Fiscal Note & Local Impact Statement

123 rd General Assembly of Ohio

BILL: **H.B. 70 (with amendments 540, 541, and 542)**

DATE: **April 12, 1999**

STATUS: **In House Ways and Means – Subcommittee on Homestead Exemptions**

SPONSOR: **Rep. Schuler**

LOCAL IMPACT STATEMENT REQUIRED: **No — No local cost**

CONTENTS: **Permits low income elderly and disabled homeowners to defer payments of real and manufactured home property taxes on their homesteads. Income limits on the homestead exemption program are increased.**

State Fiscal Highlights

STATE FUND	FY 1999	FY 2000	FUTURE YEARS
General Revenue Fund			
Revenues	Minimal Revenue	Minimal Revenue	$200,000 to $2 million
Expenditures	5.16 million – 10.57 million	5.16 million – 10.57 million	$7 million to $29 million*
Tax Deferral Fund			
Revenues	Minimal Revenue	Minimal Revenue	$100,000 to $100 million
Expenditures	$160,000 - $1,570,000	$160,000 - $1,570,000	$100,000 to $100 million

Note: The state fiscal year is July 1 through June 30. For example, FY 2000 is July 1, 1999 – June 30, 2000.
*Future years revenues and costs is dependent on the participation rate in the program (see Table 2 in appendix).

- The state will incur increased expenditures from the requirement to reimburse local governments for any deferrals granted. The expenditures will be paid out of the tax deferral fund, created in the bill.
- The state will incur increased expenditures from the requirements to reimburse the administrative cost of the deferral program, which is set at two percent of total deferrals and paid out of the GRF. Depending on the number of homesteaders participating in the program, this cost will vary between $100,000 and $2 million.
- The state will realize revenue gains equal to the amount of deferrals recouped by the county. The GRF will be credited with a two-percent administrative fee charged at the time a deferral is terminated. The tax deferral fund will be credited with the value of all recouped deferred taxes and interest and a recovery charge to compensate for any deferrals deemed uncollectible.
- The tax deferral fund will become self-supporting in 20-25 years, contingent on the participate rate in the program. The state would still incur the cost of reimbursing counties for the two-percent administrative cost.
- If a termination of the deferral is associated with the transfer of title to the property, the county auditor must demand payment from the individual who will disburse money in connection with the transfer. If that person does not pay the amount demanded, that amount stands as a lien against the residence and the new owner

would be liable for the amount. Therefore, if the value of the deferred taxes and interest ever exceeds the market value of the property, the property value may effectively be equal to zero.

- The Treasurer of the State is required to put funds into the tax deferral fund so long as the total investment does not exceed three-percent of the total investment portfolio of the state. Investments into the tax deferral fund will result in a loss of revenue for the GRF and other funds from the loss of interest earnings that would otherwise be realized on these funds.

- Deficiencies in the tax deferral fund are assumed, but are not required, to be augmented by appropriations from the GRF.

- The bill authorizes a pilot program to begin in counties whose auditor volunteers them for the program. Specifications of the trial program are not currently formulated.

- Persons submitting an application for deferment must affirm that a casualty insurance policy exists and is sufficient enough to cover any loss of or damage to the homestead, which is subject to the county auditor's verification.

- The bill increases qualifying income brackets for the homestead exemption program to $11,900, $17,500, and $23,000. The additional cost will be $5 million to $9 million annually.

Local Fiscal Highlights

- The county will incur minimal increased expenditure during the first year of the program in order to develop the necessary applications and reviews to properly administer the program.

- The county will incur minimal increased costs to develop programming that will insure the total value of all deferred taxes does not exceed eighty-percent of the market value of the home.

- The county will realize revenue gains equal to two-percent of all deferrals granted. The revenues will be credited to the county general revenue fund to offset the cost of administering the deferral program.

Detailed Fiscal Analysis

The bill authorizes property tax relief for low-income senior citizens and disabled persons through the creation of a property tax deferral program for taxes charged against the homestead, excluding special assessments. Current law provides relief to low income, senior and disabled property owners through the homestead exemption program that provides property tax credits through a reduction in the taxable value of the real property or manufactured home homestead. All deferrals will be reimbursed by the state to the local taxing authorities and the county will receive additional funding to pay for the administration of the program. A pilot program is authorized before full implementation of the tax deferral fund.

Eligibility

Property tax deferrals will be available for owner occupied housing for homeowners meeting the following criteria (RC Sec. 323.151 and 323.152):

"(1) A person who is permanently and totally disabled;

(2) A person who is sixty-five years of age or older;

(3) A person who is the surviving spouse … who applied and qualified for a reduction in taxes under this division in the year in which he died, provided the surviving spouse is at least fifty-nine"[1]

(4) The adjusted gross income of the owner and his spouse for the year proceeding the year in which application for a reduction in taxes is made was $23,000 or less.

