Fiscal Note & Local Impact Statement

127 th General Assembly of Ohio

Ohio Legislative Service Commission
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BILL: **H.B. 60** DATE: **March 14, 2007**

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

LOCAL IMPACT STATEMENT REQUIRED: **Yes**

CONTENTS: **Authorizes county commissioners to exempt from taxation qualified homesteads of members of the National Guard and Armed Forces reserves deployed outside the state, and exempts estates of certain members of the Armed Services from specified fees**

State Fiscal Highlights

STATE FUND	FY 2007	FY 2008	FUTURE YEARS
General Revenue Fund			
Revenues	- 0 -	- 0 -	- 0 -
Expenditures	- 0 -	Potential decrease of $0.8 million	Potential net increase of $4.3 million
Property Tax Administration Fund			
Revenues	- 0 -	Nominal loss	Nominal loss
Expenditures	- 0 -	- 0 -	- 0 -

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

- Under current law, taxes on owner-occupied real property are reduced 12.5%, which is reimbursed to local governments by the state. Tax exemptions for homesteads of qualifying members of the National Guard and reserves could cost $12 million per year in forgone real property tax revenues, reducing the state's reimbursement payments by roughly $1.5 million per year. Numbers of eligible individuals are not known, so the cost is fairly uncertain.

- Reduction in tax revenue to school districts, as a result of tax exemption for real property owned by qualifying members of the armed forces, could increase foundation aid payments (base cost funding) from the state to school districts by an estimated roughly $5.8 million per year.

- The bill provides for retroactive tax exemption back to tax year 2004. State foundation aid would not change as a result of the tax exemptions in this bill until FY 2009. State reimbursements of percentage rollbacks are not expected to change until FY 2008.

- The bill would reduce credits to the Property Tax Administration Fund, used to defray Department of Taxation costs, by a nominal amount estimated at $4,200 per year.

Local Fiscal Highlights

LOCAL GOVERNMENT	FY 2007	FY 2008	FUTURE YEARS
School Districts			
Revenues	- 0 -	Potential loss of $27.4 million	Potential net loss of $1.9 million
Expenditures	- 0 -	- 0 -	- 0 -
Other Local Governments			
Revenues	Potential loss of $11.3 million	Potential loss of $4.3 million	Potential loss of $4.3 million
Expenditures	Possible increase for administrative costs	Possible increase for administrative costs	Possible increase for administrative costs

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

- The bill would allow county commissioners to exempt from taxation residences—real property and manufactured or mobile homes—owned by qualifying members of the armed forces. The exemption may be applied retroactively to years beginning with tax year 2004. Few properties appear likely to qualify for the exemption relative to total real property in the state.
- A school board may vote not to exempt qualified homesteads from taxes, in a county where the county commissioners approve such an exemption. The school board opt-out would apply only to taxes levied by the school district on behalf of which that school board makes decisions.
- The reduction in taxable property valuation would increase foundation aid payments to most school districts from the state. These payments would partially offset the loss of tax revenues for most districts. Net losses to individual school districts that do not opt out of offering the exemption would depend on the effective tax rate for real property for continuing levies above the state foundation program. The net loss to school districts statewide is estimated at $1.9 million per year.
- Losses of real property tax revenues to other local governments are estimated at $4.3 million per year.
- Retroactive refunds could give rise to large first-year costs as shown in the table above. Also, retroactive refunds would not be taken into consideration in calculating state base cost funding payments to school districts, consequently the initial loss would not be mitigated by state aid. Similarly, state reimbursements of percentage reductions would not be adjusted for retroactive tax exemptions, so the initial loss of tax revenue to school districts and other local governments would not be augmented by downward adjustment of state reimbursements.
- For emergency and bond tax levies, the reduction in real property taxable value would be offset by a tax rate increase, to ensure that the specific amount of tax revenue required by the levies is raised. Loss of tax revenues from the qualifying members of the armed forces would be replaced by increased taxes on other property owners. New levies of all types would require a higher tax rate to raise the same amount of revenue, for the period during which eligibility continued.
- The bill would exempt from specified probate court fees the estates of members of the United States Armed Services who died while serving in a combat zone or due to injury or disease incurred during such service. The adverse fiscal effect on probate court fee revenue would be relatively small.

- Details behind the numbers shown above are in the table at the end of this fiscal note.

