



**State Representative Derek Merrin
District 47**

**House Bill 371 – Sponsor Testimony
Ways & Means Committee
October 24, 2017**

Chairman Schaffer, Vice-Chairman Scherer, Ranking Member Rogers, and members of the Ways and Means Committee. Thank you for the opportunity to present testimony on House Bill 371. As demonstrated by the chart, Ohio has performed far below the national average in single-family and multi-family residential construction for the last sixteen years. New homebuilding provides huge economic benefits helping communities grow and prosper. The construction bolsters jobs, affordable housing, population growth, and leads to increased tax revenue.

Platting and subdividing land is critical to igniting new homebuilding. Homebuilders must have access to ready-to-build lots. Typically, the platting of land is the first step. However, our tax laws discourage landowners from taking the first step in having land platted and subdivided. House Bill 371 seeks to reform our tax code to be pro-homebuilding and spur land development.

Let me provide an example on how are our tax code discourages and increases risk to developers. A residential developer purchases ten acres of raw land for \$100,000. Let us assume the taxable value is \$100,000. The developer plans to divide the land into ten residential lots and build ten homes. The developer gets local approval to subdivide the land creating ten new lots or parcels. Here is the problem.

The County Auditor now places new values on the ten lots; let us assume a \$50,000 tax value on each lot. Without any construction or sale, the land's tax value increased from \$100,000 to \$500,000. The hike in property value increases property taxes. This a major disincentive for landowners to plat and subdivide land to sell to developers. Additionally, developers may own raw land that is not subdivided; they can be slow to plat and subdivide because of the looming increase in property taxes. In addition, it makes homebuilding more risky; because if the lots do not sell quickly, developers are on the hook for the property tax bills. During the Great Recession, the property taxes on lots is what put many homebuilders out of business and still makes developers hesitant to start new developments.

My legislation exempts pre-residential lots from the increased tax value on land due to subdividing for residential homebuilding until construction commences or the land is sold. The land will still be taxable, but the Auditor cannot place a higher value on the land, thus resulting in higher taxes. The hypothetical developer that purchased ten acres of raw land valued at \$100,000 would not have the overall value of his land increase for subdividing the land. The collective ten lots could not exceed a taxable value over \$100,000, but each lot could have different values. It is important to note property taxes paid by a developer on lots during development typically inflate the final cost to the buyer, which makes home ownership more expensive. This bill is not about giving homebuilders a tax break; it is about reducing risk for land development that will lead to increased home construction and more affordable housing.

At least thirteen states provide a tax incentive to spur new homebuilding. House Bill 371 provides a narrow, targeted exemption for increased property value to all residential construction (single family, duplexes, apartments) resulting from subdividing. The legislation prevents a major property tax increase – for likely a very short time – simply because lines are drawn on a map (subdivided), but no building construction or sale has taken place. When land has been platted and subdivided, no additional government services are needed. Undoubtedly, there will be local government voices loudly claiming their right to leech onto pre-development property to seize additional tax revenue. This is very shortsighted and economically harmful. If they would wait until developments actually begin, there would be a lot more tax revenue for them in the future. I trust this committee will see the long-term benefits of tax laws that encourage homebuilding and land development.

Our tax code should be fair and encourage economic growth. I strongly believe my legislation will spur land development and jump-start homebuilding in Ohio. When considering this bill, please remember the chart demonstrating Ohio's dismal homebuilding performance compared to the national average. Ohio must and should do better. Remember, when new homes are built, everyone wins!

I hope to have your support and welcome any questions the committee may have at this time.