



# Fundamentals of Economic Development

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## Economic Development

Simple definition: activities which promote investment, create jobs, and enhance communities.

Generally includes collaboration between government entities and private entities

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## Economic Development

Ohio Constitution Definition: Certain activities which:

- “create or preserve jobs and employment opportunities,”
- “improve the economic welfare of the people of the state,”
- “control air, water, and thermal pollution,” or
- “dispose of solid waste”

Article VIII, Section 13

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## Economic Development



From a local government point of view, economic development consists of deploying various tools which advance those goals

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## Tools Covered



Tax Increment Financing (TIF)  
Community Reinvestment Area (CRA)  
Enterprise Zone (EZ)  
Special Assessments and Property Assessed Clean Energy (PACE) Financing

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## Tax Increment Financing (TIF)



Tax: based on real property taxation  
Increment: applies only to the *increase* in real estate taxes resulting from a development  
Financing: allows a developer and local government to pay for needed public infrastructure improvements

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## TIF Basics



### Service payments in lieu of taxes

- Owners of property subject to TIF required to pay “service payments in lieu of taxes”
- Paid in the same amount and collected in the same manner as real property taxes
- TIF is therefore a way to focus otherwise dispersed tax money on specific, local improvements

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## TIF Basics



### Uses of service payments in lieu of taxes

- Service payments are collected into a segregated fund which must be established
- May be used to pay for “public infrastructure improvements” as defined in O.R.C. 5709.40(A)(7).
- Generally include: roads, sewers, environmental remediation, land acquisition, demolition, storm water remediation, gas, electric and communications service facilities

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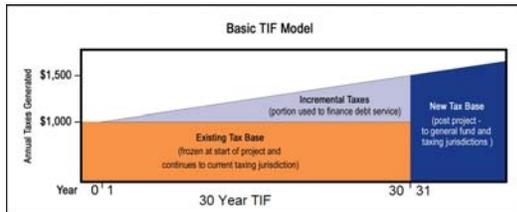
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## TIF Basics



\* “Tax Increment Finance Best Practices Reference Guide” (CDFA and ICSC), page 2.

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## TIF Basics



Governments which may implement:

- Municipal corporations (O.R.C. 5709.40 & .41)
- Townships (O.R.C. 5709.73)
- Counties (O.R.C. 5709.78)

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## TIF Basics



Creation

- Legislative authority passes ordinance or resolution
  - Determines base year as of January 1
  - Identifies TIF boundaries and parcels
  - Notice must be given to school district and other affected political subdivisions
- Form DTE 24
  - Exemption application filed with the Ohio Department of Taxation
  - Contains parameters set forth in the authorizing legislation

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## TIF Basics



Project TIF vs. incentive district TIF

- Project TIF applies to a specific parcel or parcels (See O.R.C. 5709.40(B))
- Incentive district TIF applies to all parcels within a geographic district (See O.R.C. 5709.40(C))
  - No more than 300 contiguous acres exhibiting one or more characteristics of economic distress as listed in ORC
  - Public improvements do not need to directly benefit every parcel
  - **NEW! Must allow real property owners to opt-out unless their property is within an overlay**

Municipal Urban Redevelopment TIF (.41 TIF)

- Unique TIF used in urban redevelopment setting

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## TIF Basics



Percentage of increased value to which TIF may apply

- Up to 75% without the consent of the impacted city, local, or exempted village school district
- Up to 100% with consent
- Note that counties have the right to object to municipal corporation and township incentive district TIFs, and townships have the right to object to county incentive district TIFs, if the exemption is over 75%

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## TIF Basics



Term of TIF

- Up to 10 years without the consents of the impacted city, local, or exempted village school district
- Up to 30 years with consent
- Note that counties have the right to object to municipal corporation and township incentive district TIFs, and townships have the right to object to county incentive district TIFs, if the term exceeds 10 years

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## TIF Basics



Rights of school districts, townships, and counties

- Along with consent is ability to negotiate compensation
- Maximum compensation for city, local, and exempted village school districts and joint vocational school districts is amount that would have been paid but for TIF ("non-school TIF")
- Maximum compensation for county or township is amount that would have been paid but for TIF (recall, only applies to certain incentive district TIFs)

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## TIF Basics



Municipal Income Tax Sharing - Municipality must share income tax with School District if:

- Municipal Income tax in place
- New payroll in excess of \$1,000,000
- No make whole provision for School District in place

Six Months to Negotiate Agreement

- 50/50
- Municipality entitled to infrastructure set-off (up to 35% of annual income tax increase)

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## Why Use TIF?



