



Ohio Legislative Service Commission

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Fiscal Note & Local Impact Statement

Bill: H.B. 193 of the 129th G.A.

Date: May 31, 2011

Status: As Introduced

Sponsor: Rep. Uecker

Local Impact Statement Procedure Required: Yes

Contents: Eliminates the rental income limit for veterans' organization property tax exemption

State Fiscal Highlights

STATE FUND	FY 2012	FY 2013	FUTURE YEARS
General Revenue Fund			
Revenues	- 0 -	- 0 -	- 0 -
Expenditures	- 0 -	- 0 -	Possible increase in state funding to school districts

Note: The state fiscal year is July 1 through June 30. For example, FY 2010 is July 1, 2009 – June 30, 2010.

- Loss of revenue to school districts resulting from tax exemption for real property of veterans' organizations may increase state expenditures for education aid. However, most districts currently would not benefit.

Local Fiscal Highlights

LOCAL GOVERNMENT	FY 2011	FY 2012	FUTURE YEARS
School Districts			
Revenues	- 0 -	- 0 -	Loss of tax revenue estimated at \$2.1 million per year, partly offset by increase in state education aid to some districts
Expenditures	- 0 -	- 0 -	- 0 -
Other Local Governments			
Revenues	- 0 -	- 0 -	Loss of tax revenue estimated at \$1.2 million per year
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.

- Tax exemption for real property of veterans' organizations would result in loss of tax revenue statewide estimated at \$3.3 million. This estimate is based on a sample and is subject to considerable uncertainty.

- Revenue losses to school districts estimated at \$2.1 million per year would not, for most districts, be partly offset by increased state education aid, under the current school funding formula. Future funding is uncertain.
- Other units of local government would lose an estimated \$1.2 million in tax revenue annually.

Detailed Fiscal Analysis

Summary. Veterans' organizations in Ohio pay real property taxes estimated at \$3.3 million. The estimate is based on a sample and could be in error, perhaps substantially. Under current law, those with real property held for the production of income that generates more than a limited amount of income (\$9,750 in 2011) are required to pay real property taxes. The bill would exempt all real property of veterans' organizations from taxation, resulting in the loss to units of local government of most of this revenue. School districts might lose most of \$2.1 million in tax revenue and other units of local government might lose \$1.2 million. Under the current school funding formula, most districts would not receive an increase in state education aid as a result of the decrease in taxable property valuation. Some portion of the tax revenue is from fixed-sum levies and would be paid by other taxpayers, but most property taxes are fixed-rate levies.

Estimating real property taxes of veterans' organizations in Ohio. The bill would amend section 5709.17 of the Revised Code, which provides for the exemption from real property taxes for qualifying veterans' organizations. That section references sections 501(c)(19) and 501(c)(23) of the Internal Revenue Code. The U.S. Internal Revenue Service (IRS) makes available on its web site summary information on charitable organizations from the tax forms filed by them, organized by section numbers. On February 7, 2011, data downloaded from the IRS web site for Ohio included 1,983 listings for 501(c)(19) veterans' organizations, and no listings for 501(c)(23) organizations in the state. The majority of the records showed no income or assets for the listed organizations. Income greater than zero was reported in 770 records.

A stratified random sample of the 770 records showing income greater than zero was drawn, including the ten organizations with the largest income and 5% or 38 of the remaining 760 organizations. The real property tax obligations of these 48 organizations were then researched on county auditors' web sites. Only annual taxes were included; any special assessments or delinquent taxes were excluded. In some cases, such as for duplicate records or for organizations which listed no street addresses, initially chosen data records were replaced with other randomly selected records. Some of the addresses were for residential property or for property not owned by the veterans' organization. These were left in the sample but counted as having no effect on the dollar amount of the fiscal impact of any tax law change. The bill exempts from taxation property "held or occupied" by a veterans' organization. To the extent that taxes on property used but not owned by such organizations are a significant share of the statewide total, not including them in the sample may understate the cost.

Tax revenues to school districts and other units of local government. Based on this sample, veterans' halls statewide appear to pay about \$3.3 million per year in real property taxes. Because this estimate is based on a sample, it could be in error, perhaps substantially, either too low or too high. A portion of this tax revenue is very probably from levies specified to raise fixed amounts of money each year. For these levies, the reduction in taxes owed by the veterans' organizations would be offset by increased taxes owed by other property owners. However, most levies in Ohio are not fixed-sum levies, and school districts and other units of local government would likely incur revenue losses amounting to most of the estimated \$3.3 million per year if the bill becomes law. Based on statewide averages, revenue losses of school districts would be about 65% of this amount or an estimated \$2.1 million, and revenue losses of other local governments would be 35% or an estimated \$1.2 million.

If the provisions of the bill become effective during 2011, LSC assumes that the currently taxable veterans' organization properties would become tax exempt in tax year 2012, resulting in revenue losses starting in the first half of calendar year 2013.

School funding. Historically, the school funding formula has included a local share component based on each school district's taxable property valuation. A decrease in that valuation, as occurs under the bill, leads to a decrease in the local share and corresponding increase in the state share. However, under the current school funding formula, this mechanism is not operable for most districts. Furthermore, under the House passed version of the main operating appropriations bill of the 129th General Assembly, no districts will receive increases in state aid in FY 2012 or FY 2013. Funding in FY 2014 is uncertain.

In the past, changes in state funding to schools in response to changes in property values occurred with a two-year lag. Based on this pattern, a rise in state share of school funding, if any, would start in FY 2014 as a result of real property tax exemption beginning in tax year 2012.