemption changes, additional costs to the GRF, extending through FY 2027, total an estimated $366 million, as follows: FY 2025, $133 million; FY 2026, $148 million; and FY 2027, $85 million. In addition, half of the GRF reimbursement for TY 2023, totaling $61 million, would be due following enactment of the bill and reduction of payments for that year, likely added to the reimbursement paid in FY 2025. Unreimbursed property tax revenue losses of school districts total an estimated $187 million through FY 2027.[5]

The reduced homestead exemption reimbursement would not apply to the changes to the school district current expense 20-mill floor or to the CAUV formula modification.

Timing of the bill's changes

H.B. 447 As Introduced specifies that changes to school district floor millage apply to TY 2023 and thereafter in bill line 109, and to TY 2024 and thereafter in bill line 2020. Numbers in the "**Highlights**" table above are calculated on the assumption that the changes apply starting in TY 2023. The enhanced reduction provisions described above also apply starting in TY 2023 for real property, bill line 566 and various subsequent lines.

The As Introduced bill does not include an emergency clause so as of this writing could not go into effect in FY 2024. First half property taxes for TY 2023 were paid in January in many counties, and second half payments are generally due in June. Revenue losses for TY 2023 with the bill could perhaps be taken as credits against future taxes due. These losses would be in addition to those summarized in the "**Highlights**" table of this fiscal note.

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[5] H.B. 447 As Introduced cites amendments of Revised Code sections made by H.B. 187 of the 135th General Assembly. That bill was not enacted, and the changes are instead made in H.B. 447 itself. This problem can be fixed with a technical amendment to H.B. 447.