Encourage development

Facilitate redevelopment

Finance infrastructure

No additional cost to developer

- But revenue stream is development dependent

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## TIF Monetization



General obligations bonds or cash payment by government

- Government takes risk

Revenue bonds and conduit bonds

- Generally requires additional security

Pay-as-you-go TIF

- Developer takes risk

Developer financing

- Developer takes risk / provides security

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## Combining TIF With Other Tools



### CRA

- TIF could be subordinate to total abatement of CRA for CRA period (O.R.C. 5709.911)

### Special assessments

- Special assessments can back up TIF service payments in event development does not occur at desired pace

### New Community Authority

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## Community Reinvestment Area (CRA)



### Characteristics of CRAs

- Real property tax exemption
- Municipalities and counties have the authority to create new CRAs
- Area within a municipal corporation or the unincorporated area of a county
- Area in which housing facilities or structures of historic significance are located
- **Reality** – used to grant commercial/industrial exemptions where at least two housing structures exist

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## Community Reinvestment Area (CRA)



### Types

- Pre July 1, 1994 CRA
  - No agreements
  - No revenue sharing
  - No school district notice or approval
- Post July 1, 1994 CRA
  - Agreements
  - Revenue sharing
  - School district notification and approval

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## CRA Basics



### Creation (O.R.C. 3735.66)

- Municipal corporation or county passes legislation after housing survey
  - Area is in need of renovation
  - At least 20% of properties in need of rehabilitation
- Incentive parameters established
  - May be only on residential property, only on commercial / industrial property, or on both
  - Maximum exemption is 100% of new value
- Must publish notice of legislation
- Must petition ODSA for confirmation of CRA

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## CRA Basics



### Exemption term (O.R.C. 3735.67(D))

- Remodeling costing \$2,500+ of residential with fewer than two dwelling units: up to 10 years unless historically significant
- Remodeling costing \$5,000+ of residential with greater than two dwelling units or remodeling of commercial industrial: up to 12 years unless historically significant
- New construction: up to 15 years

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## CRA Basics



### Granting exemption (O.R.C. 3735.67):

- Residential:
  - Application to “housing officer”
  - Verification of construction or remodeling and its cost and other eligibility criteria
  - Housing officer grants exemption
  - Forwards approval to county auditor

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## Why Use CRA?



- Encourage development
- Encourage redevelopment
- Encourage maintenance of historically significant structures

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## Monetizing CRA(?)



- CRA does not itself produce any revenue
- But governments have been able to negotiate voluntary compensation from developers
- For municipal corporations, additional income tax from added jobs or residents may be an advantage

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## Combining CRA With Other Tools



- Special Assessments
- New Community Authority
- TIF
  - Note that CRA will take priority for its term, but once over, TIF service payments become payable

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## Enterprise Zone (EZ)



Enterprise: encourage businesses to make specified types of investments

Zone: specified geographic area

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## EZ Basics



Governments which may create:

- Municipal corporations (O.R.C. 5709.62)
- Counties (O.R.C. 5709.63)

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## EZ Basics



Zone characteristics

- Minimum population:
  - County pop. > 300,000 = 4,000 min. pop. of EZ
  - County pop. < 300,000 = 1,000 min. pop. of EZ
- Single contiguous boundary

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## EZ Basics



Legislation creates EZs

Copy of legislation and related documents must be certified to ODSA for confirmation

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## EZ Basics



Types of Zones (both cities/counties)

- Non-Distressed Based (Limited Authority Zone under ORC 5709.632)
  - No distress requirements
  - But, intrastate relocations only allowed with waiver from ODSA
- Distress-Based (Full Authority Zone)
  - Six distress criteria outlined in ORC
  - MSA Principal Cities and Appalachian Counties require to meet 1 criteria
  - Other locations required to meet 2
  - If meet criteria, do not need waiver from ODSA to grant exemptions for intrastate relocations

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## EZ Basics: Pre-1994 EZs



Pre 1994 (Senate Bill 19)

- Enterprise zones existing before July 1, 1994 have limited tax exemption authority
- Cannot grant exemptions to businesses involved in intrastate relocation
- Under ORC 5709.62(E) or 5709.63(D), must be:
  - Establishing its first Ohio facility or
  - Ohio business establishing a new facility that doesn't reduce employment or assets at the other sites or
  - Relocation of business from another state or
  - Expanding a current Ohio facility or
  - Obtain a waiver from the ODSA Director under ORC 5709.633(B).

