Fiscal Note & Local Impact Statement

122 nd General Assembly of Ohio

BILL: **Sub H.B. 694** DATE: **December 2, 1998**

STATUS: **As Reported by Senate Ways and Means** SPONSOR: **Rep. Schuler**

LOCAL IMPACT STATEMENT REQUIRED: **No — Remedial provision added after Introduced**

CONTENTS: **Specifies who may file a complaint with a county board of revision and allows dismissed complaints for tax years 1996 and 1997 to be re-filed.**

State Fiscal Highlights

STATE FUND	FY 1998	FY 1999	FUTURE YEARS
General Revenue Fund			
Revenues	- 0 -	- 0 -	- 0 -
Expenditures	- 0 -	Potential minimal increase	Potential minimal increase

- The Board of Tax Appeals could have increased costs to hear additional appeals for tax valuation complaints that could arise under the bill.

Local Fiscal Highlights

LOCAL GOVERNMENT	FY 1998	FY 1999	FUTURE YEARS
Counties			
Revenues	- 0 -	Potential loss	Potential loss
Expenditures	- 0 -	Potential significant increases (though not as large as for school districts)	Potential increase (though not as large as for school districts)
Certain School Districts			
Revenues	- 0 -	Potential loss	Potential loss
Expenditures	- 0 -	Potential significant increases	Potential increase
Certain Municipalities, Townships and Other Political Subdivisions			
Revenues	- 0 -	Potential loss	Potential loss
Expenditures	- 0 -	Potential significant increases (though not as large as for school districts)	Potential increase (though not as large as for school districts)

- The overall effect is a potential revenue loss, with school districts absorbing 60 to 70 percent or more of any revenue lost. Certain counties, school districts, municipalities, townships, and other local governments could have to refund tax revenue received for tax years 1996 and 1997 if boards of revision (BOR) complaints dismissed for those tax years are re-filed and result in property valuation reductions. For the purposes of this analysis, potential refunds are shown as an expenditure increase for FY 1999.

- Certain local governments could gain revenue for complaints that are re-filed and result in revenue gains from property valuation increases.
- Permitting additional persons to file complaints and allowing complaints dismissed for unauthorized practice of law to be re-filed could result in certain property values being reduced or increased in future years that otherwise would not have been changed. Such reductions or increases could result in revenue gains or losses to certain local governments. As with remedial complaints, the overall impact is likely to be a revenue loss to local governments, particularly schools.
- Potential increase in expenditures for counties to process and hear an increased number of applications of complaint filed with county boards of revision in FY 1999. There could be a potential minimal increase thereafter.

Detailed Fiscal Analysis

Background

In an Ohio Supreme Court decision known as the Sharon Village case, the Court ruled that filing a complaint with a county BOR was the practice of law. As a result of the ruling, certain entities that had filed complaints without using an attorney had their complaints dismissed. The bill addresses issues raised in Sharon Village ruling and its subsequent results.

Bill Provisions

The bill specifies that, in addition to the property owner, the following persons are authorized to file complaints requesting a decrease or an increase in valuation of property or land with the county board of revision (BOR):

1. The owner's spouse
2. Certain certified professionals (as described in 5715.19) authorized by an affected party
3. A trustee of a trust
4. An officer, salaried employee, partner or member of a business

The bill also permits complaints dismissed due to an unauthorized practice of law to be re-filed. Finally, the bill's provisions are made remedial and apply to any complaint timely filed for tax year 1996 or 1997. Therefore, spouses and business which filed complaints that were rejected because of improper filing could have their complaints re-heard if the affected complaints are re-filed by March 31, 1999.

General fiscal effects

The remedial aspect of the bill would allow certain individuals, affected businesses, and other entities to re-file their complaints and have them heard by the appropriate BOR. The result of the remedial aspect of the bill is that re-filed complaints could result in certain property values being reduced or increased in regard to tax years 1996 and/or 1997.

Any property value reductions would mean that certain local governments would have to refund to certain taxpayers any tax revenue received as a result of the higher valuation. Increases in taxable valuation that resulted from re-filed complaints would mean that certain taxpayers would have to make additional property tax payments for tax years 1996 and/or 1997.

While most of the complaints dismissed by BOR were likely on behalf of parties seeking reductions in taxable valuable on certain property, a significant portion of complaints dismissed could be from government entities, usually school districts, seeking that the taxable value on a given property or properties be increased.

Permitting complaints dismissed for unauthorized practice of law to be re-filed could result in certain property values being reduced or increased in future years. Such reductions or increases could result in revenue gains or losses to certain local governments, particularly school districts. Under current law, dismissed complaints generally cannot be re-filed for three years, until the county completes a new or revised valuation.

Analysis of remedial portions

Factors affecting the impact of remedial provisions

Estimating the fiscal effects of the remedial portion of the bill is difficult for many reasons. In order to help estimate the effects of the bill's provisions, LBO faxed a survey to 15 county governments and conducted phone interviews with several other counties' BOR officials. Examples from the survey responses (10 counties responded to the survey questions) are included to illustrate certain points presented in the analysis. In addition, at the end of this analysis, a table with information for complaints dismissed in tax year 1996 is presented to offer specific information for the responding counties.

