Ohio Legislative Service Commission

Russ Keller

Fiscal Note & Local Impact Statement

Bill: Sub. S.B. 90 of the 128th G.A.

Date: April 23, 2010

Status: As Reported by Senate Ways & Means & Economic Development

Sponsor: Sens. Kearney and Seitz

Local Impact Statement Procedure Required: Yes

Contents: Authorizes local governments to exempt homes that have been vacant for at least 12 months from property taxation for up to three years when purchased by an owner-occupant; requires service payments in lieu of taxes; authorizes the remission of previously unpaid taxes on such homes

State Fiscal Highlights

STATE FUND	FY 2011	FY 2012	FUTURE YEARS
General Revenue Fund			
Revenues	- 0 -	- 0 -	- 0 -
Expenditures	Potential decrease	Potential decrease	Potential decrease
Property Tax Administration (5V80)			
Revenues	Potential loss	Potential loss	Potential loss
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.

- Exempting homes from property taxation for up to three years may reduce GRF expenditures for the 10% and 2.5% rollbacks as well as the Homestead exemption.
- A reduction in GRF tax relief expenditures reduces revenues to the Property Tax Administration Fund, which receives a fixed percentage of the total GRF tax relief expenditures in order to administer several property-related taxes.

Local Fiscal Highlights

LOCAL GOVERNMENT	FY 2010	FY 2011	FUTURE YEARS
Counties and Local Governments			
Revenues	Potential loss	Potential loss	Potential loss
Expenditures	- 0 -	- 0 -	- 0 -
School Districts			
Revenues	Potential loss	Potential loss	Potential loss
Expenditures	- 0 -	- 0 -	- 0 -

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

- Exempting homes from property taxation for up to three years would reduce revenues to the authorizing townships and municipal corporations, but such a revenue loss would be permissive. It would also reduce revenues to local governments and counties that did not authorize the exemption, but the bill includes a mechanism that effectively allows a county to veto an exemption in the absence of a mutually agreed amount of compensation.
- The bill requires property owners to pay school districts a sum equal to the amount of property taxes that the school district would otherwise receive from the property owner if not for the exemption.
- Owners of exempted property must also make a payment to the county government for an amount equal to 25% of the taxes levied for community developmental disabilities programs and services provided by county boards of developmental disabilities.
- County boards of developmental disabilities and school districts would receive a payment in lieu of taxes, but that payment does not fully compensate the taxing authority for the loss incurred by the absence of GRF tax relief expenditures on account of the 10% rollback, 2.5% rollback, and the Homestead exemption, which are disbursed to school districts only on behalf of taxes paid (i.e., not for payments in lieu of taxes).
- The provision that requires the Tax Commissioner to remit any previously unpaid or delinquent taxes, and any penalties and interest, under the specified conditions, may reduce revenues to local governments.

Detailed Fiscal Analysis

The bill authorizes townships and municipal corporations to exempt vacant homes from property taxation for up to three years upon their purchase by persons who will occupy them. The bill requires property owners to pay school districts a sum equal to the amount of property taxes that the school district would otherwise receive if not for the exemption. Owners of exempted property must also make a payment to the county government for an amount equal to 25% of the taxes levied for community developmental disabilities programs and services provided by county boards of developmental disabilities.

To be considered "vacant," a home must have been unoccupied for at least the 12 months preceding the sale. The exemption applies only to single-family homes or condominiums, and it is limited to no more than one acre of land surrounding the home. A home must be purchased on or after the effective date of the resolution or ordinance granting exemption, for not more than $150,000, and by an individual domiciled in Ohio who occupies the home within 60 days after taking possession. For the purpose of the exemption, "purchase" includes a purchase under a land installment contract (a contract whereby the purchase price is paid in installments and title is retained by the seller as security and, typically, the purchaser has a right of tenancy during the term of the contract).

A board of township trustees or legislative authority of a municipal corporation that authorizes the exemption must request the Tax Commissioner to remit real property taxes charged against properties entitled to exemption, and must certify a resolution granting the exemption to the county auditor. The Tax Commissioner is required to remit any previously unpaid or delinquent taxes, and any penalties and interest upon such request.

