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Office of Research and Drafting

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H.B. 726
134th General Assembly

Fiscal Note & Local Impact Statement

Click here for H.B. 726's Bill Analysis

Version: As Introduced

Primary Sponsor: Rep. Patton

Local Impact Statement Procedure Required: Yes

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Highlights

Fund	FY 2024	FY 2025	Future Years
School Districts and Local Governments in Cuyahoga County			
Revenues	Annual losses totaling single-digit millions of dollars		Growing losses ranging to double-digit millions of dollars per year

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.

- Revenue losses from a real property tax freeze on homes of lower income elderly owner-occupants in Cuyahoga County could total single-digit millions of dollars initially.
- Losses would cumulate in future years, and plausibly could rise to double-digit millions of dollars by the tax freeze's third year and thereafter.
- Loss amounts are uncertain, dependent on how much future taxes would rise under current law.
- Authorization of the tax freeze, if the bill is enacted, would be at the discretion of the county. School districts and local governments in Cuyahoga County would bear the revenue losses. No state reimbursement is provided by the bill.

Detailed Analysis

The bill would let a charter county with a population over one million grant a tax freeze to a low income homeowner age 60 or older. Only Cuyahoga County meets the bill's specified restrictions, as a county with both a charter adopted under Ohio Constitution Article X and the required population. A tax freeze, if offered by the county, would result in revenue losses. These losses would be permissive for the county but not for schools or other affected units of local government in the county. The bill's provisions do not provide for state GRF reimbursement of tax revenue losses.[1]

The tax freeze would reduce taxes owed by an amount equal to the excess of taxes that would otherwise be owed over taxes owed for the previous year taking account of any reduction from the tax freeze in that previous year. If taxes in the current year are less than in the previous year, the taxpayer would owe the lower amount, and this lower amount would in future years be the tax due on the property so long as the tax freeze remained in effect. Improvements to the property would not result in additional tax, nor would enactment of new levies. For taxes designed to raise fixed sums of money (bond and emergency levies), the lower taxes of the qualifying owner-occupants benefitting from the bill would be offset by higher property tax amounts owed by other taxpayers.

Applicants eligible for the tax freeze, if offered by the county, would be limited to owner-occupants of homes whose modified adjusted gross income (MAGI) is $50,000 or less.[2] If the owner-occupant is married, qualifying income would include the MAGI of the spouse. The tax freeze would apply to taxes owed after deduction of the 10% and 2.5% rollbacks and the homestead exemption if applicable.[3] Eligibility for the tax freeze would end if the homeowner no longer qualifies for it, sells the property, or dies. Upon the death of the homeowner, the tax freeze would end for the tax year in which the homeowner is deceased as of January 1, unless the property is transferred to the homeowner's surviving spouse who is at least age 59 when the homeowner dies.

The bill requires that applications for the tax freeze be filed with the county by December 31 of the tax year for which the reduction is sought. Real property taxes generally are

[1] The bill would allow the county to authorize a tax reduction on a homestead "owned and occupied" by a qualifying person. The term "homestead" in R.C. 323.151, cross referenced by the bill, is defined to include not only owner-occupied dwellings but also units in housing cooperatives that are occupied but not owned by their residents.

[2] MAGI is Ohio adjusted gross income plus any amount deducted as business income or as qualifying capital gains and deductible payroll from sale of a business. Ohio adjusted gross income is federal adjusted gross income plus or minus various adjustments required by the state.

[3] The 10% rollback is a reduction applicable to qualifying levies on all residential and agricultural real property. The 2.5% rollback is a reduction in taxes owed for qualifying levies on either a dwelling owned and occupied as a home or a unit in a housing cooperative occupied as a home. Qualifying levies are levies approved by voters prior to September 29, 2013, subsequent renewals of such levies, and certain other levies. The homestead exemption is a reduction in taxes on up to $25,000 market value of property for qualifying owner-occupants. Most qualify because they are age 65 or older and meet income or other requirements. Certain disabled veterans and surviving spouses of deceased first responders qualify for reduction of taxes on up to $50,000 market value of their homes. Tax revenue losses from the rollbacks and the homestead exemption are reimbursed from the state GRF.

paid in the first half of the calendar year following the tax year. Fiscal effects from the bill could be realized as soon as 2023 but appear more likely to start in 2024 or thereafter.

Fiscal effects of the bill

Fiscal effects of the bill would depend on how much the property taxes of eligible homeowners would go up in the bill's absence. These effects are examined in two parts. First, American Community Survey (ACS) data are used to estimate the portion of real property taxes in Cuyahoga County that are paid by persons qualifying for the bill's tax reduction.[4] Second, the change in taxes owed in recent years by Cuyahoga County homeowners who remained in their homes from one year to the next are estimated using published data by taxing district.

