



- School districts and other local governments stand to lose revenue from property taxes due to the exemptions granted in this bill. Statewide, school districts benefit from approximately 60 percent of all property taxes levied. The remaining 40 percent benefit other local governments, such as counties and municipalities.
- As a result of the property tax exemptions, some school districts could see an increase in base cost funding, which is funded by the state. This is because the exemption would lower the taxable property valuation. School districts that are “on the guarantee” would not see an increase in funding.

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## ***Detailed Fiscal Analysis***

Sub. H.B. 416 exempts from taxation the property of retirement homes, nursing homes, residential care facilities, adult care facilities and independent living facilities that belong to a not for profit, tax-exempt organization, association or trust that provides care exclusively to its retired, aged, or infirm members on account of their services without compensation.

The fiscal impact of this bill is difficult to determine. It is unclear how many of these residential facilities exist in the state. It is further unclear how many of these facilities are currently on the tax list of the counties in which they are located. Often the occupants of such facilities are residents of the facility where they are performing services of an educational or charitable nature. While the residents are “working” the properties are exempt from taxation. It is when an occupant retires that the facility, or a portion of the facility occupied by the retiree, becomes taxable, under current law. County auditors are often unaware of changes in the status of the occupants of these facilities, thus resulting in a full tax exemption. In cases where the properties *are now on* the tax list, the exemption will have a fiscal impact on the State of Ohio GRF, individual school districts, and local governments that levy property taxes.

The 10 percent rollback on real property taxes and the state base cost funding for Ohio schools are both financed by the GRF. By reducing the amount of property taxes due, the amount of the rollback would also be reduced. On the other hand, the exemption would lead to a lower property tax valuation in the corresponding school district, and this could cause the state’s base cost funding payments to the school district to increase.

The cost of the proposed exemption for retirement homes, nursing homes, residential care facilities, adult care facilities and independent living facilities will depend upon the assessed value of such properties and the tax rates in the corresponding taxing districts. LSC does not know how many of these properties exist in the state. Table 1, below, demonstrates the effects of three hypothetical exemptions. Example A displays the typical effects of a \$140,000 property exempt from property taxation. Example B displays the typical effects of a \$400,000 property exempt from property taxation. Example C displays the typical effects of a \$1.5 million property exempt from property taxation.<sup>1</sup>

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<sup>1</sup> The Congregation of Saint Joseph is one known property that would qualify for the property tax exemption under this bill. The Congregation of Saint Joseph has a total market value of \$12.6 million. The taxable portion of the

<b>Table 1: Examples of Tax Exemptions for Certain Not-for-Profit Organizations That Provide Care for Retired Members</b>			
	<b>Example A</b>	<b>Example B</b>	<b>Example C</b>
Property Value	\$140,000	\$300,000	\$1,500,000
Assessed Value	\$49,000	\$105,000	\$525,000
1999 State Average "Effective Tax Rate" For Class I Real Property	49.81 Mills	49.81 Mills	49.81 Mills
<b>Tax Revenue</b>			
<b>Taxes Due Without Exemption</b>			
<i>Total Taxes</i>	\$2,441	\$5,230	\$26,150
<i>Portion Paid by Taxpayer</i>	\$2,197	\$4,707	\$23,535
<i>Portion Paid by State</i>	\$244	\$523	\$2,615
<b>Loss of Tax Revenue Due to Exemption</b>			
<i>School District Loss</i>	\$1,464	\$3,138	\$15,690
<i>Other Local Government Loss</i>	\$976	\$2,092	\$10,460
<b>Increase in Base Funding Due to Exemption</b>			
	\$1,127	\$2,415	\$12,075
<b>Net Affect of the Tax Exemption</b>			
<i>Net Loss to School Districts</i>	\$337	\$723	\$3,615
<i>Net Loss to Other Local Governments</i>	\$976	\$2,092	\$10,460
<i>Net Cost to the GRF</i>	\$883	\$1,892	\$9,460

As shown in Example A, a property with a true market value of \$140,000 has an assessed value of \$49,000, or 35 percent of the true market value. Using the state average effective tax rate, this property would generate \$2,441 in property tax revenue. (Due to the 10 percent rollback, the property owner would pay \$2,197 of this and the GRF would pick up the remaining \$244.)

With the property tax exemption no tax revenue would be generated by this property. Approximately 60 percent of real property taxes benefit school districts, while the remaining 40 percent benefit other local governments such as counties and municipalities. Thus, the exemption of a property with a value of \$140,000 will reduce property tax revenue for a school district by approximately \$1,464. It will reduce property tax revenue for other local governments by approximately \$976. At the same time, the GRF saves \$244.

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property has a market value of \$1,497,114. Under the bill, the entire property would be exempt from property taxation. Example C is modeled after this "real life" example.

An additional wrinkle is added by the impact of the reduced property value on school funding and the calculation of state base cost funding. The exemption reduces the total property value in the school district by \$49,000 –thus increasing the base cost funding to the school district by \$1,720.

The net effect of the exemption in Example A is a loss to the school district of \$337, a loss to the other local governments of \$976, and an additional cost to the GRF of \$883.

*The enacted bill limits the exemption to facilities that satisfy the definition of a “nursing home,” “residential care facility,” or “adult care facility” and are owned by tax exempt organizations, associations or trusts for the benefit of their members who are retired, aged, or infirm in consideration of their uncompensated service. It is the understanding of LSC that relatively few of such retirement facilities exist, and thus, the impact to local governments, school districts and the State of Ohio will be smaller than originally thought.*

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