Ohio Legislative Service Commission

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Fiscal Note & Local Impact Statement

Bill: S.B. 109 of the 128th G.A.

Date: June 10, 2009

Status: As Introduced

Sponsor: Sen. Gibbs

Local Impact Statement Procedure Required: Yes

Contents: Exempts from property taxation the increase in the assessed value of land that is developed for residential single-family dwellings while owned by or in the possession of a developer

State Fiscal Highlights

STATE FUND	FY 2010	FY 2011	FUTURE YEARS
General Revenue Fund			
Revenues	- 0 -	- 0 -	- 0 -
Expenditures	Decrease	Decrease	Decrease
Property Tax Administration (5V80)			
Revenues	Loss	Loss	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 the increase in the assessed value of "qualified residential property" owned by a developer may reduce GRF expenditures for the 10% rollback.
- 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			
Revenues	Loss, potentially in the tens of millions	Loss, potentially in the tens of millions	Loss, potentially in the tens of millions
Expenditures	- 0 -	- 0 -	- 0 -
Other Local Governments			
Revenues	Loss, potentially in the tens of millions	Loss, potentially in the tens of millions	Loss, potentially in the tens of millions
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 the increase in the assessed value of "qualified residential property" owned by a developer may reduce revenues to counties, local governments, and school districts.

Detailed Fiscal Analysis

The bill exempts from property taxation the increase in the assessed value of "qualified residential property" owned by a developer until the developer transfers possession or title to another developer or person. Qualified residential property includes land where one or more single-family homes have been or will be built, and includes wholly or partly constructed dwellings and appurtenant improvements to the land.

The exemption begins with the first year following the year in which the developer acquires possession or title to the property, and ends with the year in which the developer transfers possession or title to the property, including through lease or installment contract. No exemption may begin before the year after the bill takes effect, and any exemption is for the increase in assessed value of property from the year the bill takes effect, even if a developer acquired qualified property before that year.

Fiscal effect

The cost of this proposal is dependent on the number of properties exempted from taxation. 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 was $48,230 that year. 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 a residential home is paid by the state in the form of the 10% rollback. The 2.5% rollback and homestead exemption also reduce tax liabilities, but their effects are excluded from this analysis because developers would not qualify for either.

Therefore, a property tax exemption for the increase in the assessed value of "qualified residential property" with a value equal to the median Ohio home would reduce school district and local government revenues by an amount that will vary across taxing jurisdictions. However, if one assumes that the property tax increase attributable to a higher assessment will be 5%, a property owner with a $2,542 annual liability will be charged $2,542 instead of $2,669 because of the exemption. The difference, $127, represents a revenue loss to counties, local governments, and school districts. Approximately $114, or 90% of $127, is the amount of savings to the property owner, whereas the remaining 10%, or $13, will be captured by the state GRF in the form of reduced expenditures on behalf of the 10% rollback.

If one assumes that homes likely to be affected by this bill are valued higher than the median Ohio home, the ACS provides a figure for the upper quartile of Ohio home values. With a market value of $199,000, the resulting taxable value is $69,650, and an effective tax rate of 52.7 mills yields an annual liability of $3,671. A 5% increase in property taxes attributed to an assessment increase would otherwise yield a $3,855 tax liability, which means the exemption creates a $184 revenue loss to be shared by counties, local governments, and school districts. Approximately $166 of this sum will be savings realized by the developer while the remaining $18 represents a reduction in GRF expenditures.

The example of a 5% annual increase is provided solely for illustrative purposes. Increases in property tax liabilities will vary by taxing jurisdiction because of real estate markets and the impact of tax reduction factors will vary across Ohio. In fact, if a developer owns land without a home, but subsequently begins building one, the annual increase in property taxes attributable to the higher assessment will likely be much more than 5% because the value of the new construction will be reflected in the county auditor's new assessment.

A lack of reliable data prevents LSC economists from estimating the number of homes that fit the bill's definition of "qualified residential property." If one assumes that the exemption will be utilized primarily by developers for a home that is newly built or recently built, then the universe of potential properties is rather limited. According to data from Moody's, an economic forecasting firm, data, Ohio housing starts have declined sharply since 2005 from 48,241 units to only 17,572 units in 2008. Moody's forecasts that housing starts will remain below 18,000 units for each of the next two fiscal years.

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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