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Fiscal Note & Local Impact Statement

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Version: As Introduced

Primary Sponsor: Sen. Williams

Local Impact Statement Procedure Required: Yes

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Highlights

- Requiring reimbursement from the state GRF of local revenue losses caused by a 10% limit on yearly property tax increases for homes in which the current owners have resided for ten years or more (longtime homesteads) would increase the cost to the GRF by an uncertain amount, which could be expected to vary widely from year to year. This cost is estimated to average in excess of $10 million per year, and could exceed this amount substantially.
- In addition, the bill would let counties, cities, and villages offer further tax reductions or deferrals on longtime homesteads, in areas of substantially rising home values due to home construction or rehabilitation. No state reimbursement would offset local revenue losses from this separate program. Losses would be permissive for the county or municipality offering the tax reduction or deferral, and for school districts, which may opt out, but not for other affected political subdivisions. The magnitude of local government revenue losses, both permissive and imposed, from this separate program of further tax reductions appears uncertain.
- County auditors would incur added costs for assessments required by the bill and for administration. The Department of Taxation (TAX) would incur administrative costs.
- The bill specifies that the 10% cap on annual increases in property taxes for longtime homesteads and related provisions would apply to tax year 2021 and thereafter. Costs to the GRF from the cap may begin as soon as FY 2023.

Detailed Analysis

For longtime homesteads, those occupied as their homes by the owners for ten years or more as of January 1 of the tax year, the bill would prevent real property taxes from increasing by more than 10% per year, except for improvements to the property. Additionally, the bill would let counties or municipal corporations offer further tax reductions or tax deferrals in eligible areas. Resulting revenue losses to units of local government would be reimbursed from the state GRF for the former change, which would apply to all qualifying real property throughout the state, but not for the latter permissive change.

The following table summarizes data for Ohio from the 2019 American Community Survey (ACS) on the numbers of owner-occupied housing units in the state and the amount of real property taxes on those properties as reported by the survey respondents. About 1.9 million or 61% of the 3.1 million owner-occupied housing units statewide in that year were the homes of people who moved into those units ten or more years earlier. The aggregate property taxes paid by those owners were 57% of total property taxes paid on owner-occupied housing, based on the self-reported amounts indicated by respondents to the ACS. The smaller percentage than for the number of units reflects smaller amounts of taxes per unit reported on average by the longtime homeowners.

Length of Time in Current Residence for Owner-Occupied Housing Units in Ohio, 2019		
Length of Time in Residence	Share of Units	Share of Aggregate Property Taxes
	Percent of Total	
Less than 13 months	6%	7%
13-23 months	5%	5%
2-4 years	14%	16%
5-9 years	14%	15%
Subtotal: less than 10 years	*39%*	*43%*
10-19 years	24%	25%
20-29 years	17%	16%
30 years or more	20%	15%
Subtotal: 10 years or more	*61%*	*57%*
Total	**100%**	**100%**

Yearly 10% property tax increase cap for longtime homeowners

The bill would reduce taxes owed by longtime homeowners by the amount by which current taxes for the year exceed current taxes for the previous year by more than 10%. Current taxes are defined in the bill as those charged and payable after tax reduction factors, the 10%

rollback, and the 2.5% owner-occupied credit.[1] The bill specifies that current taxes for the previous year are net of any reductions required by the bill in that year to limit the increase to 10% or less. The homestead exemption tax reductions are not considered in determining whether a longtime homeowner qualifies for tax reduction to stay within the 10% cap.

For home improvements between one year and the next, the bill requires the county auditor to determine the amount of the increase in current taxes that is due to the improvement. The 10% cap is then imposed on current taxes in comparison with the sum of the increment to taxes resulting from the improvement plus 110% of current taxes for the previous year. The increment to taxes resulting from the improvement would be adjusted downward if the improvement was to repair or replace damaged or destroyed property for which a deduction from taxable value was allowed for the preceding year. The required assessments may increase auditors' costs.

Obviously, the yearly cost to the GRF would vary depending on how much taxes would go up in the absence of the bill's cap. In years when taxes on a property would go up by 10% or less, the GRF would incur no cost. When taxes would go up by more than 10% in the absence of the cap, the bill's cost for that property would depend on the magnitude of the difference. The cap would be imposed at the individual property level, so some homeowners' tax increases could be reduced under the bill while those of others might not be. If, for example, the property taxes on a longtime homestead would rise by 30% in a year under current law and then remain at that level for the next two years, the bill's provisions would instead result in increases of 10% in that year, 10% the following year, and the balance of the 30% in the third year. The state GRF would reimburse local governments for the difference, 20% of previous year taxes in the first year, and a lesser amount in the second year.

The owner-occupied primary residences of homeowners who remain in the same home from one year to the next are a subset of carryover property. The effective rates on fixed-rate levies that are qualifying levies are adjusted annually to raise the same amount of revenue as the year before on the carryover property. These adjustments are applied at an aggregate level, for all residential plus agricultural property and separately for all other real property. The current expense levies and permanent improvement levies on which electors may vote are subject to this adjustment. Levies voted by electors are also called outside millage. Inside mills, the taxes on the 10 mills (1%) of taxable value that may be imposed by local governments without a vote of electors, are not subject to this adjustment. Voted bond levies and emergency levies, other types of outside mills, also are not subject to this adjustment, but instead are adjusted annually to raise fixed sums of money in total from real property plus public utility tangible personal property. These adjustments for bond levies and emergency levies also are applied at an aggregate level.

