HOUSE WAYS AND MEANS COMMITTEE

Senate Bill 212 – Interested Party Testimony

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Good morning Chairman Merrin, Vice Chair LaRe, Ranking Member Rogers, and Members of the House Ways and Means Committee. On behalf of the County Commissioners Association of Ohio, County Auditors Association of Ohio, Ohio School Boards Association, Ohio Association of School Business Officials, and the Buckeye Association of School Administrators, we are here as interested parties who are impacted by the bill and its use of a property tax abatement incentive to stimulate housing. The bill allows for abatement of property taxes due to an increase in valuation from renovation or new construction. The default abatement is 70 percent, which can rise to 100 percent with the approval of the school district.

The development of additional housing options is of considerable importance for the quality of life of all Ohioans, but the use of any form of tax abatement should be done carefully and with appropriate guardrails. It should be kept in mind that property tax levies for "outside millage" have been approved by the voters for a specific purpose. Due to the operation of the tax reduction factors in the Ohio Constitution, the total amount of tax revenue from a levy cannot increase due to rising valuation of existing (or "carry over") property. This means that new property and renovations are the main sources of increases in tax revenue for an outside millage levy.

"Inside millage," which is not subject to tax reduction factors, is allocated by the County Budget Commission (consisting of the Auditor, Treasurer, and the Prosecuting Attorney), among schools and various local governments. The County Budget Commission is also responsible for monitoring the budgets of the various taxing jurisdictions, and may roll back the millage rate (including voter-approved levies) if it is determined that the amount of revenue obtained from a levy is more than adequate to meet its the service needs of the agency.

Typically, the highest millage rates are for school levies, which may include both operating and capital purposes, and both inside and outside millage. County levies typically have inside millage for the county general fund and voter-approved levies for various purposes, such mental health, developmental disabilities, libraries, parks, and various capital projects, such as the county jail or courthouse.

First, as we consider the details of the bill, we would like to thank Senator Schuring for the items that he has addressed through a substitute bill and amendments in the Senate.

These items include:

• a requirement that the township or municipality hold three hearings before creating a Neighborhood Development Area (NDA) and provide advance notice of the hearings by certified mail to affected taxing districts;

• a requirement that the resolution or ordinance include findings that the designation of the NDA will encourage the construction of new single-family dwellings or the improvement of such dwellings that in either case would be unlikely to occur in the absence of the designation;

• a requirement that the resolution or ordinance creating the Neighborhood Development Area include a finding that there is a lack of adequate, affordable housing in the area and that the NDA will enhance property values and lead to growth in property tax revenue;

• a 300-acre limit on the amount of territory within each jurisdiction that can be included within the NDA.

As we think about how the incentives in the bill might be used, there are three outstanding issues that we believe need to be addressed:

- <u>Definition of Affordable Housing</u> - The bill states that the NDA resolution is being adopted for the "public purpose of encouraging development of adequate affordable housing" but it does not define the term "affordable" or specify that the resolution must establish required price limits on new construction. The current market environment is characterized by record low interest rates (2.84% nationally on a 30-year fixed rate), which is fueling a rapid rise in sale prices. Despite the pandemic, building permits for new one-unit residential structures hit their highest monthly mark in this September since 2008.[1] Abatements should not be used by builders to push the price point higher out of reach for the average Ohioan.

  Therefore, we recommend that the bill include specific benchmarks in this regard, such as the limits established by the Ohio Housing Finance Agency (OHFA) for its homeowner programs. These limits are revised every year to reflect market conditions, and lenders are used to working with them (see Appendix).

- <u>Approval of Other Taxing Districts</u> -- As we consider Senate Bill 212 and similar abatements, a fundamental issue arises as to who is authorized to speak for these levies when there is an intent to abate them to stimulate development in a specific community? We recommend that the board of county commissioners and schools have sign-off on the creation of a Neighborhood Development Area when the proposed exemption is equal to or exceeds 50 percent.

- <u>Flexible Abatement Percentage</u> -- Subject to the approval procedure above, we recommend allowing the implementing resolution to specify any abatement percentage that is deemed necessary. This will allow the implementing subdivision to tailor the abatement to the needs of the project and will allow greater flexibility in discussions among the various taxing jurisdictions affected by the abatement.

We urge the committee to consider amendments that would implement these concepts. Thank you for the opportunity to testify today. We would be pleased to answer questions from the committee.

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[1] U.S. Census Bureau, New Private Housing Units Authorized by Building Permits: 1-Unit Structures for Ohio [OHBP1FHSA], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/OHBP1FHSA, November 16, 2020.

APPENDIX

The Ohio Housing Finance Agency establishes annual purchase price limits for its homebuyer loan programs. These purchase price limits are recalculated each year to reflect changes in the average purchase of price of homes. Separate purchase price calculations are made for single-family residences and for multiple-family dwellings. The purchase price limits are higher for target areas with highly challenged housing markets.

For the July 2020 – June 2021 period, the OHFA purchase price limits for single-family homes are:

	Columbus MSA	Rest of State
Target Area	$405,640	$360,067
Non-Target Area	$331,888	$294,601

Source: OHFA, Income and Purchase Price Limits for Homeownership Products, https://myohiohome.org/documents/IncomePurchasePriceLimits.pdf

Columbus MSA: Delaware, Fairfield, Franklin, Hocking, Licking, Madison, Morrow, Perry, Pickaway, Union

According to the OHFA, a target area is a Census tract where the housing market is highly challenged. There are two types of target areas: Qualified Census Tracts (QCTs), which are based on household income data and designated by the U.S. Department of Housing and Urban Development (HUD), and Areas of Chronic Economic Distress (ACEDs), which are designated by OHFA and subject to federal approval. A home must be located in at least one of these to be eligible for a target area loan.

OHFA provides a web-based tool that is searchable by address or through a mapping tool that allows users to identify target and non-target areas. The tool is available at https://myohiohome.org/geodata/Default.