Ohio Legislative Service Commission

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Fiscal Note & Local Impact Statement

Bill: H.B. 418 of the 131st G.A.

Date: April 26, 2016

Status: As Introduced

Sponsor: Rep. Barnes

Local Impact Statement Procedure Required: Yes

Contents: Prohibits sale of delinquent property tax certificates for parcels owned and occupied as homesteads for at least 20 years by persons aged 65 or older

State Fiscal Highlights

- No direct fiscal effect on the state.

Local Fiscal Highlights

- Prohibiting the sale of tax certificates for homesteads owned for at least 20 years by persons age 65 or older may exclude up to $190 million per year of delinquent taxes from inclusion in such certificate sales, but this estimate is very rough.
- Counties could still seek to recover unpaid taxes directly from the property owner or through foreclosure.
- Most properties on which taxes are delinquent appear not to be the subject of tax certificate sales.

Detailed Fiscal Analysis

The bill would prohibit the sale of delinquent property tax certificates for homesteads owned for at least 20 years by a person age 65 or older.

Such certificates are sold to private buyers as a way for units of local government to recover unpaid property taxes, accelerating receipt of the unpaid taxes by units of local government and transferring to the private buyer the risk that the full amount of taxes owed may not be recovered in subsequent payments from property owners or in foreclosure. The certificates are sold for the amount of delinquent taxes owed plus a fee charged by the county treasurer to cover the treasurer's reasonable costs of administering the tax certificate sale. As an inducement to buyers of the tax certificates, the buyers earn at least 6% on money invested in the certificates, and may receive interest at a rate of up to 18% per year.

Most parcels in a county on which property taxes are delinquent are subject to selection by the county treasurer to be included in a sale of tax certificates. The bill would exempt parcels that meet all of the following criteria; (1) the parcels are owned and occupied as a homestead; (2) the owner-occupant is a person age 65 or older; (3) the owner-occupant has owned the property for at least 20 of the preceding years. These attributes are evaluated in what follows. Estimation of delinquent taxes on properties that have these characteristics is only a measure of the potential reduction in sales of tax certificates, as most properties on which taxes are delinquent appear not to become subject to tax certificate sales. Property owners delinquent in payment of taxes receive multiple bills and notices from county treasurers about the delinquent taxes, and some taxes delinquent for a period of time are paid by the owners before additional steps are taken.

An estimated $10.8 billion of taxes were owed on residential real property for 2014. Most of this amount (an estimated 91%) is on owner-occupied property. The amount does not include taxes on buildings with four or more rental units, which are classified as commercial rather than residential real property for Ohio property tax purposes. Based on the foregoing figures, real property taxes on owner-occupied residences may total roughly $10 billion per year.

In 2014, 30% of Ohio homeowners were age 65 and older. They accounted for a smaller share of property taxes paid than of occupied units (paying on average 22% lower taxes on each residence in 2011 than homeowners under age 65). With the growing population of persons age 65 and older, this group's share of taxes paid on owner-occupied real property is estimated to have increased to 25% in 2014. Based on this estimate, real property taxes on residences occupied by owners age 65 and older may total roughly $2.5 billion per year.

The share of these taxes owed by persons who have owned their homes for 20 or more years appears to be sizable. U.S. Census Bureau figures indicate that in 2014 about 65% of Ohio home owners age 65 or older had moved into their homes 20 years earlier or more. Some may have moved in and subsequently become owners, but most are assumed here to have owned the property when they moved in. Real property taxes on owner-occupied residences of this age group might aggregate roughly $1.6 billion per year.

Delinquent real property and public utility tangible personal property taxes totaled about $1.65 billion for tax year 2014, according to a Department of Taxation report dated June 30, 2015. This amount includes delinquencies on all types of real property, not just residential property. Net taxes charged on all real and public utility property were $16.5 billion, implying a delinquency rate of 10%. Total delinquent special assessments were about an additional $0.32 billion, about 2% of net taxes charged. These are aggregate delinquency rates, and the rates for the subset of properties that are the subject of the bill could be considerably lower or higher.

If delinquency rates on taxes owed average 10% on the roughly $1.6 billion per year of real property taxes estimated to be owed on owner-occupied residences by persons age 65 or older who have lived in these homes for 20 or more years, then roughly $160 million per year of delinquent taxes that could be recouped by the sale of tax certificates would be placed off-limits by the bill. If delinquency rates on special assessments owed average 2%, then roughly an additional $30 million per year of delinquent special assessments could not be recovered by sale of tax certificates.

In view of the estimation process described above, these estimates should be viewed as very rough. Because many properties on which taxes are delinquent do not become the subject of tax certificate sales, the amount should be viewed as approximating an upper limit to the reduction in sales of these certificates.

Local taxing authorities could still seek to recover the estimated roughly $190 million per year of delinquent taxes that could no longer be recouped through tax certificate sales, either by payments from owners or through foreclosure. Recovery of these revenues would be delayed, additional costs would be incurred, and some portion of the amounts at issue would likely not be recovered. The net cost of the bill would be some amount less than the total excluded from tax certificate sales.

Delinquent property taxes are predominantly a problem of big cities. In 2014, Cuyahoga County accounted for more than one-third of statewide delinquent taxes and assessments. Seven highly urban counties – Cuyahoga, Franklin, Hamilton, Lucas, Montgomery, Summit, and Trumbull – accounted for more than two-thirds. On the other hand, delinquencies were under $5 million in over half of the state's counties.

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