The first factor complicating an estimation of the fiscal impact of the bill's remedial provisions is that in many cases county boards of revision (BOR) do not know the exact number of cases dismissed for tax years 1996 and many have only rough guesses for tax year 1997.

Second, there is no way to know how many cases, or which cases, that were dismissed will be re-filed. Presumably cases involving significant changes in taxable value are most likely to be re-filed.

Third, of the cases dismissed that could be re-filed, the LBO has no way of determining which cases would ultimately result in adjustments to a property's taxable value and whether any adjustments would be increases or decreases in value, as circumstances and local government practices vary widely from county to county. For example, Morrow county officials estimate that no school districts have filed complaints seeking increases in value, while in Montgomery county and Franklin county 40 to 70 percent of complaints are filed by school districts seeking property valuation increases. Also, some counties heard all complaints that probably should have been dismissed under the Sharon Village ruling. Therefore, those cases would only have been dismissed if they were appealed to the Board of Tax Appeals and would also be able to be re-filed at the county level.

Fiscal impact of remedial provisions

Keeping in mind that there is significant ambiguity in estimating the fiscal impact of the bill, the overall revenue losses could exceed gains for local governments statewide. However, a particular local government could realize an overall revenue gain from the bill's provisions or a significant loss in tax revenue. Any such loss or gain to a given local government could range from a few hundred dollars to a few million dollars.

Two actual examples are cited below to illustrate possible varying effects:

- A county dismissed a case in which a school district was seeking a property valuation increase of over $30 million. If this complaint is re-filed and the valuation is increased, the affected school district could gain a few million dollars, and certain affected local governments could gain as much as much as a few hundred thousand dollars in tax revenue.

- Another smaller county dismissed only one case for tax year 1996, suggesting that the overall effect in the county would be small. However, in that one case the property owner is seeking a valuation reduction of more than $4.5 million. Such a reduction could result in a significant loss of revenue to affected local governments if the complaint is re-filed. Many other counties dismissed no cases; therefore, the bill's remedial provisions would not impact local governments in those counties.

Biggest impact in populous counties. The LBO can state with some certainty that the largest fiscal impacts would occur in counties with the largest populations and the smallest impact would likely be in counties with the smallest populations. For example, Cuyahoga and Franklin counties estimated they dismissed 700 and over 400 complaints, respectively, for tax year 1996 while Fulton and Scioto counties dismissed one case and no cases, respectively.

Greatest impact on school districts. The LBO estimates that any revenue losses or gains that arose because of the bill's provisions would fall largely on school districts, which receive 60 to 70 percent or more of all property tax revenue.

Which specific local government(s) would gain or lose revenue would vary depending upon where the property was located. Other local governments that receive property tax revenue that could lose or gain revenue under the bill include, but are not limited to: 1) counties, 2) municipalities, 3) libraries, 4) townships, 5) county parks, 6) county boards of mental retardation, 7) fire districts, 8) police districts.

The LBO can also state with some certainty that there were more complaints dismissed for tax year 1996 than tax year 1997 because the Sharon Village case was decided after filings for tax year 1996 had been completed. Therefore, the fiscal impact from tax year 1996 is likely to be much greater than for tax year 1997, as county BORs had time before tax year 1997 filings to notify filers about changes in filing requirements resulting from the Sharon Village case.

Prospective Impacts

The fiscal effects, aside from the remedial section of the bill, could vary from county to county. There could be a small increase in the number of complaints filed with county BORs, because additional persons are permitted to file complaints on the behalf of affected parties. This could mean future potential losses or gains in revenue due to more properties having their taxable valuations changed because of a complaint.

In addition, permitting complaints dismissed due to the unauthorized practice of law to be re-filed without waiting for three years could also increase the number of valuations changed in the future.

Overall, the result could be a tax revenue loss to local governments, particularly schools. However, the effects on particular local governments could vary significantly with some gaining revenue, some losing revenue, and many for which there would be minimal to no effect on tax revenue, as discussed in the analysis above.

Survey Response Data

Tax Year 1996 Complaint and Dismissal Data for Selected Counties

County	Complaints Filed	Complaints Dismissed that could be Re-filed*	Number (%) of School District Complaints Dismissed that could be Re-filed**
Clark	50	0	0 (0%)
Cuyahoga	2,434	700	NA (NA)
Franklin	1772	400 – 450	0 (0%)
Fulton	37	0	0 (0%)
Hamilton	3,224	300	15 (5%)***
Montgomery	1,900	0	0 (0%)
Morgan	1	0	0 (0%)
Morrow	11	0	0 (0%)
Scioto	39	0	0 (0%)
Seneca	18	0	0 (0%)

*Does not reflect complaints that were appealed and dismissed by the Board of Tax Appeals.
**School districts would be seeking valuation increases that could result in revenue gains.
***Numbers assume the percent of school complaints dismissed is equal to the estimated percent of total complaints filed with the BOR that are filed by schools.

❑ LBO staff: Alexander C. Heckman, Budget/Policy Analyst

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