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# OHIO LEGISLATIVE SERVICE COMMISSION

Office of Research  
and Drafting

Legislative Budget  
Office

**S.B. 136**  
**135<sup>th</sup> General Assembly**

## Fiscal Note & Local Impact Statement

[Click here for S.B. 136's Bill Analysis](#)

**Version:** As Introduced

**Primary Sponsor:** Sen. Craig

**Local Impact Statement Procedure Required:** Yes

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### Highlights

Fund	FY 2023	FY 2024	Future Years
<b>State General Revenue Fund</b>			
Expenditures	Possible increase averaging tens of millions of dollars	Possible increase averaging tens of millions of dollars	Possible increase averaging tens of millions of dollars per year
<b>County auditors</b>			
Expenditures	Possible increase	Possible increase	Possible increase

Note: The fiscal year for the state, school districts, and certain other local governments runs from July 1 through June 30 and is designated by the calendar year in which it ends. For other local governments, the fiscal year is identical to the calendar year.

- The bill would require reimbursement from the state GRF of local revenue losses caused by a 5% limit on yearly property tax increases for qualifying owner-occupied homes of lower income homeowners.
- The cost to the GRF could average tens of millions of dollars annually, possibly ranging to more than \$100 million in some years. GRF expenditures could be expected to vary widely from year to year, given considerable uncertainty, and would tend to grow rapidly in the first three years. Costs in future years thereafter could rise substantially.
- County auditors would incur added costs for assessments required by the bill, for required mailings, and for administration. The Department of Taxation (TAX) would incur administrative costs.

## Detailed Analysis

The bill would reduce current taxes due from qualifying homeowners on their owner-occupied homes and on two- and three-unit residential properties in which the owner occupies one of the units, to the extent that the property taxes would otherwise increase by more than 5% from the previous year. To qualify, the owner must claim the owner-occupied credit (2.5%), and the total income of the owner and spouse must not exceed the median income for persons in the county in which the property is located. Current taxes are defined in the bill as those charged and payable after tax reduction factors, the 10% rollback, the 2.5% owner-occupied credit, and the homestead exemption. Service payments in lieu of taxes to tax increment financing projects (TIF PILOTs) also are counted as current taxes, for purposes of the bill. In this calculation, current taxes for the previous year would be reduced by any amount required a year earlier to limit that previous year's increase to 5%. This ensures that the qualifying homeowner's taxes grow no more than 5% in that second year and in subsequent years. Revenue losses to units of local government would be reimbursed from the state GRF, holding those governments harmless apart from the timing of payments.<sup>1</sup>

Several exclusions apply. Special assessments and taxes on some properties on which improvements are made would not be reduced by the bill. If an improvement to a property either increases the habitable floor area by at least 200 square feet or 10%, or causes the county auditor, for appraisal purposes, to reduce the effective age of the property by at least 20 years, then the reduction in taxes under this bill would not be made in the year of the improvement.<sup>2</sup> The required assessments may increase county auditors' costs. Taxes of less than \$500 would not be reduced. If ownership of the property is transferred to another person who would not be considered a relative of the preceding owner, and the property otherwise qualifies, the reduction in taxes would not apply in the next ensuing tax year in which a sexennial reappraisal or triennial update occurs. Taxes would not be reduced for a property partly tax exempt except for those in TIFs.

The yearly cost to the GRF would vary depending on how much taxes would go up in the absence of the bill's cap. In years when taxes on qualifying properties would go up by 5% or less, the GRF would incur no new costs. However, in the bill's second year of operation and thereafter, lower tax payments for homeowners and reimbursements to taxing authorities could continue for previous tax increases with which payments from homeowners, capped at increases of no more than 5% per year, have not yet caught up. When taxes would go up by more than 5% in the absence of the cap, the bill's cost would depend on the magnitude of the difference. The cap

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<sup>1</sup> Tax reduction factors eliminate the effect of changes in valuation of carryover real property on revenue from certain voted taxes. Carryover real property is property taxed in the same class by the same taxing district for both the current and preceding tax years. The 10% rollback applies to qualifying levies on all residential and agricultural property. Qualifying levies are those approved by voters prior to September 2013, renewals of such levies, inside millage, and certain others. The 2.5% owner-occupied credit also is limited to qualifying levies. State reimbursements for the owner-occupied credit, the 10% rollback, and the homestead exemption are received by local governments after their property tax settlements.

