Fiscal Note & Local Impact Statement

122nd General Assembly of Ohio

BILL: **Sub. S.B. 142** DATE: **May 28, 1998**

STATUS: **As Reported by House Ways and Means** SPONSOR: **Sen. B. Johnson**

LOCAL IMPACT STATEMENT REQUIRED: **Yes**

CONTENTS: **Modifies or creates new definitions for manufactured and mobile homes. Changes the treatment of these homes for sales and real property tax purposes.**

State Fiscal Highlights

STATE FUND	FY 2000	FY 2001	FUTURE YEARS
General Revenue Fund			
Revenues	$6.8 million loss	$7.0 million loss	$7.3 million loss
Expenditures	$1.4 million increase	$2.9 million increase	$3.1 million increase

- Changing the definition of purchaser effectively exempts dealer markup from the sales tax and reduces the sales tax base, thereby reducing tax revenues.

- Manufactured homes taxed like real property will participate in property tax relief programs, increasing state expenditures by approximately $3 million each tax year. Since settlements are made on a half year basis, FY99 expenditures reflect one half of the increase.

Local Fiscal Highlights

LOCAL GOVERNMENT	FY 2000	FY 2001	FUTURE YEARS
Counties			
Revenues	$2.4 million loss	$2.6 million loss	$2.8 million loss
Expenditures	- 0 -	- 0 -	- 0 -
Local Government Fund			
Revenues	$300,000 loss	$310,000 loss	$323,000 loss
Expenditures	- 0 -	- 0 -	- 0 -
Local Government Revenue Assistance Fund			
Revenues	$43,000 loss	$44,000 loss	$46,000 loss
Expenditures	- 0 -	- 0 -	- 0 -
School Districts and Other Local Governments			
Revenues	$3.4 million loss	$3.6 million loss	$3.75 million loss
Expenditures	- 0 -	- 0 -	- 0 -

- Reducing the sales tax base reduces sales tax revenues for counties under the County Permissive Sales Tax, County Additional Sales, and Transit Authority Sales Tax by approximately $1.8 million in FY 1999.

- Reducing the sales tax base also reduces revenues to the Local Government Fund and the Local Government Revenue Assistance Fund.

- Classifying some manufactured homes as real property and taxing others like real property will result in a loss in local property tax revenues of approximately $4.2 million in tax year 1999. Of this amount, the loss to local school districts is approximately $2.94 million; counties losses are approximately $0.8 million.

- Requiring the levy of a conveyance fee and a moving permit for manufactured homes will result in an increase in county revenues of approximately $500,000 in FY 1999.

- Allowing the clerk of courts to collect a $5 fee for processing certificates of titles for manufactured homes will result in an indeterminate increase in county revenues.

Detailed Fiscal Analysis

Background

The bill changes the treatment of manufactured homes under sales tax, property tax, housing, and motor vehicle laws to provide the basis to treat a large number of manufactured homes as real property. Currently, there are only two definitions for all types of factory built dwellings: industrialized units and manufactured homes. An industrialized unit is defined as a structure that is built off site and is self sufficient or substantially self sufficient. There is no special reference to these units under current tax law; they are taxed as real property. Manufactured homes are currently defined as a special class of motor vehicle which is over 320 square feet when erected on site, is built on a permanent chassis, and is designed to be used as a dwelling. Manufactured homes are currently subject to sales tax at the time of purchase and are subject to an annual property tax on the depreciated value of the home.

This bill creates or modifies the following definitions for different types of factory built dwellings:

- Industrialized Unit - A structure fabricated off site, not a manufactured home.
- Manufactured home - A structure that conforms to federal construction and safety standards and has a permanently attached label.
- Permanent foundation - Masonry, concrete, or other footing, approved locally, that a manufactured or mobile home can be affixed to.
- Permanently sited manufactured home:
  1. A structure affixed to a permanent foundation and connected to appropriate facilities.
  2. A structure at least 22' wide by 22' long with a living area greater then 900 sq. ft.
  3. A structure with conventional residential siding and a minimum 6" overhang including gutters.
  4. A structure manufactured after 1/1/95.
  5. A structure not located in a manufactured home park.