Detailed Fiscal Analysis

The bill authorizes boards of county commissioners to allow certain members of the National Guard and reserves to be exempted from paying property taxes on their homes, including manufactured or mobile homes as well as real property. The exemption applies to tax years during which a member of the National Guard or reserves is deployed outside Ohio for at least five consecutive months pursuant to a congressional declaration of war or executive order of the President. In order to qualify, the property owner's compensation from his or her nonmilitary employer, net earnings from self-employment, or both must be reduced more than 25% during deployment.

If county commissioners adopt a resolution exempting qualifying homesteads in the county from real property taxes, the owner of a qualifying property, or an authorized person acting on his or her behalf, may apply for the exemption, for the current year or retroactively for any prior tax year beginning with 2004 during which the eligibility requirement was met. A school board in a county where such an exemption is being offered may, under the bill, choose not to provide an exemption from school district taxes.

Data provided by the Armed Forces in March 2004 indicate that 6,570 Ohioans serving in National Guard and reserve units of the Army, Navy, and Air Force were deployed overseas at around that time. Additional service personnel may have been deployed in the United States but outside Ohio. Deployments of Marine and Coast Guard reserve personnel are not broken down by state, and would add a small number to this total. We also have information from the military indicating that as of February 2004 over 6,000 Ohio National Guard members had been called up for active duty since October 2001. This latter number does not include reservists.

If we assume that all or most of the National Guard and reserve personnel called to active duty since the September 11, 2001, attacks were deployed pursuant to executive order of the President, and that many of these deployments were sufficiently recent that two-thirds of those deployed were still on active duty as of March 2004, then perhaps roughly 10,000 Ohioans in National Guard or reserve units had been called to active duty at that time in response to the attacks on this country. If many of those deployed were replacements for National Guard and reserve members deployed earlier, then the total numbers of such personnel deployed outside of Ohio could have been several thousand higher. Additional National Guard and reserve personnel have been placed on active duty outside the state since then.

The requirement in the bill that, in order to qualify for the exemption, the compensation of the National Guard or reserves member from that member's nonmilitary employer, self employment, or both be reduced more than 25% during the member's deployment probably would not disqualify many persons who otherwise could claim the exemption. A source in the military indicated that few if any private sector employers continue to pay an employee during the time when that person is engaged full-time in a military deployment. Certain hazardous duty military pay including combat pay is free of federal and state income tax, mitigating the financial impact. State employees initially continue to receive their base pay while deployed. Those deployed under a federal order would, after about a month, receive a reduced amount of state pay, sufficient together with their military pay to equal their previous pre-tax base pay. Some may gain financially from deployment, on an after-tax basis. Others who earned overtime pay in their state jobs may lose. State employees account for no more than a small percentage of estimated National Guard and reserves deployed.

Out of the estimated more than 10,000 Ohio National Guard and reserves members deployed outside Ohio since September 11, 2001, only those who own homes would be eligible for the benefits of the bill. About 71% of Ohio households owned their homes in census year 2000, higher than the national average of 67%. Younger adults, at ages more likely to account for the majority of those called to active duty in combat zones, tend to have lower home ownership rates. Nationwide, for example, 41% of households headed by persons younger than 35 years of age owned their own homes in 2000.

Even if all of these estimated more than 10,000 Ohioans were homeowners, were stationed outside Ohio, and were otherwise eligible for the benefits of this bill, they would account for only a fraction of 1% of the number of owner-occupied housing units on which real estate taxes are paid in the state. According to the 2000 Census, Ohio had 3,073,000 owner-occupied housing units in that year. More realistically, if half of the estimated more than 10,000 Ohioans were homeowners, their homes were of average value, and their counties of residence all approved the exemption provided in this bill, real estate taxes on owner-occupied residences statewide would be reduced by only about 0.2%, or roughly $12 million per tax year. The total amount of taxes on manufactured or mobile homes is quite small and does not significantly alter this estimate.[1] This number is assumed in the calculations below. The potential tax loss might rise higher than this in future years. On the other hand, rates of homeownership of members of this group might be much lower than 50% or their homes on average might have lower tax value than the average Ohio home. Impacts could vary considerably among tax districts, with some more adversely affected.