Low income Cuyahoga County homeowners age 60 and older

A query of ACS data for 2020 indicates that Cuyahoga County had 322,482 owner-occupied households in 2020. Of these, the survey respondent or that person's spouse, if a spouse was present, was age 60 or older in 162,333 households or 50% of the total. Out of this subset of households in the county, in 77,863 or 24% of the households, the owner's income, plus that of the spouse if present, totaled $50,000 or less in 2020.

Real property taxes paid by owner-occupied households tended to be lower for households of older persons in the county than for younger owners. Taxes paid are as reported by survey respondents, and are here assumed to be those paid after all reductions to which the owner was entitled. The lower property taxes of households of older persons may reflect tax reductions from the homestead exemption for some of these households, and possibly also differences in average valuations of the properties. Real property taxes paid by households of persons age 60 and older and with incomes of $50,000 or less, including income of a spouse if present, were shown in the 2020 survey as $169 million or 14% of total real property taxes paid by all Cuyahoga County homeowners, $1.18 billion.

Changes in Cuyahoga County homeowners' taxes in recent years

One indicator of the prospective change in real property taxes in future years is such changes in the recent past. The future will differ from the past, so such a history provides no more than an indication of the potential cost of the bill if it becomes law. Ideally such a review would be carried out for a sample of individual property records. What follows is instead based on published data, at the taxing district level.[5] As taxes on individual properties generally will vary within a taxing district, such an analysis is only an approximation to the sum of taxes owed on the individual properties.[6]

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[4] The ACS, conducted by the U.S. Bureau of the Census, annually gathers data on the incomes, taxes, housing, and other characteristics of survey respondents nationwide.

[5] A taxing district is a geographic area sufficiently limited that all properties within the area are subject to the same tax levies.

[6] As an example of such variation, if taxes under current law would rise on one residence in a taxing district and decline by an equal amount on another, and both qualified for the tax freeze, the bill would reduce taxes due on the former but would have no effect on taxes due on the latter. This revenue loss would not be evident in an analysis conducted using taxing district level data.

The bill pertains to residential properties taxed in consecutive years. Six years of records were reviewed, for 2016 through 2021, a period that included a tax reappraisal for Cuyahoga County in 2018 and an update in 2021. Residential valuation changes each year are approximated from tax records as the increment from reappraisal, update, or annual equalization. These changes are added to prior year value adjusted for buildings destroyed or demolished. Valuations are multiplied by Class I effective tax rates for each taxing district, and tax changes for each year from the prior year are calculated.[7]

For 2018 forward, the tax changes are multiplied by the owner-occupied share of total residential taxable property value in each year, as an adjustment to approximate the share of residential property taxes that are for owner-occupied property. The 2018 owner-occupied shares by taxing district are applied to the 2016 and 2017 data, for which owner-occupied share information is not included in the published data. For all years, tax changes are multiplied by 87.5%, as an adjustment for the 10% and 2.5% rollbacks.

These taxing district increases and decreases in taxes on owner-occupied property are used to approximate cumulative tax revenue losses year by year. In this calculation, a tax increase for any given year is added to the cumulative revenue loss, if any, for the previous year. A tax decrease is subtracted from any cumulative revenue loss as of the previous year, except that the cumulative loss for the year is not reduced below zero.

A further adjustment is made at the county-wide level for changes from year to year in taxes owed by homeowners due to the homestead exemption. Such changes can arise, for example, from higher or lower tax rates. Data on actual amounts of tax reductions from the homestead exemption are published at the county level.

Implied fiscal effects

Because of the cumulative nature of the fiscal effects, revenue losses to Cuyahoga County school districts and local governments would tend to grow with the passage of years. For the six years from 2016 through 2021, estimated revenue losses if the bill had been in effect grow each year, from $2.8 million initially, to $11.6 million in the bill's third year, and to $28.9 million in the sixth year. More generally, revenue losses if the bill's tax reductions are authorized by the county appear likely to total single-digit millions of dollars in the early years following adoption and to grow to double-digit millions of dollars thereafter.

Affected jurisdictions

Cuyahoga County levied taxes in tax year 2021 at an effective rate for residential property of about 12.26 mills. The county government, but not other jurisdictions within the county, would have the authority to permit qualifying homeowners to reduce their property taxes under the bill if enacted. Total Class I effective tax rates in Cuyahoga County's 81 taxing districts ranged from about 53 mills to 123 mills. Thus the county's share of real property taxes was 10% to 23% depending on jurisdiction. The bill would be permissive for the county but not for other jurisdictions, which accounted for 77% to 90% of property taxes in the various taxing districts in that year.

HB0726IN/th

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[7] Class I effective tax rates are those applicable to residential and agricultural real property.