Fiscal Note & Local Impact Statement

123 rd General Assembly of Ohio

BILL: **S.B. 199** DATE: **January 18, 2000**

STATUS: **As Introduced** SPONSOR: **Sen. Spada**

LOCAL IMPACT STATEMENT REQUIRED: **No — Permissive**

CONTENTS: **Authorizes school boards to exempt persons qualifying for the homestead reduction from liability for future increases in school district property tax rates.**

State Fiscal Highlights

- The state could experience a minimal increase in GRF expenditures due to eligible homeowner's applying for the homestead exemption program in light of additional property tax savings on the school district portion of property tax liability.

Local Fiscal Highlights

- The permissive bill allows school boards to adopt a resolution that exempts persons qualifying for the homestead exemption program from future increases in school district property tax rates, which results in lost revenue to such a school district.

- Property tax revenue to local governments would not be effected because the reduction applies only to the to school district's tax rates.

- The county auditors office of a school district(s) passing this resolution would experience an administrative cost increase to calculate the reduction. Due the many variables, LBO is not able to estimate this cost.

- Depending on the number of homesteaders in the school district, property values, effective millage rates, and new levy rates will determine the district's revenue loss. Data on homestead applications is categorized by county and not school district, but does range from 404 homesteaders in Holmes County to 38,178 in Cuyahoga County in 1998. School boards would be weighing the fiscal impact of exempting their homesteader's versus the probability of passing a new levy and its additional revenues to be gained.

- Exempting a portion of the taxable district value results in a higher millage rate due to the same desired revenue applied to a smaller tax base, effectively shifting tax burden unto non-homesteaders.

Detailed Fiscal Analysis

The bill would allow persons qualifying for the homestead exemption program to be exempt from future school tax rate increases if the school board adopts such a resolution.

<u>Homestead Exemption Program</u>

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 $23,000 to receive a reduction in taxable property value.[1] The program cost is reimbursed by the state to local taxing districts. Recently enacted legislation (S.B. 6 of the 123rd G.A.) indexed qualifying income brackets to the GDP deflator beginning in tax year 1999 and indexed taxable value reduction beginning in tax year 2001. In 1998, the homestead exemption program had 242,525 participants at a cost of $66.8 million.

Persons applying for the exemption calculate their total qualifying income based on the following formula:

	Federal Adjusted Gross Income
+	Nontaxable Social Security Retirement Benefits and Survivor Benefits
+	Nontaxable Retirement, Pension, and Annuity Benefits
+	Interest on Tax Exempt Government Obligations
-	Disability Payment paid by Veterans Administration or any branch of Armed Forces
-	All other Disability Benefits up to a maximum of $5,200
=	Total Income

The reduction in value is calculated based on the guidelines presented in Table 1.

Table 1: Current Law Homestead Qualifications and Reductions

Total Income	**By the lesser of:**
Total Income ≤ $11,900	$5,000 or 75% of Total Income
$11,900 < Total Income ≤ $17,500	$3,000 or 65% of Total Income
$17,500 < Total Income ≤ $23,000	$1,000 or 25% of Total Income
Total Income ≥ $23,000	$0

The homestead applicant's property tax credit is determined as follows:

(1) Calculate total income of the applicant.

(2) Given total income, the property tax payment reduction (homestead credit) is determined. For the majority of applicants, the lesser amount of the discrete dollar value reductions or the percentage of total income (see Table 1) is the discrete value reductions ($5,000, $3,000, or $1,000).

(3) The value reduction amounts are then multiplied by the tax district's *gross millage* rate. This product is the amount by which the homesteader's property tax bill is reduced, which the state reimburses local taxing districts. (See Appendix for detailed examples.)

[1] Manufactured or mobile homes are taxed like real property, and, therefore, are eligible for the homestead exemption, if they are permanently affixed to land on or after January 1, 2000 or if they were permanently affixed to land before this date and the owner wishes to be taxed as real property. Tax liability on mobile or manufactured homes is applied to its assessable value of 40 percent, after home's market value is depreciation by one of two schedules, times the *gross* tax rate in the district.

Property Tax Rate Increase Exemption

The bill allows school boards to adopt a resolution exempting from future school district tax rate increases persons qualifying for the homestead exemption program. Other local government's tax rates are not affected. The school board has two options to provide for the reduction in taxes:

1. Reduce taxes charged by all property tax levies.
2. Reduce the taxes charged by a particular levy.

With method (1), the county auditor must compute the following calculation to reduce taxes charged by all school district property taxes levied:

$$\text{Taxable Value Reduction} = 1 - \left(\frac{\text{Aggregate School District Tax Rate Levied in Year of Original Application}}{\text{Aggregate School District Tax Rate Levied in Current Year}} \right)$$

With method (2), the county auditor calculates the reduction in taxes charged by a levy by multiplying the taxable value by the rate of the specified levied tax.

Table 2 summarizes the detailed examples presented in the appendix and extends the examples to show the savings these three homesteaders would have received if their school district passed a resolution exempting homesteaders from school property tax rate increases. The assumptions are three homesteaders, differing only in their level of qualifying income, have identical homes and tax rates:

(1) Market value of home is $100,000, therefore taxable value is $35,000,
(2) Year 1 gross millage tax rate is 56.40 mills (5.64%) and effective millage tax rate is 38.83 mills (3.883%)
(3) School board passes a SB 199 resolution exempting homesteader's from future school district rate increases and also passes a 5-mill levy.
(4) Year 2 gross millage tax rate is 61.40 mills (6.140%) and effective millage tax rate is 43.83 mills (4.383%). Effective millage rate is increased by 5-mills for simplicity.
(5) No increase in home value.
(6) The homesteader's qualifying income is $11,899, $17,499, or $22,999.