The application for deferral is a continuing application that remains in effect until the homeowner chooses to leave the program or reports a change in circumstances that disqualifies the homeowner for these benefits. The deferral must be for the full amount of the taxes and is not subject to a time limit but is limited to eighty-percent of the market value of the home. The homeowner is required to carry casualty insurance on the property, which is subject to inspection by the county auditor.

Termination of the Deferral

The application process for the deferral program is completed in much the same manner as an application for a homestead credit. Unless the homeowner cancels the deferral, the application is considered a continuing application and all future property tax bills will be deferred. Disenrollment from the program results if any of the following situations occur:

- The homeowner dies and the surviving spouse does not qualify for the deferral;
- The owner no longer owns and occupies the homestead;
- The owner's total income exceeds $23,000; or
- The taxpayer files written notice of termination of the deferral with the county auditor.

[1] Copyright Banks-Baldwin Law Publishing Co. 1995.

Upon disenrollment, the homeowner may continue deferral of the outstanding balance or may pay it in full depending on the circumstances leading to disenrollment. If disenrollment is due to the death of the homeowner or the sale of the property, the deferral must be terminated and the full amount of the deferral and any interest charged is due and payable. When the termination results from the sale of the homestead, the auditor shall demand payment at the time of the closing of the sale. If the proceeds from the sale of a home are insufficient to pay for the amount of deferred taxes and all interest and charges, the recoupment charge is transferred to the purchaser as a lien on the property. Collection of the deferred taxes and interest will be recorded on the tax bill at the time the deferral is terminated, in the same manner as other real property taxes. This will allow for the recoupment of deferred taxes to be collected in two installments.

Cost Estimation

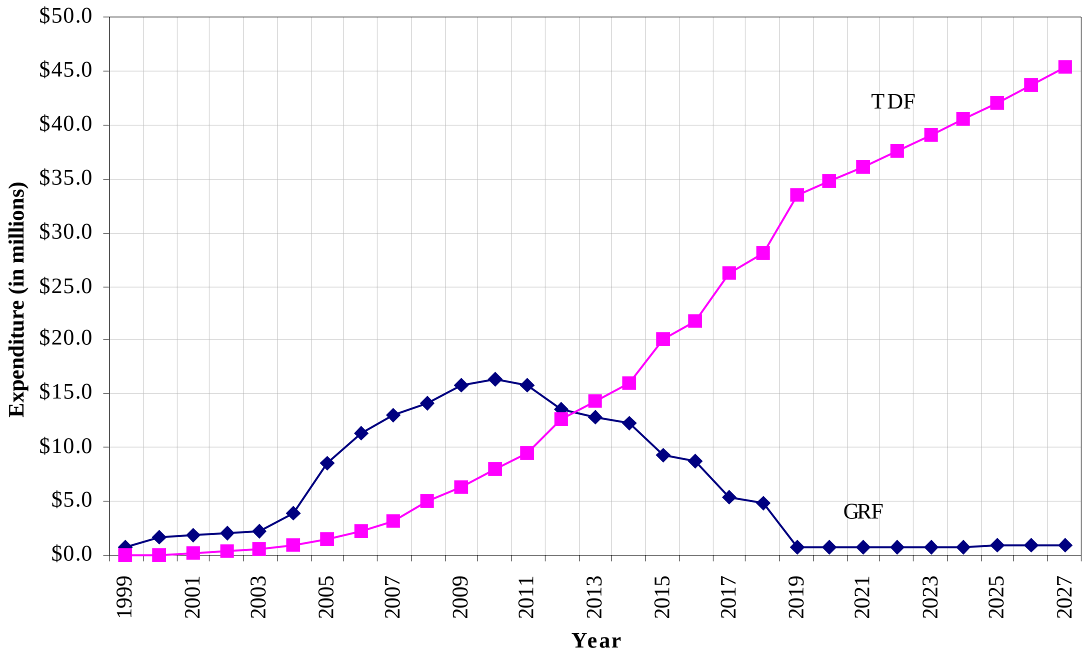
A number of other states currently offer deferral programs but many of these are as local options without state reimbursement to the local governments. Colorado, Illinois, California, and Oregon have programs that are similar to the program proposed in this bill. In the first three states, the participation rate in these programs is between one and three percent of the eligible households. In Oregon, participation is approximately seven to ten percent of the eligible households. In each state, the program began with relatively few participants and gradually increased. Colorado supplied detailed historical data which showed that the state took approximately 10 years to reach peak participation rates and approximately 15 years to reach the point where the value of principal and interest payoffs was sufficient to pay for new deferrals. In Oregon, the original program began in 1964 and only became self-supporting within the last five years, probably due to the lack of income qualifications prior to 1984.

