

Economic Development: Responsible Growth in Your Community



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Roadmap



What is economic development?
What are some of the fundamental economic development tools and how do they work?
What are some more advanced economic development tools and how do they work?
Examples along the way.

Economic Development



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

Generally includes collaboration between government entities and private entities

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.

Three types of tools:

- Add additional tax item
- Abate existing tax items
- Redirect existing tax items

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Fundamental Tools Covered



- Tax Increment Financing (TIF)
- Community Reinvestment Area (CRA)
- Joint Economic Development Districts (JEDDs)
- 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

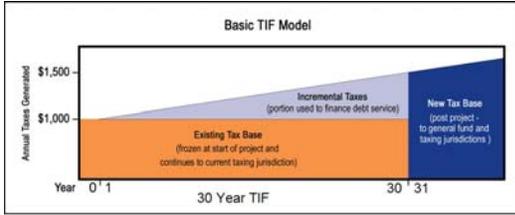


Uses of service payments in lieu of taxes

- 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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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 or commercial and industrial property: up to 15 years (unless historically significant then subject to additional 10-year extension)
- New construction: up to 15 years
- NOTE: This changed on April 6, 2017. The bill implementing the change also allows for pre-1994 CRA legislation to be amended to allow for the exemption periods described above if the legislation granted the maximum exemptions. That amendment does not count as one of two substantial amendments.

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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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CRA Basics



Granting exemption (cont'd):

- Commercial / industrial
 - Pre-1994 – same process as residential
 - Post-1994 – negotiate agreement under O.R.C. 3735.671
 - If agreement required, may require school district approval (O.R.C. 3735.671(A))
 - Agreement must be in form set forth in O.R.C. 3735.671
 - Agreement must be certified to ODSA

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CRA Basics



Annual Compliance

- Commercial / industrial with agreements must comply with reporting to ODSA as described in O.R.C. 3735.672
- All exemptions must be reviewed by “housing officer” (O.R.C. 3735.68) and by “housing council” (O.R.C. 3735.69)
- In addition to commercial / industrial agreement reporting, enacting government must give annual status report to ODSA (O.R.C. 3735.69)

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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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JEDDs



Joint Economic Development District

- Contractual agreement among jurisdictions to create a new governmental entity charged with improving an identified district, typically in connection with an economic development initiative
- By statute, a special-purpose district formed to “facilitat[e] economic development to create or preserve jobs and employment opportunities and to improve the economic welfare of the people in the state and in the area of the contracting parties”

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Background: Historical Backdrop



- Historically, development has been challenging in unincorporated areas
 - Lack of municipal services and infrastructure
 - Townships resisting potential loss of identity, clout and revenue accompanying annexation
 - Limited public funds available to support development



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Background: Establishment of JEDD Tool



- Statutory compromise: JEDDs
- Enable district-wide income tax and the provision of municipal services to unincorporated areas
- Replace antagonism of annexation with collaborative spirit of cooperative agreement between municipality and township
- Typical scenario involves a township with prime development land and a municipality that is willing to offer services

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Roadmap: Overview of Process



- Agreement between contracting parties
- Public hearing and petition process
- Election required, but can be avoided
- Governed by Board of Directors
- Flexible powers set defined by contracting parties



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Roadmap: Territory



Territory

- Can be formed by at least one municipality and one township, or more
- Contracting parties generally must be contiguous or one apart
- Territory cannot include residential property or property zoned for residential use (unless mixed-use)
- Territory cannot include property owned or leased by a municipal corporation or township unless the municipal corporation or township is either a party to the agreement or has consented to inclusion of the land within the JEDD

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Roadmap: Approval Process (1 of 2)



Formation

1. Municipality and township (and other parties, if applicable) prepare a contract for the JEDD that includes an economic development plan and a map for the JEDD
2. Allow for public inspection of proposed JEDD documents
3. Public hearing regarding proposed JEDD
4. Obtain petition signatures of majority of owners of property within JEDD and majority of owners of businesses located within JEDD

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Roadmap: Approval Process (2 of 2)



Formation (continued)

- 5. Legislation adopted by each contracting party
- 6. Notice to businesses and property owners that did not sign petition (10 days after approval)
- 7. Notify DSA
- 8. Effective 30 days after Township approval

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Roadmap: Election Requirement



Election?

- Generally, the electors of any township that will be a contracting party to the JEDD must approve the creation of the JEDD.
- However, any included townships typically avoid an election by satisfying each of three conditions:
 - Unanimous approval of the township board of trustees
 - Petition signed by a majority of property owners within the JEDD
 - Land to be included in JEDD is zoned appropriately for proposed use
- JEDD subject to referendum (10% requirement, 30 days)

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Roadmap: Contract Provisions (1 of 2)



Governance

- Board of Directors comprised of:
 - One person representing all municipalities that are contracting parties
 - One person representing all townships that are contracting parties
 - One person representing the owners of businesses located within the district
 - One person representing people working in the district
 - One person selected by the other members, who is the chairperson
- Election/selection determined by terms of contract

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Roadmap: Contract Provisions (2 of 2)



Powers

- Coordination of services provided by municipality and township and any planned infrastructure improvements
- Can levy income tax at rate no higher than municipality's rate (no vote required)
- Can determine zoning and land-use regulations for district
- Can limit annexation within JEDD
- Can limit granting of property tax abatements and other tax incentives within JEDD

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Roadmap: Expansion Process



- 60-90 day process
- Term sheet between contracting parties
- Develop amendment, map
- Obtain petition signatures
- Public hearing process
- Legislative approvals
- Notice to property owners



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Hot Topics: Recent Developments



- Failed JEDZs – perceived overreaching by communities (e.g., failed Columbus Zoo JEDZ)
- H.B. 289 – sunset of JEDZs and new restrictions
- Op. Ohio Atty. Gen. No. 2015-002 – uniform taxation
- What's next?

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Hot Topics: Lessons Learned



✓ Communities considering a JEDD should ensure that its purpose will be collaborative economic development

✓ JEDDs can fail when they are merely a vehicle to generate income tax revenue

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Recent Examples



Circleville and Pickaway Township (Pickaway County)



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Recent Examples



Circleville-Pickaway Township JEDD

- Designed to support infrastructure needs of major new employer (Sofidel)
- Site did not offer adequate natural gas line service
- JEDD revenue used, in part, to pay debt service on JobsOhio loan benefitting project
- Other allocations of JEDD revenue directed to city, township, and school district, at varying rates during term of JEDD

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Recent Examples



Marysville and Millcreek Township (Union County)



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Recent Examples



- Marysville-Millcreek Township JEDD
 - Designed to support long-term growth
 - Will be established through framework of Cooperative Development Agreement
 - Participation will be required to receive municipal water and sewer
 - 55% of revenue allocated to infrastructure; 15% to City, 15% to Township, 10% to economic development marketing, 5% to costs

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Recent Examples: Village of Walton Hills and Sagamore Hills Township



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Recent Examples



Village of Walton Hills and Sagamore Hills Township

- o Local communities identified need for improved infrastructure and services to support Northcoast Behavioral Healthcare, a major local employer that had recently considered leaving Sagamore Hills Township
- o JEDD established in July 2015 to generate income for purposes of improving primary road access to hospital site as well as fire and EMS services provided to site

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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
TIF
• Back up to service payments in lieu of taxes

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Questions?



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