Fiscal Note & Local Impact Statement

127 th General Assembly of Ohio

Ohio Legislative Service Commission
77 South High Street, 9th Floor, Columbus, OH 43215-6136 ✧ Phone: (614) 466-3615
✧ *Internet Web Site:* http://www.lsc.state.oh.us/

BILL: **Sub. S.B. 306** DATE: **December 10, 2008**

STATUS: **In House Ways & Means** SPONSOR: **Sen. Schuler**

LOCAL IMPACT STATEMENT REQUIRED: **Yes**

CONTENTS: **Extends the homestead exemption to units in housing cooperatives with fewer than 250 units, and extends eligibility for county property tax payment linked deposit program assistance to residents of these buildings, allows certain boards of county commissioners to increase lodging taxes**

State Fiscal Highlights

STATE FUND	FY 2009	FY 2010	FUTURE YEARS
General Revenue Fund			
Revenues	- 0 -	- 0 -	- 0 -
Expenditures	- 0 -	Increase of approximately $1 million	Increase of approximately $2 million
Other State Funds			
Revenues	- 0 -	- 0 -	- 0 -
Expenditures	- 0 -	- 0 -	- 0 -

Note: The state fiscal year is July 1 through June 30. For example, FY 2009 is July 1, 2008 – June 30, 2009.

- The state GRF could incur additional costs to reimburse local governments for revenues forgone as a result of making cooperative housing in complexes with fewer than 250 units eligible for the homestead exemption and the 2.5% rollback. Costs could range around $1 million per year but a paucity of data on numbers of cooperative housing units and valuations imply that the cost estimates are approximate.

- The state could also incur added costs to reimburse local governments for revenues forgone as a result of expanding the definition of the owner of a homestead to include the settlor of an irrevocable *inter vivos* trust. The cost of this change might range around $1 million per year but is very uncertain.

Local Fiscal Highlights

- Real property tax revenue to school districts and other units of local government could be reduced by expansion of eligibility for the homestead exemption and the 2.5% rollback under the bill, but this loss would be offset by increased reimbursements from the state.

- Under current law, counties, at the option of county commissioners, may forgo investment earnings on deposits to fund below-market loans from depository institutions to elderly or disabled homeowners to pay property taxes on their homesteads. By adding residents of cooperative housing in complexes with fewer

than 250 units to those eligible for this assistance, the bill could increase the number of homeowners qualifying for such help. Any fiscal effects of this change are likely to be small.

- The bill allows boards of county commissioners, under certain conditions, to increase existing lodging taxes by an additional 4% on each transaction. This provision may increase revenues from the tax for counties that choose to increase the lodging tax rate.

Detailed Fiscal Analysis

Senate Bill 306

By making residents of cooperative housing complexes with fewer than 250 units eligible for the homestead exemption and the 2.5% rollback, the bill could increase the amount of taxes forgone by local governments, which are reimbursed by the state. The annual cost could range around $1 million but is fairly uncertain. By adding to those eligible for the homestead exemption, 2.5% rollback, linked deposit program, and manufactured home tax a settlor of an irrevocable *inter vivos* trust holding title to the homestead occupied by the settlor, the bill could further raise the amount of taxes forgone by local governments and reimbursed by the state. The cost of this provision is also estimated at $1 million per year but is highly uncertain. Other provisions of the bill appear to have little fiscal impact.

S.B. 306 changes the definition of a homestead, for purposes of the homestead exemption, the 2.5% real property tax rollback, and the county property tax payment linked deposit program, to include a housing cooperative with two or more units. Currently a unit in a housing cooperative may be included in these tax reduction programs only if the cooperative has 250 or more units. In addition, the bill adds as an owner of a homestead, for purposes of the homestead exemption, 2.5% rollback, the linked deposit program, and the manufactured home tax, a settlor of an irrevocable *inter vivos* trust holding title to the homestead occupied by the settlor. Under current law, a settlor of a revocable, but not an irrevocable, *inter vivos* trust is included as an owner of a homestead for these purposes if that trust holds title to the homestead occupied by the settlor. The bill eliminates a requirement in current law to report changes in or revocation of a revocable *inter vivos* trust. Under current law, unaltered by the bill, the state reimburses local governments for real property taxes forgone as a result of the homestead exemption and the 2.5% rollback.

Linked deposit programs are at the discretion of county commissioners, and have no direct fiscal effect on the state or on units of local government other than counties. Counties may elect to forgo a portion of investment earnings on deposits to fund below-market loans from depository institutions to elderly or disabled homeowners to pay property taxes on their homesteads.