Transfer Fees

The owner of a manufactured home will be required to obtain a permit to move the home over public roads. The cost of the permit will be $5.00 and will cover the administration costs associated with the program. Failure to obtain a permit will result in fines equal to $100. The fine will be assessed against the dealer if he fails to obtain the transfer permit for new homes and the purchaser of a used manufactured home. This will insure that tax records for these properties are kept current and accurate. According to data published by the Manufactured Housing Global Network[1], approximately 8,000 manufactured homes were shipped in 1996 and 13,000 used homes were sold. LBO estimates that only 2% of used home sales result in moving the home, therefore fees from the issuance of Relocation Notices will generate approximately $50,000 in FY 1999 to be credited to the counties real estate assessment funds.

[1] Manufactured Housing Global Network; http://www.mfghome.org/members/stats/shship.html; Copyright 1997.

The sale of a manufactured home will be subject to property conveyance fees equal to ten cents per each $100 of value. The Manufactured Housing Global Network reported the average value of a new manufactured home sold to be $38,400 and LBO estimates the value of a used home at $10,000. Adjusting for increases in price and number of units sold, LBO estimates a total of $450,000 will be collected in conveyance fees by the counties in FY 1999.

In addition, the clerk of courts may collect a $5 fee for processing certificates of titles for manufactured homes. It is not possible to estimate the number of homeowners who will relinquish the motor vehicle title for inclusion on the real property tax list. Combined with the permissive nature of this fee, it is not possible to estimate the fiscal impact of this provision.

Sales Tax

Under current law, manufactured homes are classified as motor vehicles and are subject to title and registration requirements similar to other motor vehicles. In addition, manufactured homes are subject to sales tax at the time of purchase. The bill would continue to require that sales tax be assessed at time of purchase, but would change the definition of purchaser. When a new motor vehicle dealer sells a new manufactured home to a purchaser other than another new motor vehicle dealer purchasing such home for subsequent resale, the new motor vehicle dealer will be responsible for the remittance of the required sales tax. The applicable tax is paid by the dealer upon either the delivery date of the new manufactured home, the date the purchaser remits the full price to the dealer, or in the case of a dealer-financed transaction, the date the purchaser executes the financing. The tax is paid at the effective rate of the county where the new manufactured home or new mobile home is to be titled and is to be assessed upon the price reflected in the dealer's invoice. The dealer may not charge an additional tax upon the purchase, but is permitted to pass the tax through to the purchaser as part of the dealer's cost. Manufactured homes purchased by an Ohio resident from an out of state dealer are still subject to the use tax.

In 1996, a total of approximately 8,000 manufactured homes were delivered in Ohio at an average cost of $38,400. This generates approximately $14.6 million annually for the state GRF and another $3.9 million for county general funds. Because the bill effectively exempts the dealer markup from the sales tax, a loss of revenues will occur. According to statistics from the Manufactured Housing Institute, dealer markup is calculated to be approximately 42%. Based on the average sales price in 1996 and factoring in an annual growth rate of 4% thereafter, the exemption of dealer markup from the tax base results in state tax losses ranging from $7.1 million in FY 1999 to $7.7 million in FY 2001.

Property Tax

Under current law, manufactured homes are not classified as either real or tangible property but are subject to an annual “trailer tax”. In tax year 1997, there were 217,288 properties classified as manufactured homes, generating $32.2 million in taxes. The taxable value of a manufactured home is forty percent of the depreciated value of the home; taxes are set equal to the authorized millage rate times the taxable value with a minimum tax of $36. The interaction of the depreciation schedule and assessment percentage results in a taxable value that is 20% of the purchase price of the home after ten years. There is no appraisal process to adjust the value of a manufactured home for changes in value relative to the purchase price over the life of the home. A site built home, classified as real property, is assessed at 35% of market value and the taxable value is adjusted every three years to reflect changes in the market value. Therefore, the taxable value of the manufactured home is higher then the taxable value of a site built home for the first years of assessment but is lower in later years.

