SENATE SELECT COMMITTEE ON HOUSING
INVITED TESTIMONY
September 20, 2023

Chairwoman Reynolds, Vice Chair Johnson, and members of the committee, I am Franklin County Auditor Michael Stinziano, and I thank you for the opportunity to testify both on behalf of the County Auditors Association of Ohio and to share what we are seeing in Franklin County. I very much appreciate the Senate's commitment through this committee to evaluating and acting to improve the housing environment in Ohio.

County Auditors have a unique view into the housing and property use in their communities. We track new construction, major renovations, and housing sales. We know where and under what system local governments provide abatements and other property tax assessments. We incorporate zoning standards into our appraisal process. We chair the tax incentive review councils (TIRCs) that review the utility of such assessments. Auditors firmly support maintaining and increasing access to home ownership while building communities that meet the housing and other needs so residents can thrive.

We are often the first to recognize how steep changes in property values might be and understand their impact to property taxes charged on each property. Though we do not send the bill or collect the payment, we calculate and maintain the tax duplicate and distribute collected revenue to local governments.

The major increases in property values in the 41 counties conducting a reappraisal or triennial update this year reflect and contribute to rising housing costs. Our current property tax system is in many ways not prepared for the current demand, supply side concerns, and changes in our housing market. The HB920 equalization process prevents taxes from universally increasing 1 to 1 with value, but do not protect those in particular high value change areas or jurisdictions on the 20 mill floor from steep changes in their annual tax bill which can burden and destabilize housing.

In Franklin County, residential property is seeing an average 41% increase in 2023. There are parts of the county where the average value is doubling or tripling-often in areas that have been traditionally more affordable. Of the 281,000 owner-occupied properties in Franklin County, we expect approximately 28,000 households to see a tax increase of more than $1,000 per year and approximately 74,000 households to see a tax increase of $500-$999 per year, beginning this January. At the same time, due to the equalization process, approximately 80,000 owner occupied properties are likely to see a tax reduction even though most values are increasing.

This is a complicated issue, and I echo prior witnesses who emphasized the need to increase the supply of housing—in every style, at every price point—to meet community preferences, density, and cost needs. I will focus today on how changes in value and tax policy interact with development and supply.

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Targeted and multifaceted property tax relief is needed.

The key promise of home ownership-to create wealth and stability-requires that values increase over the term of ownership. At the same time, these increases can come with increased tax liability. This is not inherently problematic; taxation based on value is the foundation of all property tax systems. It becomes a problem when our laws surrounding the calculation and application of levied taxes do not protect those who, due to rising values, become house rich and cash poor.

There are as many ways of structuring property taxes as there are states, and each must be tuned to the specific needs of their communities. There are best practices that recognize the importance of stable property tax charges and revenues while addressing the burden to taxpayers. Ohio follows several of these practices, but has room for improvement on key support of taxpayers. The Lincoln Institute of Land Policy has provided a comprehensive report on the role of property tax and best practices for residential property tax relief.[1]

Property taxes are a critical source of revenue, more stable than the income tax and less regressive than a sales tax. In 2019, 46% of local government revenue nationwide was property tax. In 2021, 34.1% of Franklin County revenue was from property taxes.[2]

When contemplating changes to avoid housing burdens caused by property taxes this critical role in government services must be considered. Changes should be targeted and consider actual need to avoid exacerbating potential flaws in a property tax system. "A frequent criticism of the property tax is that poorer communities with low property tax values cannot supply adequate public services at affordable tax rates. State aid is the only way to address these disparities and ensure that all localities have sufficient resources, especially with regard to public education."[3]

No single reform can alleviate property tax burdens without fundamentally altering how Ohio goes about providing critical government services. Tailored options to address different aspects of the problem will be necessary to find the right approach for each county, local government, and Ohioan.

The County Auditors Association of Ohio is currently considering proposals in a few broad buckets. We would be pleased to work with the legislature to pursue and refine ideas along these lines:

- Reform the owner occupied and non-business rollbacks
- Income based circuit breakers to mitigate high property value charges
- Local government relief options to allow abatements for need rather than development
- Modernization of the Homestead Exemption to truly meet need

This is not an exhaustive list and the proposals are still in development, but I will review each concept and link it to the broader housing market and needs.

Reform the owner occupied and non-business rollbacks

Through these credits, for Class I property (residential and agricultural) the state credits and pays for 10% of all qualifying levies plus an additional 2.5% of qualifying levies for owner occupied property. Since 2013, new and replacement levies are not qualifying so the state payments are decreasing overtime and will continue to do so.

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[1] Lincoln Institute of Land Policy, "Property Tax Relief for Homeowners", Langley, Adam H. and Youngman, Joan. November 2021.
[2] See page 11 of the 2022 Comprehensive Annual Financial Report for Franklin County
[3] Lincoln Institute of Land Policy, "Property Tax Relief for Homeowners", Langley, Adam H. and Youngman, Joan. November 2021, pg. 57.