The experience of these other states has been incorporated into a model to project the cost of deferrals in Ohio. Because there is no way to predict the eventual participation rate accurately, estimates have been given for a range of participation rates for one, five, and ten percent of the eligible population.[2] Figure 1 uses a five-percent participation rate to show the General Revenue Fund (GRF) and Tax Deferral Fund (TDF) expenditures. GRF expenditure reach a maximum in calendar year 2010 and begin to decrease as the tax deferral fund gains momentum from payment of past deferrals. The cost of this program is estimated to be between $160,000 and $1.6 million in the first fiscal year. Under the assumption used, the deferral program will begin to pay for itself by calendar year 2019 with payoffs exceeding new deferral payouts by $2.0 to $23 million. (Details are presented in the appendix.) If early participation rates are higher than anticipated, program costs in the early years will increase, but the break-even point should be reached earlier. If participation rates rise over an extended period of time, the break even point would take longer to reach.

These estimates include inflationary increases in the property tax bills due to increases in the valuation of property and anticipated increases in the number of mills levied on the property. Declines in the number of eligible participants are estimated based on historical participation declines in the homestead exemption program. These declines are due to natural disenrollment and the static nature of the homestead income brackets. If future adjustments are made to the qualifying income limit, the cost of the program will increase and the point where the program becomes self-supporting may be delayed.

2 Eligible population is determined from the number of homesteaders in 1989 divided the total number of persons sixty-five and older in 1989. The 1990 census is the most recent information available on number of persons sixty-five and older in Ohio.

Figure 1
H.B. 70 Homestead Deferral Fund



The data from other states indicate that this program appeals to a small segment of those eligible. Items influencing this phenomenon include questionable treatment of the deferrals for federal income tax purposes and a desire of seniors to protect their bequest to their heirs. If the popularity of the program would change due to federal legislation, favorable publicity for this program from around the nation, or because of an attitude change on the part of seniors, costs would be much higher than forecast. Similarly, costs would be much lower than forecast if Ohio seniors find the program less attractive than seniors in other states.

Tax Deferral Fund

The tax deferral fund created in the bill is to be used as the pass through account for the state reimbursement to the local governments and for payments received to pay outstanding deferrals. The Office of the State Treasurer is granted authority to provide funding for the tax deferral program as an alternative use of funds in Ohio's investment portfolio; up to a maximum of three percent of the portfolio balance. The treasurer is not required to provide the funding for the program, and it is possible that the three-percent cap will make it impossible to achieve complete funding from portfolio funds. This leads to an assumption that GRF appropriations will cover any deficiencies in the fund.

The value of Ohio's portfolio is approximately $4 billion and has grown at an average rate of 3.9% since fiscal year 1988. Assuming a simple rate of return of 7%, portfolio earnings will provide approximately $250 million to various state funds in fiscal year 1997. If the Treasurer deposits funds into the tax deferral fund on an as needed basis, the state will forego the revenue that would have been earned had the funds remained in the portfolio. These foregone earnings can be considered actual revenue losses of the state and will continue until such time that the fund becomes self-supporting and can begin to return funds to the portfolio. The Treasurer would not begin to receive a return on the investment until such time that the value of terminated deferral accounts exceeds the value of new deferrals granted. This will not occur for the first twenty years of the program and may be extended if there are changes outside the program that significantly alter the number of participants or the dollar value of the deferrals.

Local Impacts

The county auditors will be required to administer the program and maintain records of all outstanding deferrals. The auditor will have only a minimal increase in expenditures related to the need to create an application form. Since the program is anticipated to grow slowly, the development of the deferral list and other forms of paperwork are not anticipated to create a substantial burden on the auditor’s office. As participation continues to grow, the costs to administer the program will be fully recovered in fees paid by the state to the equal to two-percent of the total value of deferred taxes, to be paid out of the state GRF.

Insurance

The bill also requires the applicant to affirm that a casualty insurance policy sufficient to cover any loss of or damage to the homestead is held. With applicant consent (signing form required for the deferral), the county auditor may examine such policies for confirmation.

Homestead Exemption Program

The homestead exemption program allows senior citizens, disabled persons, and surviving spouses who own and occupy their principal residence and whose total income is than $20,800 to receive a reduction in their property tax bill. The program cost is reimbursed by the state to local taxing districts. The bill would increase all three of the income brackets used to determine program eligibility. The current brackets, proposed brackets, and estimated additional cost is included in Table 1 below.

