

# Fiscal Note & Local Impact Statement

123<sup>rd</sup> General Assembly of Ohio

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BILL: S.B. 6 DATE: March 10, 1999  
STATUS: As Reported By Senate Ways And Means SPONSOR: Sen. Armbruster  
LOCAL IMPACT STATEMENT REQUIRED: No No local cost  
CONTENTS: Increase only the maximum qualifying income limit for the homestead exemption and index all qualifying income brackets to inflation using the GDP deflator.

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## State Fiscal Highlights

STATE FUND	FY 1999	FY 2000	FUTURE YEARS
<b>General Revenue Fund</b>			
Revenues	- 0 -	- 0 -	- 0 -
Expenditures	- 0 -	\$1.0 million increase	\$1,725,000 annual increase

Note: The state fiscal year is July 1 through June 30. For example, FY 2000 is July 1, 1999 – June 30, 2000.

- The bill would not take effect until tax year 2000.
- The cost of future years will grow by \$725,000 each year, on top of the \$1.0 million initial increase in year 2000, which, in total, is a \$1.75 million increase annually.

## Local Fiscal Highlights

- No direct fiscal effect on political governments.



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## ***Detailed Fiscal Analysis***

The homestead exemption program allows senior citizens, disabled persons, and surviving spouses who own and occupy their principal residence and whose total income is less than \$20,800 to receive a reduction in taxable property value. The program cost is reimbursed by the state to local taxing districts. S.B. 6 would increase only the maximum qualifying income bracket and index to inflation all three qualifying income brackets. To determine state cost of the bill, two components must be estimated: (1) Tax Year 2000 increase in new homestead participants from increasing the topmost income bracket from \$20,800 to \$23,000, and (2) Number of new homestead participants and participants shifting brackets in future years from income brackets being indexed for inflation.

### ***Discrete Increase in Maximum Qualifying Income Bracket***

By using 1996 data (most recent data available) on the number of homestead applicants by current income brackets, LBO estimated the additional cost from a discrete increase in the topmost qualifying income bracket.<sup>1</sup> Table 1 shows the current income brackets, S.B. 6 income brackets, and the estimated cost of S.B. 6 by bracket. Since exact data is not available on individual homesteader's income, observations from the 1995 total income bracket change were used to determine the flow of homesteaders into S.B. 6 brackets. Approximately 15,000 new homesteaders would enter the program when the highest income bracket is changed to \$23,000. This translates into a \$1 million increase in the program cost in tax year 2000.

<b>Table 1: Per Income Bracket Cost Increase of S.B. 6</b>		
<b>Current Brackets</b>	<b>HB 56 of 123rd G.A.</b>	<b>Estimated Cost Increase</b>
T.I. ≤ \$10,800	T.I. ≤ \$10,800	\$0
\$10,800 < T.I. ≤ \$15,800	\$10,800 < T.I. ≤ \$15,800	\$0
\$15,800 < T.I. ≤ \$20,800	\$15,800 < T.I. ≤ \$23,000	\$1 million
T.I. > \$20,800	T.I. > \$23,000	\$0

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<sup>1</sup> Department of Taxation data set.

### *Inflationary Indexing of Qualifying Income Brackets*

The qualifying income brackets proposed by S.B. 6 are effective in tax year 2000, which will become the base year in which the gross domestic price (GDP) deflator is applied.<sup>2</sup> LBO subscribes to two forecasting firms and data was used from one of these firms, WEFA, to index S.B. 6 qualifying income brackets to inflation through 2004. This is presented in Table 2.

<b>\$10,800 HEX Bracket</b>		<b>\$15,800 HEX Bracket</b>		<b>\$23,000 HEX Bracket</b>	
<b>Year</b>	<b>Indexed Bracket</b>	<b>Year</b>	<b>Indexed Bracket</b>	<b>Year</b>	<b>Indexed Bracket</b>
2000	\$10,800	2000	\$15,800	2000	\$23,000
2001	\$11,100	2001	\$16,200	2001	\$23,500
2002	\$11,300	2002	\$16,500	2002	\$24,000
2003	\$11,600	2003	\$16,900	2003	\$24,500
2004	\$11,800	2004	\$17,200	2004	\$25,100

Taxable reduction values would not be indexed or changed.

### *Inflationary Indexing of Total Program Cost*

The second component of the analysis is to estimate program cost in future years. Using the WEFA forecast of GDP deflator and assuming an increased cost of \$1.0 million in the year 2000, it is possible to project future years' cost of the homestead exemption program. This is graphically done in Figure 1. First, data from 1985 through 1996 is adjusted for inflation, using the GDP deflator measure, to Tax Year 1996 (most recent data). A solid, vertical line is drawn at tax year 1996 to indicate the actual (adjusted) data from projected data. Second, the income bracket increases of 1988 and 1995 are indicated with a solid, vertical line, along with the S.B. 6 tax year 2000 bracket increase.