The owner-occupied credit equates on average to a few hundred dollars per property. Those who own higher value homes receive additional benefit regardless of need. Ohio lags behind many states in the amount of tax benefit given to owner occupied homes. For example Florida has a "Save Our Homes" constitutional program that limits taxable value increases to no more than 3% per year and allows an exemption of between $50,000 and $75,000 for all homesites from non-school property taxes. Texas automatically exempts $25,000 in value from school district taxation and an additional $10,000 for residents who are over 65 or disabled. Local governments and school districts are also permitted to exempt up to an additional 20% of a property's value. Tennessee allows local governments to freeze taxes for those 65 or older and provides a number of credits for low-income or disabled property owners.[4]

While the non-business credit supplements the benefit to owner occupied properties, it is also a major state expense to Class I properties that do generate income. In Franklin County for example, many condo-style apartment complexes have been splitting dwellings between multiple parcels to transition the properties from commercial to residential, granting the owners access to both the 10% rollback and the typically lower Class I effective tax rate.[5] This tax structure is also a major benefit to investor and corporate landlords who compete for single-family housing stock that is transitioned from being owner-occupied to being rented. In Franklin County approximately 21% of 1, 2, or 3 dwelling unit properties are not owner-occupied, but receive the 10% rollback.

Both increasing and reforming the owner-occupied credit and addressing potential misuses of the non-business credit can better target state relief of property taxes to address the true need.

<u>Income Based Circuit Breakers to Property Tax</u>

Circuit breakers are a keyway to directly target those who, without the policies, would have to pay a high portion of their income in property taxes. These programs existing in several states and can be designed to meet the needs of the specific jurisdiction.

For example, in West Virginia, the state protects older homeowners from having to pay more than 4% of their income in property taxes.[6] Minnesota provides direct payments to both owners and renters to account for tax payments above designated income thresholds that allow for increased relief to the lowest income residents.[7] Michigan administers the circuit breaker directly through the income tax itself, which the CAAO is particularly interested in.[8]

A circuit breaker model, ideally through the income tax, would protect residents and not upend the valuation or local government funding that work well in our current system. This could be further supplemented by adding the discretion for cities to provide municipal income tax credits as well to tailor programs to local need.

<u>Local Government Relief Options for Need-Based Abatements</u>

Currently, local governments have many options to provide credits and abatements for the building or rehabilitation of homes and other buildings, but no option to provide abatements or credits for need. This means that when investment in a neighborhood or community causes property values to rise, the tax burden is increased primarily for long-term residents, not those who recently purchased the newly available homes.

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[4] All state by state summaries can be found here: https://www.lincolninst.edu/research-data/data-toolkits/significant-features-property-tax/state-state-property-tax-glance

[5] See R.C. 319.302(A)(1) which applies the 10% rollback to properties with improvements of 1, 2, or 3 dwelling units.

[6] https://tax.wv.gov/Individuals/SeniorCitizens/Pages/SeniorCitizensTaxCredit.aspx

[7] See state by state features from this database: https://www.lincolninst.edu/research-data/data-toolkits/significant-features-property-tax/access-property-tax-database/residential-property-tax-relief-programs

[8] Id.

We have worked closely with a statewide coalition led by Cleveland Neighborhood Progress on a proposal that would allow such exemptions for homes owned by those at or below 80% of their local area median income to be renewed every six years. The portion of the exemption of increases in value and other eligibility factors could all be customized at a local level. While the CAAO has not yet taken a position on the specific draft proposal, the idea of local need-based exemptions is being considered as one piece of the tax reform puzzle. County auditors are generally reluctant to embrace new exemptions, but as long as we are going to continue to use abatements, TIFs (tax increment financing), and exemptions as part of development, local governments should be able to protect long-term residents.

I urge members of this committee and the general assembly to consider this or similar proposals as part of the solution and would be happy to discuss the matter further.

<u>Homestead Exemption</u>

The program must be modernized to continue to serve its purpose: help older adults to age in the right place without being forced out due to rising property taxes. The change from the operating budget, increasing the value of the deduction with inflation is better than nothing, but the credit still does not meet its purpose to protect older adults on a fixed income from excessive property taxes. Even as the number of older adults in Franklin County increases, the number receiving the homestead benefit decreases as many enrolled without the income requirement cease to be homeowners.

The reform should include increases to both the income eligibility threshold and the amount of the deduction (e.g. H.B. 60 (Troy)) which would increase the income eligibility threshold to $45,000 and continue indexing and increase the exemption to $40,000 and index it going forward. The CAAO has supported all increases to the homestead exemption introduced in recent general assemblies.

As values increase and tax rates equalize downward, even after increasing the deduction with inflation, the portion of a property's overall value and the cash value of the homestead exemption both decrease. We project the average decrease in the cash amount of the homestead exemption to be approximately $108.85 ranging from ($12-$222) based on taxing district. The areas with the largest value change will see the greatest reduction in the cash value of the exemption.

Oversight of Corporate Landlords Will Reduce Competition for Homes

New standards and protection of existing oversight are needed to address homebuyer competition and maintain an appropriate mix of stable, affordable housing. Holding such owners accountable through local and state oversight is important to rein in the trend of single-family homes transitioning to being owned and rented by large national and international investors. Rental property is a key piece of the housing landscape, but detached investor owners, driven exclusively by profit, disrupt the housing market.