<sup>2</sup> Effective age is defined in an appraisal reference guide as the typical age of a structure equivalent to the one in question with respect to its utility and condition as of the appraisal date (from *Glossary for Property Appraisal and Assessment, Second Edition, International Association of Assessing Officers, 2013*).

would be imposed at the individual property level, so some homeowners' taxes could be reduced under the bill while those of others might not be.

## **Background on property taxes**

Owner-occupied primary residences of homeowners who remain in the same home from one year to the next generally are part of carryover property. Effective tax rates on outside fixed-rate levies are adjusted annually to raise the same amount of revenue as the year before on carryover property. These adjustments are applied at an aggregate level, for all residential plus agricultural property subject to each levy and separately for all other real property subject to the levy, so some individual real property owners might owe more while others owe less. The current expense levies and permanent improvement levies on which electors may vote are subject to this adjustment. Levies voted by electors are also called outside millage. Inside mills, the taxes on the ten mills (1%) of taxable value that may be imposed by local governments without a vote of electors, are not subject to this adjustment. Voted bond levies and emergency and substitute levies, another type of outside mills, also are not subject to this adjustment, but instead are adjusted annually to raise fixed sums of money in total from real property plus public utility tangible personal property. These adjustments for fixed-sum levies also are applied at an aggregate level, so the effects would vary among individual property owners.

In view of the foregoing brief summary of Ohio property taxes, costs to the GRF from the bill could arise from four sources. One is new levies. Tax increases resulting from new levies would be partially offset by tax decreases as other levies expire. The net effects of new levies and levy expirations could be expected to vary greatly from one jurisdiction or taxing district to another.

Another source of costs to the GRF is inside mills on increases in taxable value not arising from sizable improvements to residences. Inside mills on increases in taxable value could vary greatly among taxing districts and also among individual homeowners within districts.

A third source of GRF costs occurs in school districts with current expense tax millage at or near a 20-mill floor. Outside fixed-rate levies would not adjust downward further than the floor in response to tax valuation increases. Consequently tax revenues would rise. A similar tax revenue increase occurs if current expense mills of joint vocational school districts (JVSDs) are at or near a two-mill floor.

GRF costs could also arise from differing effects on individual homeowners of taxes from outside millage, even though in the aggregate the millages are adjusted to raise fixed amounts of revenue.

## **Effect of median income constraint**

As noted above, the bill specifies an income limit for a homeowner to qualify for the 5% cap on the increase in property taxes on the person's owner-occupied residence. Specifically, to qualify, the total income of the owner and spouse must not exceed the median income of the county in which the property is located. Median income is to be that determined by the Department of Development under R.C. 174.04, which says in division (A) that the Department is to make an annual determination of the median income for persons in each county. The rest of R.C. 174.04 appears to apply only to other sections of Chapter 174, which pertains to the Housing Trust Fund.

LBO is uncertain how to apply this wording to assessment of qualification for the bill's tax reduction. Is the income of the homeowner to be compared with the median income of all persons in the county, a literal reading of this wording? For a homeowner and spouse, is their combined income to be compared with the median income of persons in the county, i.e., a single representative person? Alternatively, is a homeowner's income, including that of a spouse if present, to be compared with median household income in the county, or median family income?

The median income of households in owner-occupied residences historically has been higher than that of households in rental housing. Incomes of persons housed in institutions may also typically be lower than that of persons in owner-occupied homes. Consequently, limiting tax reductions to the county-wide median income, however defined, appears likely to preclude the bill's tax reduction for substantially more than half of owner-occupied residences.

Available data on households may be indicative of the size of this reduction, but are not specified in the bill as the way this calculation is to be done. Based on statewide Ohio income data for 2019, median household income during the year was \$58,642. This figure is based not only on persons residing in owner-occupied housing but also on other persons in the state with other living arrangements. In 2019, 29% of property taxes on owner-occupied housing were paid by households with incomes at or below this amount. Calculations using county-level data might show different results. Both numbers are based on data from the American Community Survey (ACS, from the U.S. Census Bureau). The ACS data also show median household income in 2019 by number of persons in the household. For one-person households, the median income statewide in 2019 was \$31,088. Households in 2019 that did not include a spouse and had incomes at or below that level paid 31% of property taxes of such households. The statewide median for two-person households in 2019 was \$67,188. Households in 2019 with spouse present and incomes at or below that level paid 20% of property taxes.