Table 2 -Summary of Appendix Examples and Extension to Exempting School Rate Increases

Homesteader's Qualifying Income	**$11,899** *(Low Bracket)*	**$17,499** *(Middle Bracket)*	**$22,999** *(Upper Bracket)*
Year 1			
Gross Property Tax Liability after reductions*	$1,189.17	$1,189.17	$1,189.17
Homestead Property Tax Liability Reduction	- $282.00	- $169.20	- $56.40
Total Property Tax Liability (Gross Liability – HEX Credit)	$907.17	$1,019.97	$1,132.77
Year 2			
Gross Property Tax Liability after reductions*	$1,342.29	$1,342.29	$1,342.29
Homestead Property Tax Liability Reduction	- $307.00	- $184.20	- $61.40
Net (1) Property Tax Liability *(Gross Liability – HEX Credit)*	$1,035.29	$1,158.09	$1,280.89
School Property Tax Reduction of 5 mill	- $175.00	- $175.00	- $175.00
Net (2) Property Tax Liability *(Net (1) – S.B. 199 Credit)*	$860.29	$983.09	$1,105.89

* 10 percent and 2.5 percent rollback.

In the above example, each homesteader received a $175.00, taxable value of $35,000 times 5-mills (0.5%) tax credit on the school district portion of their tax liability (calculated using method 2 for simplicity).

Fiscal Impacts

Four fiscal impacts result from the bill. The first is the necessary millage rate will need to be higher if exempting homesteaders compared to not exempting homesteaders. Millage rates are based on district value and the desired revenue. Exempting a portion of the taxable district value results in a higher millage rate due to the same desired revenue applied to a smaller tax base, effectively shifting tax burden unto non-homesteaders.

Second, this is a direct revenue loss to the school district. Depending on the number of homesteaders in the school district, home values, effective millage rates, and new levy rates will determine the district's revenue loss. Data on homestead applications is categorized by county and not school district, but does range from 404 homesteaders in Holmes County to 38,178 in Cuyahoga County in 1998. School boards would be weighing the fiscal impact of exempting their homesteader's versus the probability of passing a new levy and its additional revenues to be gained.

Third, not all qualifying homeowner's apply for the homestead credit. An exemption from future school district property tax increases may be an incentive for additional qualifying homesteaders to apply for the homestead exemption program, increasing the cost to the state for reimbursement and, thereby, affecting the levied millage rate.

Fourth, he county auditors office of a school district(s) passing this resolution would experience an administrative cost increase to calculate the reduction. Due to the many variables, LBO is not able to estimate this cost.

❑ *LBO staff: Jeff Petry, Economist*

\\Budget_office\isis_vol1.lbo\FN123\SB0199in.doc

Appendix – How the Homestead Reduction is Calculated

1. Assume a home's appraised value is $100,000.
2. Determine the assessed value by multiplying the appraised value by 35%. Here, the assessed value would be $35,000.

3. Assume the homesteader's income falls in the "less than $11,900" income bracket with $11,899 in total income. The reduction is the lesser of 75% of taxable value or $5,000.
   - 75% × $35,000 = $26,250
   - $5,000 is less than 75% of assessed value

To determine the taxable value reduction in the tax bill, $5,000 is multiplied times the tax rate where the property is located. Assuming a gross tax rate of 56.40 mills, the taxable value reduction is:

- $5,000 × 0.05640 = $282.00

4. **Therefore, the tax bill reduction for a person with a total income of $11,899 and a gross millage rate of 56.40 mills is $282.00. (Using Effective mills, 38.83, the tax bill reduction would be $194.15, a subsidy of $87.85)**

5. Assume the homesteader's income falls in the "$11,900 to $17,500" income bracket with $17,499 in total income. The reduction is the lesser of 60% of taxable value or $3,000.
   - 60% × $35,000 = $21,000
   - $3,000 is less than 60% of assessed value

To determine the taxable value reduction in the tax bill, $3,000 is multiplied times the tax rate where the property is located. Assuming a gross tax rate of 56.40 mills, the taxable value reduction is:

- $3,000 × 0.05640 = $169.20

6. **Therefore, the tax bill reduction for a person with a total income of $17,499 and a gross millage rate of 56.40 mills is $169.20. (Using Effective mills, 38.83, the tax bill reduction would be $116.49, a subsidy of $52.71)**

7. Assume the homesteader's income falls in the "$17,500 to $23,000" income bracket with $22,999 in total income. The reduction is the lesser of 25% of taxable value or $1,000.
   - 25% × $35,000 = $8,750
   - $1,000 is less than 25% of assessed value

To determine the taxable value reduction in the tax bill, $1,000 is multiplied times the tax rate where the property is located. Assuming a gross tax rate of 56.40 mills, the taxable value reduction is:

- $1,000 × 0.05640 = $56.40

8. **Therefore, the tax bill reduction for a person with a total income of $22,999 and a gross millage rate of 56.40 mills is $56.40. (Using Effective mills, 38.83, the tax bill reduction would be $38.83, a subsidy of $17.57)**