Effect of tax exemptions on the state

State aid for school districts includes a foundation or basic aid program that targets assistance to districts with the lowest tax capacity. Each district's capacity is measured as 23 mills (2.3%) times the district's taxable property value. The formula determining state assistance compares this measure of capacity with the product of a per-pupil foundation level of funding—$5,403 in FY 2007—times the district's average daily membership. Any shortfall is filled by state aid. Under this formula, a decline in taxable property value would increase annual state aid to most school districts by 2.3% of the property value reduction.

If total statewide real property taxes were reduced $12 million per year by this bill, then the cost to the Department of Education would be about half of this, or about $5.8 million per year. School board decisions not to provide the exemption could lower the cost. The bill does not address how base cost funding for retroactive tax exemptions would be handled. In the absence of a specific requirement in the bill for recertification of taxable values for these earlier years, to take account of the retroactive exemptions, base cost funding would not be adjusted for these changes. By the date of enactment of this bill, the Department of Taxation would likely have finalized the tax year 2006 taxable values that will be certified to the Department of

[1] Of taxes charged in TY 2005 of $9.0 billion on Class I property, about $8.5 billion was owed on residential property. If 71% of the units were occupied by their owners and owner-occupied units averaged about twice the value of renter-occupied units, then about 83% of the $8.5 billion in taxes owed, or about $7.1 billion, was owed on owner-occupied units. Subtracting the 10% and 2.5% reductions allowed on owner-occupied housing implies taxes due from owners of about $6.2 billion. The difference, $0.9 billion, was reimbursed to local governments by the state. The $12 million estimate above is about 0.17% of $7.1 billion. Manufactured homes used as residences are subject either to the manufactured home tax or to real property taxes. The total of these two taxes levied on manufactured homes in 2005 was $40 million.

Education in June, consequently base cost funding for tax year 2006 as well as earlier years would not be adjusted. The earliest effect of the bill on base cost funding would be in FY 2009, based on tax year 2007 taxable values. Per-pupil property values in about 4% of school districts are high enough that they do not receive state base cost funding based on the formula calculation alone. If any of these districts included property qualified for tax exemption under the bill, the resulting reduction in tax receipts would not be partly offset by an increase in state funding.

Taxes on all real property are subject to various reductions from voted or administered millage rates. One of these reduces taxes by 10%, and another by 2.5% for homeowners. Both are reimbursed to local governments by the state. Lower taxable property value as a result of the tax exemption in the bill would reduce the state's reimbursement payments. The increase in school foundation aid payments would be larger than this reduction. If $12 million per year in property tax payments from homeowners were eliminated by the bill, the cost to the state of the 12.5% rollback would decrease by $1.5 million. The effect of retroactive tax exemptions on these reductions is not addressed in the bill. In the absence of a requirement for recertification of the amount of the reductions, state reimbursements would not be adjusted downward retroactively to take account of the tax exemptions for earlier years. Although the timing of implementation of the bill, if it passes and becomes law, is uncertain, LSC assumes in this fiscal note that it is unlikely to be in operation sooner than the second half of this calendar year, and that reimbursements of percentage rollbacks would not be affected until the first half of calendar year 2008.

The bill appears to impose no additional administrative costs on the state. Under current law, 35% of 1% (0.35%) of the 10% rollback will be withheld from the reimbursement to local governments for credit to the Property Tax Administration Fund. This and other credits to this fund are used to defray costs to the Department of Taxation to administer property taxes. A tax exemption of $12 million per year would reduce this rollback by $1.2 million, reducing the credit to the Property Tax Administration Fund by $4,200.

Effect of tax exemptions on local governments

As described above in the discussion of state aid for schools, loss of part of the property tax base because of the tax exemption would be partly offset for most school districts by an increase in state aid. School districts could also opt out of the program and avoid any loss of funding. Losses for other local governments would generally not be offset. As also described above, losses to school districts due to retroactive tax exemptions would not be offset by base cost funding increases. Nor would retroactive tax exemptions result in downward adjustment of reimbursements for percentage rollbacks to school districts and other local governments. On the assumption of a $12 million annual cost, the net ongoing cost to school districts statewide is estimated at about $1.9 million yearly, and the cost to other local governments is estimated at $4.3 million. Because of its retroactive feature, the initial cost of the bill to school districts and other local governments could be higher. Under current law (ORC section 5715.22), to which the bill makes reference, if credits for tax overpayments exceed any taxes, assessments, or charges due, the balance due to the taxpayer is to be refunded immediately.

