



M E M O R A N D U M

TO: Chairman Tim Schaffer
FROM: Local Government Associations
DATE: January 9, 2017
RE: Opposition to House Bill 371

On behalf of the listed local government associations, we respectfully submit our continuing joint opposition to House Bill 371. This bill authorizes a tax exemption or freeze in the value of land in the pre-residential development stage and reduces property taxes for land purchased for residential development purposes. Specifically, the exemption applies to any subdivided, unimproved parcel on which construction of residential buildings (single - or multi-family dwellings) is planned but has not started. The bill specifies that residential construction is not deemed to have begun solely on the basis of streets, sidewalks, curbs, driveways, or water, sewer, or other utility lines having been constructed or installed. Local governments from across the state continue to raise numerous questions and concerns and in spite of various amendments continue to oppose this measure.

The bill is unnecessary because there are currently incentive programs that are available to local governments that accomplish the underlying purpose of the bill. CRA's, TIF's, and other programs provide local governments with adequate tools to offer residential construction incentives in specific circumstances that are tailored not only to provide assistance and inducements to the developer but also take into consideration the unique requirements of the particular local government. The bill removes local control and changes the concept of the tax incentive being strategic on a case-by-case situation.

In addition to the loss of the potential incremental increase in value as property is developed, local governments have serious concerns about the impact the legislation would have on current practice and appraisal methodology. As indicated in the LSC bill analysis, "The appraisal is supposed to approximate the "true" or fair market value of the parcel, which, generally, is the unconditioned price the property would sell for in an arm's length sale, or the price for which it has in fact been sold recently in such a sale. The subdivision of land itself might cause the aggregate appraised true values of the new parcels to exceed the appraised true value of the original parcel before it was subdivided, because the subdivision itself might influence the market value of the land. Also, the appraised value of any parcel subdivided or not, may change because of market factors without the parcel itself undergoing any construction or other physical

change”. This is a drastic alteration of the uniform standards of appraisal practice and could have unintended and unpredictable consequences on the value of neighboring parcels.

The tax exemption or freeze in value has the potential to reduce property taxes for local governments and schools, especially in urban and suburban areas where the issuance of residential building permits is concentrated. According to the LSC Fiscal Note, the revenue loss could be substantial, and could amount to several million dollars. Schools and other local governments would bear this loss. In some cases this loss could require other taxpayers to pay more than their fair share. In particular for schools, levy millage rates are set based on the total valuation of the school district. If some properties are undervalued at the time a levy is passed, the millage rate set for the levy must be higher than necessary in order to raise the funds requested by the district. This means property owners whose real property is set at a fair value, will pay more than necessary. In addition, there would also be a freeze or foregone revenue on the inside mils, resulting in a slight loss of funds as well; not just a tax shift.

The local government associations sincerely appreciate the opportunity to reiterate our concerns in opposition. We believe HB 371 should not be enacted.