## **Cost to the state**

A full assessment of the potential effect on the GRF would require analysis at the individual parcel level. What follows is instead an attempt to use published aggregate data by taxing district to assess the potential effect. The estimate tends to be understated in that it does not include costs to the GRF from differences in tax increases among individual properties within taxing districts. For example, in a taxing district in which current taxes increase 5%, some qualifying homeowners' taxes might increase by more than this, in the absence of the bill, and some by less. Those with larger tax increases would have their tax increases reduced to 5%, with the difference reimbursed to local governments from the GRF. The understatement of this reimbursement in the taxing district-level analysis could be substantial. The estimate is overstated in that it does not include a downward adjustment for properties on which less than \$500 is owed.

A calculation of the increase in carryover residential real property taxes in the six tax years 2015 through 2020 by taxing district indicates that increases in taxes exceeded 5% in an average of 1,068 taxing districts per year, or 26% of more than 4,100 statewide taxing districts. Properties in all 88 counties in the state were subject to reappraisal and update during this period. The number of districts with estimated tax increases on carryover property in excess of 5% varied greatly from year to year, from 501 districts or 12% of statewide districts in 2015 to 1,744 or 42% in 2020.

For this estimate, carryover property was approximated as the taxable value of residential property in the previous year minus the value of residential buildings destroyed or demolished. The increase in the value of this carryover property was represented by adding valuation changes from reappraisal, update, or annual equalization, to approximate the change for a typical homeowner. The dollar value of the change in each taxing district in excess of 5% was multiplied by that district's owner-occupied share of total residential taxable value, and by 87.5% to adjust for the 10% and 2.5% rollbacks.

The total of these estimated increases in current taxes on owner-occupied properties in excess of 5% averaged about \$62 million per year, and ranged from \$12 million in 2015 to \$136 million in 2020. With rapid home price increases since then, the excess could be much higher. The median income constraint might lower the cost from this \$62 million annual average, or higher with recent price increases, to less than \$31 million, perhaps considerably less. Also, as discussed above, taxes due from some homeowners in the absence of the bill could go up by more than 5% even if the aggregate increase for the taxing districts where their properties are located is 5% or less. Consequently, any estimate based on taxing district-level calculations is too low. The extent to which it is too low is unknown. The bill's cost would be higher than indicated by a taxing district-level analysis, perhaps substantially higher.

A simple example illustrates the rising costs of the bill in years after the initial year. Say current taxes on the primary residences of all homeowners were to rise 15% in counties subject to reappraisal or update in the first year that the bill is effective. The increase in taxes might be from inside millage, floor millage, or new levies. Real property taxes owed by qualifying homeowners would rise 5%, and the GRF would reimburse the other 10% to local governments. In the second year that the bill is effective, assuming current taxes unchanged on primary residences of these homeowners, their real property taxes would rise another 5%, with the GRF reimbursing the remaining amount to local taxing units. In addition, assume a second group of homeowners in counties undergoing reappraisal or update in that second year also have a 15% increase in their current taxes. The property taxes they pay would rise 5%, and the GRF would pay the other 10% in addition to the amount reimbursed for the first group of homeowners. In a third year, with a third group of homeowners, the reimbursement from the GRF could rise still further. Clearly costs in future years could rise substantially resulting in sizable costs to the GRF.

Based on the foregoing comments, the required additional outlay from the GRF could range to tens of millions of dollars, could be expected to vary considerably from year to year, and would be likely to grow rapidly in the first three years of implementation of the bill's provisions.

The Department of Taxation could be expected to incur costs to administer the program. These costs could be paid from the Department's Operating Expenses account, appropriation line item (ALI) 110321, a GRF account, or from the Property Tax Administration account, ALI 110623.

## **Cost to local governments**

County auditors could be expected to incur administrative costs for the program. The county auditors would pay increased postage and handling costs in years when a reappraisal or update is scheduled in a county. In those years, a provision of the bill requires the auditor to mail an application to each person in that county whose property taxes are reduced to no more than a 5% increase under this bill's provisions. Required mailings could cost well over \$100,000 per

year statewide. The letter is to be used by those persons to report changes in their incomes if the changes would make a recipient of the letter ineligible to continue receiving the tax reduction.

### **Effective date**

The bill states that its changes would apply to tax year (TY) 2023 for real property and TY 2024 for manufactured homes, both payable in 2024, and to each year thereafter. Real property taxes are paid a year in arrears. As of this writing, in October 2023, the bill could go into effect no sooner than January 2024, even if enacted promptly, as it includes no emergency clause. Most real property tax payments for the first half of TY 2023 will have been made by then.