Table 1: Per Income Bracket Cost Increase of H.B. 70

Current Brackets	H.B. 70 of 123rd G.A.	Estimated Cost Increase
T.I. ≤ $10,800	T.I. ≤ $11,900	$3 million to $5 million
$10,800 < T.I. ≤ $15,800	$10,800 < T.I. ≤ $17,500	$1 million to $3 million
$15,800 < T.I. ≤ $20,800	$15,800 < T.I. ≤ $23,000	$1 million
T.I. > $20,800	T.I. > $23,000	$0

Table 2 Annual Revenues and Expenditures for Tax Referral Fund									
	1% Participation Rate			5% Participation Rate			10% Participation Rate		
Calendar Year	**Tax Deferral Fund Expenditures**	**Tax Deferral Fund Revenues**	**Treasury Investments**	**Tax Deferral Fund Expenditures**	**Tax Deferral Fund Revenues**	**Treasury Investments**	**Tax Deferral Fund Expenditures**	**Tax Deferral Fund Revenues**	**Treasury Investments**
1999	$160,000	$10,000	$160,000	$790,000	$10,000	$790,000	$1,570,000	$20,000	$1,570,000
2000	$330,000	$20,000	$330,000	$1,630,000	$60,000	$1,630,000	$3,260,000	$110,000	$3,250,000
2001	$410,000	$30,000	$400,000	$2,030,000	$140,000	$1,980,000	$4,060,000	$280,000	$3,960,000
2002	$460,000	$80,000	$430,000	$2,290,000	$360,000	$2,150,000	$4,570,000	$710,000	$4,290,000
2003	$550,000	$100,000	$480,000	$2,740,000	$490,000	$2,390,000	$5,480,000	$980,000	$4,780,000
2004	$950,000	$180,000	$860,000	$4,740,000	$880,000	$4,250,000	$9,480,000	$1,750,000	$8,500,000
2005	$1,970,000	$300,000	$1,800,000	$9,840,000	$1,470,000	$8,970,000	$19,680,000	$2,940,000	$17,940,000
2006	$2,660,000	$460,000	$2,370,000	$13,290,000	$2,260,000	$11,820,000	$26,580,000	$4,510,000	$23,640,000
2007	$3,190,000	$640,000	$2,740,000	$15,930,000	$3,190,000	$13,670,000	$31,850,000	$6,380,000	$27,340,000
2008	$3,750,000	$1,000,000	$3,120,000	$18,750,000	$4,990,000	$15,560,000	$37,490,000	$9,980,000	$31,120,000
2009	$4,360,000	$1,290,000	$3,360,000	$21,760,000	$6,410,000	$16,770,000	$43,520,000	$12,810,000	$33,540,000
2010	$4,760,000	$1,590,000	$3,480,000	$23,790,000	$7,920,000	$17,390,000	$47,580,000	$15,840,000	$34,780,000
2011	$4,950,000	$1,900,000	$3,360,000	$24,710,000	$9,470,000	$16,790,000	$49,420,000	$18,930,000	$33,580,000
2012	$5,140,000	$2,530,000	$3,240,000	$25,660,000	$12,620,000	$16,200,000	$51,320,000	$25,230,000	$32,400,000
2013	$5,340,000	$2,870,000	$2,810,000	$26,660,000	$14,320,000	$14,050,000	$53,310,000	$28,630,000	$28,090,000
2014	$5,540,000	$3,210,000	$2,680,000	$27,690,000	$16,040,000	$13,370,000	$55,370,000	$32,080,000	$26,740,000
2015	$5,760,000	$4,010,000	$2,550,000	$28,760,000	$20,020,000	$12,720,000	$57,510,000	$40,040,000	$25,430,000
2016	$5,980,000	$4,370,000	$1,970,000	$29,870,000	$21,820,000	$9,850,000	$59,730,000	$43,630,000	$19,700,000
2017	$6,210,000	$5,260,000	$1,850,000	$31,020,000	$26,260,000	$9,210,000	$62,040,000	$52,520,000	$18,410,000
2018	$6,450,000	$5,610,000	$1,200,000	$32,220,000	$28,040,000	$5,960,000	$64,430,000	$56,070,000	$11,920,000
2019	$6,700,000	$8,960,000	$1,090,000	$33,470,000	$44,760,000	$5,430,000	$66,930,000	$89,510,000	$10,860,000
2020	$6,960,000	$9,040,000	$0	$34,760,000	$45,160,000	$0	$69,510,000	$90,310,000	$0

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