In addition to differences in the assessment rates, manufactured homes and real property are subject to different tax rates. This is the result of property tax reduction factors that reduce the millage rate applied against real property; tax reduction factors protect property owners from unvoted tax increases resulting strictly from increases in the market value of the property. Real property taxes are reduced an additional 12.5 percent (reimbursed by the state to local taxing districts) when used as residential property. Manufactured homes do not receive these reductions resulting in a tax rate that is approximately 40% higher than the rate of taxation for real property. The following table illustrates the differences in taxable value and taxes paid for a home valued at $38,400 (the average price of a manufactured home in 1996) assuming there are no changes in the tax rate or the market value of the home over a ten year period.

Property Classification	Manufactured Home		Real Property		
	Taxable Value	Taxes paid	Taxable Value	Taxes paid	Difference
Year 1	14,592	954.02	13,440	618.95	335.08
Year 2	13,824	903.81	13,440	618.95	284.86
Year 3	13,056	853.60	13,440	618.95	234.65
Year 4	12,288	803.39	13,440	618.95	184.44
Year 5	11,520	753.18	13,440	618.95	134.23
Year 6	10,752	702.97	13,440	618.95	84.02
Year 7	9,984	652.75	13,440	618.95	33.80
Year 8	9,216	602.54	13,440	618.95	(16.41)
Year 9	8,448	552.33	13,440	618.95	(66.62)
Year 10	7,680	502.12	13,440	618.95	(116.83)

The Department of Taxation and the Attorney General have published guidelines allowing the owner of a manufactured home to relinquish the motor vehicle title to the home and have the property placed on the real property tax list of the county it is located in. The option to relinquish title is completely up to the home owner and the counties are not statutorily required to make this option available. The bill would require certain manufactured homes to be classified as real property when the following conditions are met:

1. Ownership was acquired on or after January 1, 1999.
2. The home is affixed to a permanent foundation
3. The home is located on real property owned by the owner of the home.

The owner of any home meeting all but the first of these conditions may choose to relinquish the motor vehicle title to the manufactured home and have the property classified as real property. Manufactured homes that are not classified as real property will be taxed 'like real property' if the home was purchased after January 1, 1999. If the home was purchased prior to that date, the home will be taxed under the current manufactured home tax system until it is sold, at which time, it will be taxed like real property.

Since some owners of manufactured homes have the option to choose taxing mechanisms, LBO anticipates a loss in property tax revenues in the initial years of this program. Eventually, all manufactured homes will be taxed like real property, phasing out the minimum tax and the out year advantage of the manufactured home tax. However, it is not possible to estimate when tax collections will 'turn the corner' resulting in future increases. From the table above, it is apparent that any homeowner with a manufactured home older then 10 years would be unlikely to choose a real property tax. For the owner of newer manufactured homes, the real property tax may yield significant savings.

To estimate the potential revenue loss form this conversion, the annual average sales price and units shipped were obtained from data published by Manufactured Housing Global Network. Based on this information, LBO estimates that approximately 100,000 new or used homes have been purchased within the last five years and would benefit from a switch to the real property method of taxation resulting in a loss of approximately $4.2 million. The loss in local revenue is concurrent with an increase in state GRF expenditures to reimburse property tax relief programs. Manufactured homes taxed like real property will receive the 10% and 2½% rollbacks resulting in an increase in state expenditures of approximately $2.8 million.

Manufactured home appraisals

The bill further provides that all manufactured homes will be assessed at true market value for taxing purposes in a manner similar to other residential properties. Every six years the property must be physically reviewed and inspected and every three years the property value will be updated to reflect changes in the market value of homes in the taxing district. This will require county auditors to add, on average, 2,300 additional home sites to their appraisal process and will result in increased costs of approximately $2.2 million when first implemented and approximately $0.5 million each additional year.

Building Codes

The bill would provide that any home meeting the building requirements of the United States Department of Housing would meet the Ohio model codes for one-, two-, and three-family homes. According to a report published by Pennsylvania Department of Community affairs[2], the US codes meet or exceed the Ohio model codes in all except the following situations:

- Ceiling height: Ohio - 7.5 feet
HUD - 7.0 feet
- Hallways: Ohio - 36 inches
HUD - 28 inches

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[2] Goel, Yash, P.E.; "A Comparison Between HUD's Mobile Home Construction and Safety Standards and BOCA's Building Code (1978)"; Division of Industrialized and Mobile Housing, Department of Community Affairs, Commonwealth of Pennsylvania.