For some types of real property taxes, a reduction in taxable property values as a result of the tax exemption for eligible members of the National Guard and reserves would trigger adjustments in tax rates. Emergency levies are enacted to raise a specific amount of tax revenue. Bond levies must raise enough tax revenue to service the outstanding securities. For emergency and bond tax levies, tax rates are set annually to raise the required amounts of revenues. A reduction in taxable value under the provisions of H.B. 60 would be offset by a tax rate increase, to ensure that the specific amount of tax revenue required by the levies is raised. The members of the National Guard and reserves granted the exemption would pay no real property taxes or would receive refunds of taxes previously paid, and other property owners would pay more taxes.

The bill would add to administrative costs for county auditors and for county veterans service offices that are required under the bill to verify documentation accompanying applications for tax exemption. Incurring these additional costs would be at the discretion of county commissioners.

Probate court fees

The bill relieves the estate of a deceased member of the military, under certain circumstances, from certain probate court fees. Specifically, if a decedent died while in active service in the United States Armed Forces in a combat zone, or due to wounds, disease, or injury incurred during service in a combat zone, that person's estate may not be charged the specified fees. Included in these fees are any charge for filing a decedent's will for probate, for services rendered by the probate court for administration of the estate, or for relieving the estate from administration under section 2113.03 of the Revised Code or granting an order for summary release from administration under section 2113.031 of the Revised Code. This part of the bill would apply to estates of persons who die on or after the effective date of the bill. The probate court revenues forgone as a result of exemption from charges for these services appear likely, in the absence of a much larger war than is currently being waged, to be relatively small.

Assumptions regarding cash flows

The following table summarizes assumptions regarding cash flows that could result from this bill. Cash flows are shown in the half year in which they are expected to occur, as a way to accommodate fiscal years that begin July 1 (state government and school districts) and January 1 (most other local governments). For example, state reimbursement of $1.5 million in percentage rollbacks is shown as $0.5 million per half year to school districts and $0.3 million per half year to other local governments. Base cost funding of $5.8 million per year appears as $2.9 million per half year. Retroactive tax reductions back to 2004 for those eligible for the benefits of this bill are assumed to be realized in the second half of this calendar year. If instead qualifying members of the National Guard and reserves applied for these benefits over a period of time, the fiscal effects of the bill also would occur more gradually. Additional tax exemptions granted retroactively in future years would result in larger amounts of state base cost funding to schools and state reimbursements of property tax rollbacks not being adjusted for those tax exemptions. Not shown in the table are reductions estimated at $4,200 per year, on the assumptions in this fiscal note, in amounts that would be credited to the Property Tax Administration Fund, for years in which the amount of the 10% rollback is reduced by the exemption in this bill. Totals equal the sum of components shown in the table, apart from rounding differences.

Cash Flow Assumptions, in millions of dollars:

State Expenditures

	Total	Reimburse % Rollbacks			Base Cost Funding		
		TYs 2004-2006	TY 2007	TY 2008+	TYs 2004-2006	TY 2007	TY 2008+
FY 2008	(0.8)						
2H2007							
1H2008			(0.8)				
FY 2009	4.3						
2H2008			(0.8)			2.9	
1H2009				(0.8)		2.9	
FY 2010	4.3						
2H2009				(0.8)			2.9
1H2010				(0.8)			2.9

School District Receipts

	Total	Tax Payments			Reimburse % Rollbacks			Base Cost Funding		
		TYs 2004-2006	TY 2007	TY 2008+	TYs 2004-2006	TY 2007	TY 2008+	TYs 2004-2006	TY 2007	TY 2008+
FY 2008	(27.4)									
2H2007		(20.2)								
1H2008			(6.7)			(0.5)				
FY 2009	(1.9)									
2H2008						(0.5)			2.9	
1H2009				(6.7)			(0.5)		2.9	
FY 2010	(1.9)									
2H2009							(0.5)			2.9
1H2010				(6.7)			(0.5)			2.9

Other Local Government Receipts

	Total	Tax Payments			Reimburse % Rollbacks		
		TYs 2004-2006	TY 2007	TY 2008+	TYs 2004-2006	TY 2007	TY 2008+
FY 2007	(11.3)						
2H2007		(11.3)					
FY 2008	(4.3)						
1H2008			(3.8)			(0.3)	
2H2008						(0.3)	
FY 2009	(4.3)						
1H2009				(3.8)			(0.3)
2H2009							(0.3)

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