Ohio Legislative Service Commission

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Fiscal Note & Local Impact Statement

Bill: H.B. 286 of the 128th G.A. **Date**: November 4, 2009

Status: As Introduced **Sponsor**: Rep. Fende

Local Impact Statement Procedure Required: Yes

Contents: Creates a five-year exemption from real property taxes for improvements valued at more than $5,000 assessed value

State Fiscal Highlights

STATE FUND	FY 2010	FY 2011	FUTURE YEARS
General Revenue Fund			
Revenues	- 0 -	- 0 -	- 0 -
Expenditures	- 0 -	Possible increase	Possible increase
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 2010 is July 1, 2009 – June 30, 2010.

- The real property tax exemption in the bill could increase state payments of adequacy amounts to school districts.

Local Fiscal Highlights

LOCAL GOVERNMENT	FY 2010	FY 2011	FUTURE YEARS
Counties			
Revenues	- 0 -	Possible loss	Possible loss
Expenditures	- 0 -	Possible increase	Possible increase
School Districts			
Revenues	- 0 -	Possible loss	Possible loss
Expenditures	- 0 -	- 0 -	- 0 -
Other Local Governments			
Revenues	- 0 -	Possible loss	Possible loss
Expenditures	- 0 -	- 0 -	- 0 -

Note: For most local governments, the fiscal year is the calendar year. The school districti fiscal year is July 1 through June 30.

- The real property tax exemptions would decrease revenues of units of local government.

- Revenue losses for school districts would be partly offset by increased state aid.
- Recordkeeping costs for counties would increase.

Detailed Fiscal Analysis

H.B. 286 would create a five-year exemption from real property taxes for an improvement valued at more than $5,000 assessed value to a one- to three-family dwelling. At Ohio's 35% assessment rate, this is equivalent to an improvement valued at about $14,286 or more in market value. This would reduce the tax base and tax revenues for local governments. In addition, by reducing taxable property value in school districts, the bill would increase the amount of state funding under the new funding formula adopted in the budget.

The bill references an increase in value of a dwelling caused by an improvement. This wording appears to exclude new construction and to make the tax deferral applicable only to improvements to existing structures. The phrase "an improvement" is not defined in the bill, which may raise questions of interpretation regarding whether repairs are eligible, or whether a single improvement must be worth $14,286 or more in market value to qualify for the deferral, as contrasted with a series of smaller improvements with valuations totaling this amount. The bill also does not address how the determination is to be made of what constitutes an improvement.

The U.S. Bureau of Economic Analysis (BEA) publishes estimates of the value of the housing stock and investment in housing. These estimates are for the nation, not for Ohio. They are divided into valuation and investment in one- to four-family units and other investments, so are biased upward as indicators for one- to three-family dwellings in Ohio. The BEA figures show that additions and alterations accounted for 30% of the value of investment in one- to four-family private residential structures in 2008 nationwide. The percentage is higher for tenant-occupied units and somewhat lower, 28%, for owner-occupied units. The percentage would presumably be lower also if limited to those additions and alterations valued at $14,286 or more. The BEA figures provide no information useful in addressing this limitation.

Total investment nationwide in additions and alterations to one to four-family private residential structures in 2008 is estimated by BEA at $122 billion. If 3% to 4% of this investment is in Ohio, if 90% of investment in one- to four-family structures is in those accommodating one- to three-families, and if limiting qualifying investments to those valued at $14,286 or more cuts the share qualifying by 25% to 50%, the value of Ohio improvements qualifying for the tax benefit in the bill could total $2 billion to $3 billion per year at market value. These obviously are very rough numbers. The estimated range of $2 billion to $3 billion compares with taxable value of all Ohio real property in 2008 of $241 billion, equivalent at the 35% assessment rate to $689 billion in market value. So, the roughly $2 billion to $3 billion reduction in valuation amounts to

0.3% to 0.4% of real property value in the state. Under the bill, this reduction would persist for five years, while presumably additional additions and alterations would qualify real property owners for the tax benefits of the bill, implying a reduction in real property values of 1.5% to 2.2% once the effects are fully phased in.

These reductions in real property values would imply commensurate reductions in tax revenues to most units of local government. There is no provision in the bill for state reimbursement of local government revenue losses, as there is with the 10% and 2.5% rollbacks and homestead exemption. For school districts, however, part of the loss of revenue resulting from lower real property values would be offset by increased state aid, under the formula for calculation of local and state shares of the adequacy amounts adopted with the budget.

In addition, recordkeeping costs for county governments would increase to track the value of improvements qualifying for the tax exemption and ensure that they are excluded from valuations for five years and included thereafter.

If the bill is passed and signed into law in early 2010, it could affect real property taxes for tax year 2010, payable in 2011.

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