In view of the foregoing brief summary of certain aspects of Ohio property taxes, costs to the GRF from the bill could arise from three sources. One is new levies. Tax increases resulting

[1] Tax reduction factors eliminate the effect on taxes payable of changes in valuation of carryover real property for certain voted taxes. Carryover property is taxed in the same property class in both the current and prior years. The 10% rollback applies to qualifying levies on all residential and agricultural property. Qualifying levies are those approved by voters prior to September 2013, renewals of such levies, inside millage, and certain others. The 2.5% owner-occupied credit also is limited to qualifying levies.

from new levies would be partially offset by tax decreases as levies expire. The net effects of new levies and levy expirations could be expected to vary greatly from one jurisdiction or taxing district to another.

Another source of costs to the GRF is inside mills on increases in taxable value not arising from improvements. Revenue from inside millage on increases in taxable value would vary greatly among taxing districts and also among individual homeowners within districts, because of variation in the magnitude of the taxable value changes.

A third source of GRF costs is the differing effects on individual homeowners of taxes from outside millage, even though in the aggregate the millages are adjusted to raise fixed amounts of revenue on carryover property. Effects on individual homeowners would also depend on differing changes among homeowners in their property valuations.

A full assessment of the potential effect on the GRF would require analysis at the individual parcel level. What follows is instead an attempt to use published aggregate data by taxing district to assess the potential effect. The estimate tends to be understated in that it does not include costs to the GRF from differences in tax increases among individual properties within taxing districts.

A calculation of the increase in carryover residential real property taxes in the six tax years 2015 through 2020 by taxing district indicates that increases in taxes exceeded 10% in an average of 530 per year, or 13% of more than 4,100 statewide taxing districts. Properties in all 88 counties in the state were subject to reappraisal and update during this period. The number of districts with estimated tax increases on carryover property in excess of 10% varied considerably from year to year. For this estimate, carryover property was approximated as the taxable value of residential property in the previous year minus the value of residential buildings destroyed or demolished. The increase in the value of this carryover property was represented by adding valuation changes from reappraisal, update, or annual equalization, to approximate the change for a typical homeowner. The dollar value of the change in each taxing district in excess of 10% was multiplied by that district's owner-occupied share of total residential taxable value, and by 87.5% to represent the 10% and 2.5% rollbacks.[2] The total of these estimated increases in current taxes on owner-occupied properties in excess of 10%, multiplied by the 57% share of property taxes of longtime homeowners in 2019, averaged about $10 million per year.

Taxes of some homeowners could go up by more than 10% even if the aggregate increase for the taxing districts in which their properties are located is 10% or less. Consequently, the estimate based on taxing district-level calculations is too low. The extent to which it is too low is unknown. Based on recent history, then, the bill's cost would on average be higher than $10 million, perhaps substantially more. In addition, market values of residential properties have risen sharply this year. These higher market values will be reflected in taxable values over the next three years as all counties go through either sexennial reappraisals or triennial updates. These higher valuations will be reflected in higher current taxes, increasing the cost of the bill.

[2] Most residential property – 77% by value in 2018 – is owner-occupied, but the share varies widely among taxing districts. For years before 2018, that year's owner-occupied shares of residential taxable value were used.

County auditors and the Department of Taxation (TAX) could be expected to incur costs to administer the program.

The bill provides that these changes would go into effect in tax year 2021. With the passage of time, costs to the GRF could begin no sooner than FY 2023.

Permissive property tax reductions and deferrals

The bill would allow a county or municipal corporation to let qualifying longtime homeowners in eligible areas reduce the taxes charged against their homesteads or defer payment of part of those taxes. The county or municipality could specify various aspects of the program including maximum income or minimum age to qualify. A homeowner could not qualify for the program if delinquent taxes are charged against the homestead. Whether to offer such a program would be at the discretion of the board of county commissioners or the legislative authority of the municipal corporation, so any resulting revenue losses for those government units would be permissive. No reimbursement from the state would be provided.

These tax reductions or deferrals could only be offered in areas where (1) residential housing has long existed, (2) housing market values are rising substantially due to home renovation or construction, and (3) housing affordability for longtime homeowners is adversely affected by the appreciation. The school board of a district with territory in the area affected by the reduction or deferral could elect not to have these revenue reductions apply to taxes charged by the district. The bill contains no provision for other units of local government to opt out.

Taxes deferred under this program would become due if the property is sold, except to the owner's spouse; if the owner no longer resides in the homestead; or upon the homeowner's death except if title is conveyed to the homeowner's spouse. Prior to deferred taxes becoming due as a result of one of these events, they would incur no interest or penalties.

The magnitude of local government revenue losses, both permissive and imposed, appears uncertain, and would depend on the extent of participation by counties and municipalities and on the specific terms of the individual programs.

County auditors may incur additional expenses to administer these programs.

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