Fiscal effect

The cost of this proposal is dependent on the number of properties exempted from taxation. The number of properties exempted depends on decisions made by boards of township trustees and city councils across Ohio. There would be a fiscal effect on school districts, but effects on townships and municipalities would be permissive. There could be a decline in property tax revenue to counties over which they would have limited control.

According to 2007 data from the American Community Survey (ACS), the median market value of an owner-occupied home in Ohio is approximately $137,800. The Revised Code requires that taxes be assessed on 35% of the market value, which means the median taxable value of an owner-occupied home in Ohio is $48,230. Data from the Department of Taxation tells us that the average effective tax rate on residential real property in tax year (TY) 2006 was 52.7 mills. As such, the estimated tax liability for the median Ohio home is approximately $2,542. A portion of the tax liability for an owner-occupied home is paid by the state in the form of the 10% and 2.5% rollbacks. The Homestead exemption also reduces tax liabilities, but its effect is excluded from this analysis because it only applies to less than one quarter of the total value of Ohio's owner-occupied homes. If we assume the median household qualifies for both rollbacks but does not qualify for the Homestead exemption, the taxes payable by the property-owner are approximately $2,224 (*multiply $2,542 liability by 87.5%*), and the remaining taxes are paid by the state.

Although school district property taxes are exempted by this bill, the school districts will collect the same amount of revenue from property owners albeit in the form of a service payment rather than a tax collection. Also, taxes paid to county developmental disabilities boards will be exempted by this bill, but homeowners must pay one quarter of the tax liability in the form of service payments to the taxing authority. Thus, the savings resulting from the tax exemption are partially offset by the service payments in lieu of taxes. Generally, school districts represent about 65% of property tax collections, and county developmental disability tax rates represent about 5% to 10% of a homeowner's total tax bill. In practice, this bill reduces the property owner's liability by approximately 32% to 34% because the payments in lieu of taxes will be 66% to 68% of the tax liability. The exact percentage will vary depending on the levels of taxation by school districts and county developmental disabilities boards.

For example, a property tax exemption for the median Ohio home would reduce local government revenues in two ways. First, the exemption from property taxes negates the state expenditures on behalf of the rollbacks and Homestead exemption. Thus, local taxing authorities would lose $318 (*multiply the median tax liability of $2,542 by 12.5%*) in state GRF reimbursements and another $711 to $756 (*multiply $2,542 by 87.5% to determine the homeowner's share of tax liability and then multiply by 32% to 34% to account for the portion of the owner's tax liability that is not offset by service payments in lieu of taxes*) represents savings captured by the owner occupying the property. In total, the local taxing authorities would lose $1,029 to $1,074 as a result of the exemption authorized by this bill assuming a home with a value equal to the statewide median is granted the exemption.

If one assumes that homes vacant for at least 12 months are valued less than the median Ohio home, the ACS provides a figure for the lower quartile of Ohio home values. With a market value of $93,900, the resulting taxable value is $32,865, and an effective tax rate of 52.7 mills yields an annual liability of $1,732. Given this tax liability, local governments and school districts would forego approximately $701 to $731 in total revenue from both the property owner and GRF reimbursements if an exemption were granted to a home fitting this profile.

A lack of explicitly defined data prevents LSC economists from estimating the number of homes that fit the bill's definition of "vacant." National data from the 2007 American Housing Survey, which is published through a collaborative effort by the U.S. Department of Housing and Urban Development and the U.S. Census Bureau, indicate that approximately 21% of vacant homes are vacant for a year or more. The most recent data from the 2007 American Community Survey suggest that 559,259 of Ohio's 5,065,254 housing units are vacant. If one applies the 21% rate to this vacancy figure, then approximately 117,444 homes in Ohio have been vacant for 12 months or longer.

The reduction in property taxes reduces GRF expenditures on behalf of the 10% rollbacks, which in turn decreases revenues to the Property Tax Administration Fund because the administrative fund's revenue is equal to a fixed percentage of the total GRF tax relief expenditures.

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