Numbers of cooperative housing units and of homes held by trusts

Data are scanty on which to base an analysis of the cost of expanding the homestead exemption by reducing the number of units in a housing cooperative needed to qualify from 250

or more to 2 or more. Department of Taxation data do not break out this information. Census Bureau data, from infrequent surveys of housing characteristics in metropolitan areas, show that the Cleveland metropolitan area, for 2004, had 1,000 housing units in housing cooperatives. The metropolitan area data are rounded to the nearest 100 units. The Columbus metropolitan area had 2,000 cooperative housing units in 2002. The Cincinnati metropolitan area had 300 cooperative housing units in 1998. No data are published in this series for the entire state of Ohio or for other metropolitan areas in the state.

An Internet search identified three housing cooperatives in Ohio, two in Cincinnati with a total of 514 units and one in Dayton with 100 units. There is, in addition, a housing cooperative in Cleveland and one in Columbus. Other housing cooperatives may operate in the state but not appear on the Internet or as members of trade groups.

If the units in housing cooperatives identified in the Census Bureau surveys are assumed still to be in use as co-op housing units, then the number of co-op housing units in the state would be at least 3,614, consisting of 1,000 in Cleveland and 2,000 in Columbus, plus the 514 units identified on the Internet in Cincinnati and 100 in Dayton. This number is rough as it is based on outdated information. The Census Bureau surveys covered areas with about 44% of the state's population, and if they are indicative of the number of co-op housing units elsewhere in the state, proportional to population, then the total number of such units statewide could be roughly double the above figure. Alternatively, co-op housing could be mainly concentrated in large urban areas, and the smaller figure may be closer to the actual total. Some residents of co-op units in at least one of the buildings in the state providing co-op housing are thought currently to be eligible for the homestead exemption, because the number of units in the cooperative, at 600, exceeds the 250-unit requirement of current law and the residents are otherwise qualified.

Data on numbers of homes held by trusts are also very limited. In a small sample, about 5% of applications for the homestead exemption were on behalf of *inter vivos* trusts which would hold the residences of the settlors of those trusts. Of these, fewer than 5% of the trusts, or about 0.2% of all the applicants, were for the homes of settlors of irrevocable *inter vivos* trusts. Because of the small sample size, these percentages may not be representative of the state.

Cost of the bill

If all 3,614 co-op units identified above were occupied by the elderly and disabled, less the 600 units thought already to meet the 250-unit minimum for the benefit under current law, the cost of the expansion of the homestead exemption, at perhaps $400 or more per unit on average statewide, could be in excess of $1 million. If there are substantially more co-op housing units statewide, the cost could be higher. More plausibly, only some of the units are occupied by persons eligible for the expanded homestead exemption. Statewide, about 25% of owner-occupied housing units, of all types, belong to persons age 65 and older.

However, the redefinition in the bill of a homestead, adding cooperative housing in a housing complex with 2 to 249 units, applies to R.C. 323.151 to 323.159, which covers not only the homestead exemption for those age 65 and older and the disabled, but also the 2.5% rollback for all owner-occupied homes. Most or all of the additional units included in the broadened definition of homestead are likely occupied by persons qualifying for the 2.5% rollback, the cost of which would depend on the values and gross taxes levied on the cooperative housing

complexes. This annual cost would equal 35% of market value, times the effective tax rate, times 2.5%. The annual cost of this change might be $200,000 to $600,000. Adding these cost ranges together, the total cost of this change might be around $1 million, more or less, but the numbers are very rough.

The cost of extending eligibility for the homestead exemption, 2.5% rollback, and linked deposit programs to a settlor of an irrevocable *inter vivos* trust holding title to the homestead occupied by the settlor is uncertain. Based on the limited data cited above, the cost might range around $1 million per year, but this is also a very rough number.

The bill does not specify when these changes would go into effect. Assuming that the changes would be implemented for tax year 2009, payable in 2010, the costs to the state GRF to reimburse local governments for revenues forgone would begin in the second half of FY 2010, with the full annual cost paid from the GRF in FY 2011.

Lodging tax

The bill allows a board of county commissioners of a county with a population greater than 400,000 that levies a lodging tax at a rate of 3% for an arena or convention center, that levies no other excise tax under section 307.695 of the Revised Code to increase the rate of the tax by up to 4% by resolution adopted by a majority of the members of the board. Revenue from the additional tax may be used for financing or leasing a project as defined in section 307.695 of the Revised Code, including paying debt charges. It appears this provision may apply only to Montgomery County. Any increase in the lodging tax rate will increase revenues by an undetermined amount.

LSC fiscal staff: Phil Cummins, Economist

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