

# Fiscal Note & Local Impact Statement

127<sup>th</sup> General Assembly of Ohio

Ohio Legislative Service Commission  
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BILL: **H.B. 26** DATE: **April 19, 2007**

STATUS: **As Introduced** SPONSOR: **Rep. Wolpert**

LOCAL IMPACT STATEMENT REQUIRED: **Yes**

CONTENTS: **Provides for the creation of urban homestead zones and an urban homestead zone scholarship program; requires tax increment financing in those homestead zones that participate in the scholarship program**

## State Fiscal Highlights

STATE FUND	FY 2008	FY 2009	FUTURE YEARS
<b>General Revenue Fund</b>			
Revenues	- 0 -	- 0 -	- 0 -
Expenditures	Minimal increase for administration of the scholarship program; potential increase related to scholarships	Minimal increase for administration of the scholarship program; potential increase related to scholarships; possible increase or decrease in base cost funding to schools	Minimal increase for administration of the scholarship program; potential increase related to scholarships; possible increase or decrease in base cost funding to schools
<b>State Urban Homestead Scholarship Fund (New Fund)</b>			
Revenues	Gains from collection of payments made in lieu of taxes	Gains from collection of payments made in lieu of taxes	Gains from collection of payments made in lieu of taxes
Expenditures	Payments for scholarships, presumably in a total amount equal to payments collected	Payments for scholarships, presumably in a total amount equal to payments collected	Payments for scholarships, presumably in a total amount equal to payments collected

Note: The state fiscal year is July 1 through June 30. For example, FY 2007 is July 1, 2006 – June 30, 2007.

- The Department of Development may incur minimal additional administrative expenses. The bill requires the Director of Development to certify the criteria for establishing an urban homestead zone, including a nonprofit corporation's articles of incorporation and property owners' petitions; to review qualifying criteria related to the Urban Homestead Scholarship Program; to establish rules associated with administering the Urban Homestead Scholarship Program; and to submit status reports related to the amount of funds collected for the scholarship program.



- The Department of Education may incur minimal additional administrative expenses. The bill requires the Department to make rules under the Urban Homestead Scholarship Programs and administer the scholarships themselves. Additional minimal administrative costs may be incurred for the administration of state tests required for students receiving scholarships who are enrolled in chartered nonpublic schools.
- Scholarships under the Urban Homestead Scholarship Program are to be funded by "appropriations of the General Assembly" (presumably from the General Revenue Fund) and by payments collected under a tax increment financing program. Any changes in real property taxes as a result of improvements made in an urban homestead zone are effective in the year the improvement first appears on the tax list (e.g., changes made immediately are effective for payments made in calendar year 2008 for tax year 2007).
- The State Urban Homestead Scholarship Fund is established and is funded by payments collected in lieu of taxes under the tax increment financing provisions of the bill. Scholarship payments will be paid out of this fund. The bill requires that at least \$120,000 in improvements be made on a residence before the child of that homeowner may be eligible for a scholarship. This means that the awarding of scholarships likely will not occur until enough time has passed to allow these improvements to be made.
- Expenditures by public schools and state aid to those schools may both decrease if the program drives students to shift from public schools to chartered nonpublic schools.

### ***Local Fiscal Highlights***

LOCAL GOVERNMENT	FY 2007	FY 2008	FUTURE YEARS
<b>Municipalities and Other Local Governments</b>			
Revenues	Potential gain or loss	Potential gain or loss	Potential gain or loss
Expenditures	Potential increase or decrease	Potential increase or decrease	Potential increase or decrease
<b>School Districts</b>			
Revenues	- 0 -	Potential gain or loss in real property tax revenues	Potential gain or loss in real property tax revenues; potential gain or loss of state base cost funding
Expenditures	- 0 -	Potential decrease	Potential decrease

Note: For most local governments, the fiscal year is the calendar year. The school district fiscal year is July 1 through June 30.

- For development that would occur regardless of this program, the partial real property tax exemption offered by the program would reduce tax revenue to local governments. The effects of this provision on real property taxes are assumed to begin with payments made in calendar year 2008 for tax year 2007.
- Any reduction in the taxable value of real property would result in an increase in base cost funding to school districts.
- Tax revenues to local governments could rise to the extent that the program is designed to encourage investment that may cause real property values in urban areas to be higher than they would have been otherwise.

- Income tax revenues of some municipalities may rise if additional residents are attracted by the benefits offered through urban homestead zones. Other municipalities may lose residents and tax revenues if they are lured away by the program.
  - Local government expenditures may increase due to an increased need for services for additional residents attracted by the program. The areas from which these residents were attracted may need to provide fewer services, leading to lower expenditures.
  - If the program results in students moving from public schools to chartered nonpublic schools, there may be a reduction in both expenditures by the schools that are losing students as well as state aid to those schools.
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## ***Detailed Fiscal Analysis***

### **Urban Homestead Zones**

House Bill 26 authorizes the creation of urban homestead zones within the boundaries of a city's urban core for the stated purpose of encouraging the repopulation of the area. A zone may be created by the adoption of a resolution by a city's legislative authority upon the petition of at least 50% of the property owners within a proposed zone, including 25% of the property owners who are also electors in the proposed zone. An urban homestead zone is not allowed to remain in existence for more than 20 years.

Nonprofit corporations organized under the Ohio general nonprofit corporation law would govern urban homestead zones. These would include a board of directors comprising the board of trustees of the nonprofit corporation that governs each zone. The board of directors would consist of at least five directors, one of whom would be appointed by the city's legislative authority; the other directors would be elected.