In Franklin County, like much of the state and the country, the presence of large corporate landlords is increasing.[9] Internal Franklin County data in 2022 showed that 11 entities owned at least 100 single family homes or 1–3-unit condo properties, and an additional 29 entities own between 40 and 99 units. These numbers may understate the issue, as it is often impossible to track which property-owning LLCs are interrelated. Some of these entities appear to be local or regional. Others, like American Homes For Rent and Vinebrook are known national investors in rental housing.

These owners benefit from our existing tax structure, which has lower rates and the 10% rollback for all non-business property. In most counties, they do not need to register rental contacts and even in those counties, like Franklin, where rental owners must register with the county, enforcement options

[9] See e.g. Washington Post "Investors bought a record number of homes in 2021. See where." February 16, 2022 https://www.washingtonpost.com/business/interactive/2022/housing-market-investors/

are limited. Rents are charged not based on the actual cost of operation, but on how much the market will bear; so, in a housing shortage environment, this means rents are increasing.

Legislative solutions to this issue include closing the loophole that allows real estate LLCs to be transferred without reporting it as a conveyance, strengthening registration and contact information requirements, and empowering would-be owner-occupied homebuyers with options to better compete against investor purchasers. Local governments certainly have a role to play as well, but without improved oversight in state law it will be difficult to fully understand, let alone address, the issue.

Oversight and Accountability are needed for Property Tax Abatements and Exemptions

While sometimes necessary for development and encouraging investment, abatements and exemptions undermine the tax base and increase housing costs for existing long-established residents. Additionally, current law surrounding community reinvestment areas (CRAs) and tax increment financing (TIF) give broad leeway to local governments, often with minimal oversight. County Auditors have long opposed expansive exemptions and have made recommendations for how the state can increase appropriate oversight and avoid a race to the bottom among local jurisdictions.

As statutory chair of the Tax Incentive Review Councils (TIRCs), county auditors receive and organize annual reports on the effectiveness of the incentives and if they are meeting their obligations. Yet, even if a TIRC finds that an incentive is not serving its approved purpose in terms of job creation and investment, they lack teeth to insist on changes or cancellation of the incentive. TIF packages have even less oversight, and can be challenging, since they are often used for debt service cancellation. So, care and oversight should occur prior to TIF enactment.

Unfortunately, some recent legislative enactments have moved in the wrong direction. Senate Bill 33 of the 134th General Assembly rolled back some of the 1994 reforms to community reinvestment areas, limiting transparency and accountability for these projects. The threshold for when a school must give approval was increased from 50% to 75% exempt and the need for the Department of Development to approve a CRA was removed.

This expansion of exemptions continued in this year's operating budget. Changes to TIF law include increasing when TIFs can be extended for either 15 or 30 years, the ability to shift parcels between TIF districts, and authority for local government to shift the TIF fund to a different purpose after the fact.[10] TIFs do not decrease property owner tax burden, but do shift dollars from voter approved levy purposes to the TIF purposes. The budget also created a new type of residential abatement, which could perversely incentivize a developer to subdivide, but not actually develop, residential land for up to 8 years.[11]

Seen in isolation, there are good arguments for each of these incentive programs, but when viewed as part of the fabric of housing and property taxation, the lack of accountability in how these programs are used burdens all property owners.

Addressing the Immediate Need

No matter how committed to the need, we cannot immediately address our housing challenges. State investment in affordable rental and owner-occupied property is a good start but will take time to add to our housing stock.

In recent years, we have seen the benefit of emergency funding to aid those burdened by housing costs. Though the immediate impact of the pandemic has passed, I would encourage the legislature to examine remaining federal aid and state surplus available to support those who are immediately harmed by the significant value changes in our current housing moment. This would not flood our

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[10] See H.B. 33 of the 135th G.A. amendments to: R.C. 5709.40, 5709.73, R.C.5709.51, Section 757.70
[11] See H.B. 33 of the 135th G.A. newly enacted R.C. 5709.56

housing market with surplus cash but could allow those homeowners who are seeing hundreds or thousands of dollars in new tax liability to maintain stable housing while the general assembly considers broader reform. I would encourage this and other relevant legislative committees to consider such action as soon as possible.

Conclusion

Making sure that our residents can make housing decisions that work for their families and ensuring that older adults can age in the right place have long been my priority and remain a focus of the Franklin County Auditor's Office. The lack of housing, population growth, and overall intensity of our market in central Ohio and many places around the state mean we are facing a particularly challenging property value increase this year and very much appreciate the legislature's recognition of how property taxes can be a burden.

I thank the Chairwoman and the committee for the opportunity to testify and present some of my and CAAO concerns and priorities. I welcome the opportunity to work on any proposals arising from these hearings and applaud the invitation to such a breadth of experts and advocates to speak in front of the committee. Please never hesitate to reach out to me at auditorstinziano@franklincountyohio.gov or 614-525-5700.