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## EZ Basics



### Enterprise requirements

- Must be an "enterprise" as defined in O.R.C. 5709.61(B), which broadly includes most business entities
- Must agree to "establish, expand, renovate or occupy a facility in the zone and hire new employees, or preserve employment opportunities for existing employees"

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## EZ Basics



### Project eligibility (O.R.C. 5709.61(C)):

- Must be a "facility"
- Facilities are: "Place of business in a zone, including land, buildings, machinery, equipment and other materials except inventory used in business."
- Facility does not include any portion...used primarily for making retail sales, unless:
  - The place of business is located in an impacted city as defined in 1728.01 or
  - [NEW!!] the city, local, or exempted village school district within the territory of which the place of business is located waives the exclusion of retail facilities under O.R.C. 5709.634

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## EZ Basics



### Property eligible for exemption:

- Tangible personal property: Percentage of "assessed value of tangible personal property first used in business at the project site as a result of the agreement"
- Real property: Percentage of "the increase in the assessed valuation of real property constituting the project site"

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## EZ Basics



### Exemption parameters

- Municipality: (1) up to 75% and up to 10 years or (2) average of 60% over term
- Unincorporated area: (1) up to 60% and up to 10 years or (2) average of 60% over term
- Exception with school district approval (up to 100% for up to 15 years)
- Can "front load" exemption, exceeding allowable percentages in early years as long as average remains under 60%

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## EZ Basics



### Granting exemptions:

- Local officials negotiate agreement with business
- Legislation required for final approval of agreement
- File with ODSA and ODT within 15 days

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## EZ Basics



### Annual requirements:

- Every agreement must be annually reviewed by local Tax Incentive Review Council (TIRC)
- Local administrator must file annual report with ODSA

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## Why Use EZ?



Encourage new business investment  
Increase jobs, income taxes

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## Monetizing EZ(?)



EZ does not itself produce any revenue  
But governments have been able to negotiate  
voluntary compensation from developers  
For municipal corporations, additional income tax  
from added jobs may be an advantage

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## Combining EZ With Other Tools



Special Assessments  
New Community Authority  
TIF  
• Note that EZ could take priority for its term, but once over,  
TIF service payments become payable (O.R.C. 5709.911)

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## Special Assessments



Special: in addition to other real property taxes and charges, and for a very specific purpose

Assessment: levied against real property for payment with real property taxes

Note: unlike other economic development tools, special assessments are very old

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## Special Assessment Basics



Governments which may implement

- Municipal corporations (O.R.C. Chapters 727, 729; charters)
- Counties (O.R.C. Chapter 6131, 5555, 6117, and 6103)
- Townships (O.R.C. Chapters 505, 515, 521, 5543, 5571 and 5573)

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## Special Assessment Basics



Public improvements for which special assessments may pay (differs for each enacting government):

- Streets and sidewalks
- Water and sewer
- Off-street parking
- Lighting
- Trees
- Special Improvement District plans

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## Special Assessment Basics



### Amount and term:

- Aggregate amount generally cannot exceed costs (including soft costs) of public improvements
- Term generally cannot exceed useful life of public improvements
- Other limits may apply

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## Special Assessment Basics



### Apportionment

- Aggregate amount must be apportioned among all parcels being assessed
- General methods:
  - Proportion of "front footage" along improvement
  - Proportion of tax valuation
  - Proportion to "special benefits" resulting from the improvements

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## Special Assessment Basics



### Petitions

- Generally, levying special assessments takes a lot of due process for property owners
- Petition submitted by the requisite number of property owners can waive some of the procedures otherwise required
- Petitions also can provide substantive benefits (e.g., ability to pay 100% of project costs under O.R.C. 727.06)

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## Special Assessment Basics



### Special Improvement Districts (O.R.C. Chapter 1710)

- Townships and municipal corporations may form at request of property owners
- Allows for use of special assessments to pay for all public improvements and public services contained within a "plan" adopted under O.R.C. Chapter 1710)

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## Special Assessment Basics



### Energy Special Improvement Districts and PACE Financing

- Special form or special improvement district
- Non-contiguous properties allowed
- Properties may be added
- Special assessments pay for advanced energy and energy efficiency improvements which may be owned by private property owners

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## Why Use Special Assessments



Fund public improvements and public services  
Properties which benefit from improvements and services pay for them  
Can support tax exempt obligations

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## Special Assessment Monetization



### General obligation bonds

- O.R.C. 133.17(A)

### Bond anticipation notes

- O.R.C. 133.17(B)

### Revenue bonds

- May require additional security

### Conduit bonds

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## Combining Special Assessments With Other Tools



### CRA

- Replace abated taxes to pay for local improvements

### EZ

- Replace abated taxes to pay for local improvements

### TIF

- Back up to service payments in lieu of taxes

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## Questions?



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