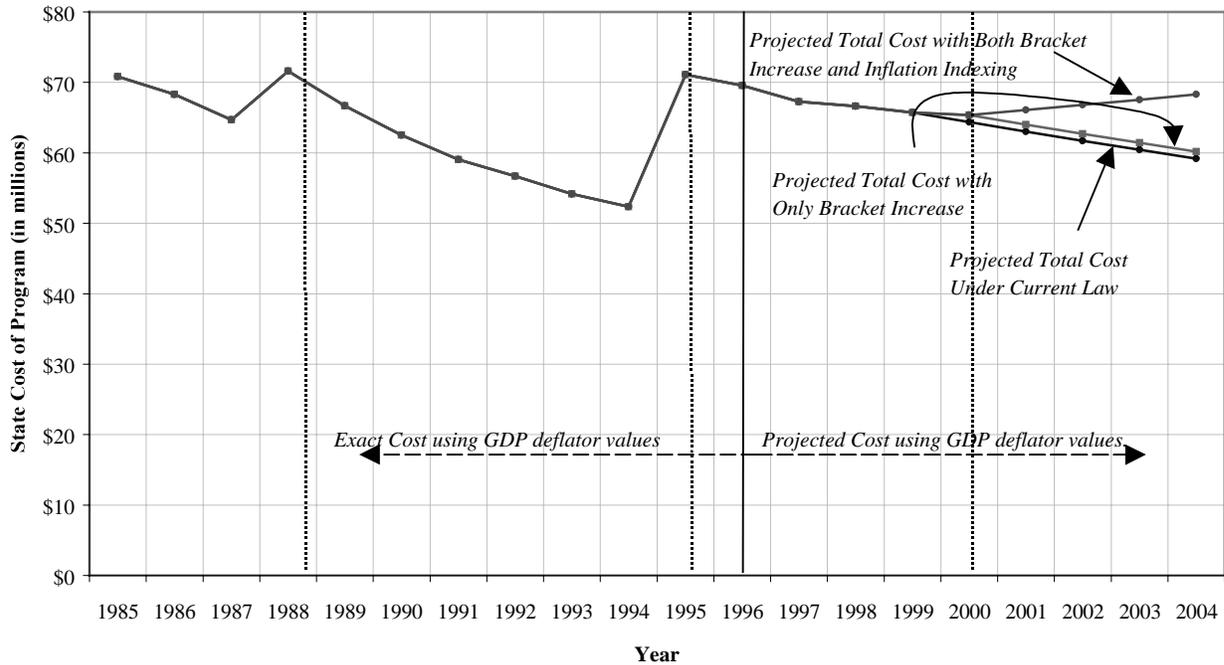
Figure 1 data between 1996 and 2000 represent the projected trend under current law. From the base year of 2000, three projections are presented in Figure 1. The lowest line represents no change to the homestead exemption program. Based on historical data, the state cost decreases by about one-percent each year as homesteaders' come in and out of the program due to changes in their total income. LBO projects that the homestead program will cost \$59.2 million in the year 2000 under current law, *ceteris paribus*.

The middle project line represents a \$1.0 million increase in the homestead program due to raising the topmost qualifying income bracket and not adjusting all the brackets for inflation. In year 2000, the homestead program would cost \$65.4 million from just increasing the top bracket.

<sup>2</sup> The GDP deflator, as a measure of the overall price change in domestic goods, encompasses a broader range of domestic products than the consumer price index. It also allows for comprehensive substitution among goods and services.

The top projection represents S.B. 6. In tax year 2000, there will be a \$1.0 million increase in the homestead program cost due to increasing the topmost bracket and an additional \$725,000 each successive year from indexing the income brackets to inflation.<sup>3</sup> The difference between the top projection and the bottom project (current law) is the difference in annual cost, which grows by an additional \$725,000 each year.

**Figure 1: Projected Program Cost With and Without Brackets and/or Indexing**



**Conclusion**

The total effect of indexing the homestead program to inflation and increasing the maximum qualifying income bracket is to increase the program cost by \$1.0 million in year 2000 and \$725,000 each successive year thereafter, which, in total, is a \$1.75 million increase annually.

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<sup>3</sup> WEFA forecasts an annual increase of 2.1% in the GDP deflator. Homestead exemption costs decreased by 1%-2% annually over the 1988-1995 period, with later decreases being about 1%. Therefore, indexing will work to increase program costs about 2% above where they would have been otherwise, resulting in a net increase of about 1% annually.