### **Assessments to Property Owners for Security Guards**

The bill provides for assessments on residents in an urban homestead zone to pay for a security guard force for the zone. The zone's board of directors may assess property owners for these costs upon the approval of both a majority of the members of an urban homestead zone whose property may be assessed (members are defined as each property owner within a zone), and by the city's legislative authority. The assessment must be levied by the city's legislative authority upon all members of the urban homestead zone in accordance with existing law governing the levy and collection of special assessments. The assessment may be levied by a percentage of the tax value of the property assessed, or in proportion to the benefits that may result from the security force, or both.

Costs of a security guard plan may include: (1) The cost of creating and operating the urban homestead zone under this chapter, including creating and operating the nonprofit corporation governing the zone, hiring employees and professional services, contracting for insurance, and purchasing or leasing office space or office equipment, (2) the cost of planning and implementing a security guard plan,

including payment of legal, insurance, and planning fees and expenses, (3) any court costs incurred by the zone in implementing the security guard plan, and (4) any damages resulting from implementing the security guard plan. These costs would be borne by the property owners within the urban homestead zone. It is not possible, however, to evaluate what an individual property owner might be assessed without knowing the particulars of an individual zone's security plan and the number of property owners that would share the responsibility of funding the plan.

Under the bill, cities may not rely on an urban homestead zone's security guard force to substitute for regular law enforcement services or use the security guard force as a reason to reduce or not increase the provision of such services.

**Administrative Expenses Incurred by the Department of Development**

The bill places requirements on the Director of Development to certify that urban homestead zones meet the requirements prescribed in the bill for their establishment. These include requirements that the zone lie within a "blighted area" and that the area conforms to specific geographic size and shape parameters. The Director is also required to review a nonprofit organization's articles of incorporation and the property owners' petitions for the establishment of an urban homestead zone. Because of these requirements, it is likely that the Department of Development may incur slight increases in administrative expenses.

**Urban Homestead Scholarship Program**

The bill establishes the Urban Homestead Scholarship Program, which is available to homeowners in every urban homestead zone created in a "big eight school district" (Akron, Canton, Cincinnati, Cleveland, Columbus, Dayton, Toledo, and Youngstown). Scholarships are available for a child of a parent who owns and occupies a home in the zone, provided that (1) the child is enrolled in a chartered nonpublic school, and (2) the owner-occupant, in combination with any previous owner-occupant, has spent at least \$120,000 on improvements to the residence since the urban homestead zone was created. Meeting these qualifications does not assure that a parent will receive a scholarship for a child, if the number of applicants exceeds the number of scholarships approved by the General Assembly.

The amount of a scholarship is the lesser of the tuition charged by the charter school or the maximum amount prescribed for the Educational Choice Scholarship Pilot Program – a program established under Am. Sub. H.B. 66 of the 126th General Assembly, under which the maximum amount for a scholarship in FY 2007 is \$4,250 for grades K through 8 and \$5,000 for grades 9 through 12. The maximum number of children that may receive a scholarship through the Urban Homestead Scholarship Program in a given year will be prescribed by the General Assembly. As with the Educational Choice Scholarship Program, the bill requires that every chartered nonpublic school enrolling students receiving urban homestead scholarships administer all statewide student achievement tests to those scholarship students.

Under the bill, the Department of Education will likely see a potential slight increase in costs for the administration of these additional tests by participating chartered nonpublic schools. Additional

minimal costs may be incurred by the Department for its joint role in prescribing procedures and administration of the scholarship program with the Department of Development.

If the students receiving these scholarships would have attended the same chartered nonpublic schools without the program, then attendance at public schools and state aid based on attendance would be unchanged. However, if the parents of these children were induced by the benefits available under this bill to shift their children from public schools to the chartered nonpublic schools, then attendance in public schools, associated expenditures by those schools, and state aid would all decline.

### **Tax Increment Financing**

Under the bill, scholarships under the Urban Homestead Scholarship Program will be funded by appropriations of the General Assembly (presumably from the General Revenue Fund), and, if available, by payments collected under a tax increment finance (TIF) program adopted by a city's legislative authority. Under the TIF, improvements made to property within an urban homestead zone may be declared a public purpose and partially exempt from taxation (providing a parcel of land is not already exempt under a preexisting TIF). No more than 75% of improvements may be exempt from taxation under the TIF, and the time period of the exemption may not exceed the life of the urban homestead zone, which as noted above is limited to a maximum of 20 years. In lieu of the taxes that would have been paid, owners of exempt property are required to make annual service payments to the county treasurer. These payments will then be distributed to the Treasurer of State and deposited to the newly established State Urban Homestead Scholarship Program Fund, from which payments for scholarships will be made.

Up to 75% of taxes on the value of any development that would have taken place in the absence of the program would be lost to local governments, since these potential revenues would be diverted instead to the State Urban Homestead Scholarship Program Fund. A reduction in real property taxable value would result in an increase in base cost funding to school districts. On the other hand, to the extent that the program in this bill achieves its objective and attracts additional residents, it would add to local property tax revenues, since at least 25% of the value of improvements would not be exempt from taxation. After the expiration of the urban homestead zone, in 20 years or less, 100% of the additional value would be taxable. Also, municipal income tax revenues would rise if the new residents were attracted from outside the municipality. Other municipalities from which the new residents were attracted could lose income tax revenues.

If the program attracts additional residents, these residents could be expected to require additional local government services. The incremental tax revenues, taking account of the portion excluded from taxation, might be insufficient to cover the cost of the services.

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