

The Basics of Economic Development

Rob McCarthy

Partner

Bricker Graydon

Jason Tiemeier

Attorney

Bricker Graydon



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

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

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 new tax item

- Abate existing tax items

- Redirect existing tax items

Topics Covered

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- Tax Increment Financing (TIF)
 - Special Assessments / Special Improvement Districts
 - New Community Authorities
 - Joint Economic Development Districts
 - Downtown Redevelopment Districts / Innovation Districts

Tax Increment Financing ("TIFs")

Tax Increment Financing

Redirect new tax property tax revenue in connection with a new development (or redevelopment) away from normal recipients and toward payment of costs of improvements that benefit that development

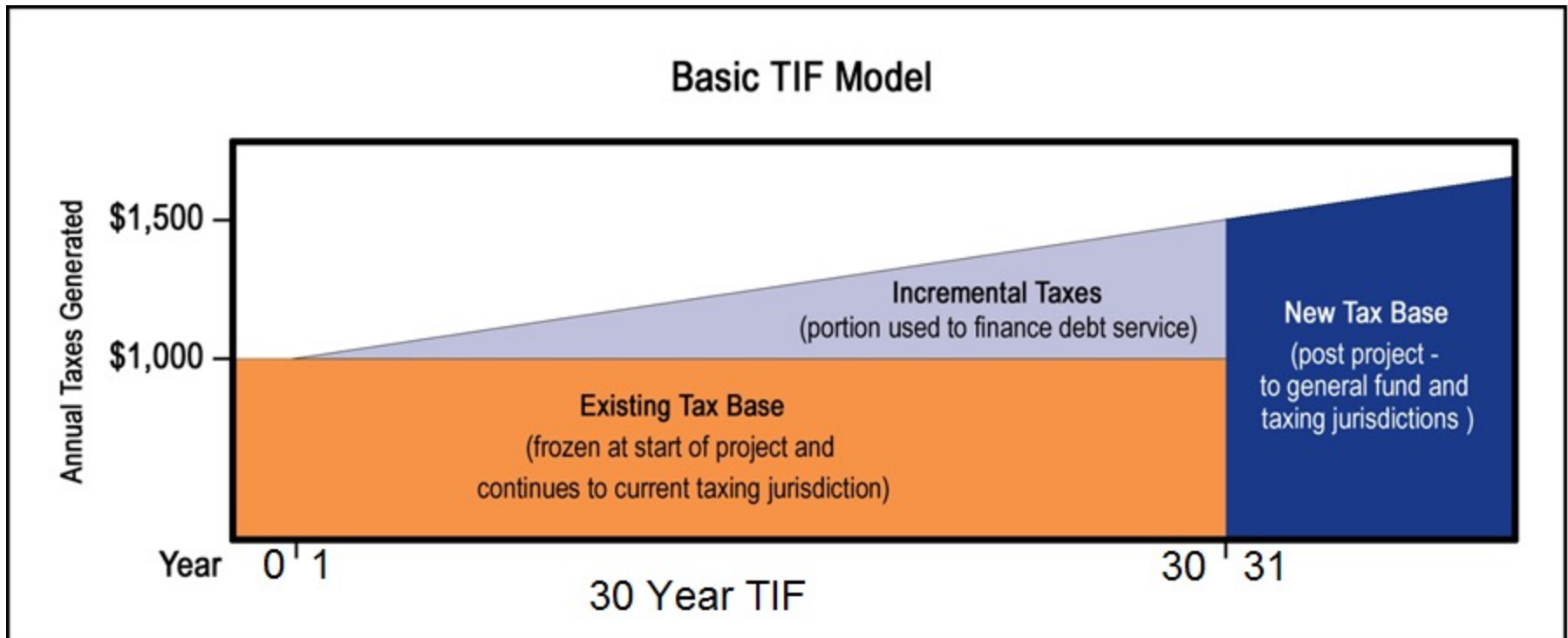
- Infrastructure Improvements
- Direct Development Costs

Increment

Increase in real estate taxes resulting from development over and above the value prior to the date that the development occurred.

Existing taxes continue to go to taxing districts (i.e., schools, county, city, continue to receive predevelopment tax revenues).

TIF Revenue Stream



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

Increment

Property owner does **NOT** receive a tax break.

- Service Payments in Lieu of Taxes (PILOTs)
- But could be used in conjunction with a tax abatement

Uses of TIF Revenue

- Public Infrastructure Improvements
- Land Acquisition
- Demolition
- Utilities
- Debt Service

Public Infrastructure Improvements

The “costs” of “public infrastructure improvements” are eligible to be paid by TIF funds.

The list of qualifying projects is broad.

See ORC 5709.40(A)(7)

ORC 5709.40(A)(7) List

“Public infrastructure improvement” includes, but is not limited to:

- **Public roads and highways;**
- **Water and sewer** lines;
- **Environmental remediation;**
- **Land acquisition**, including acquisition in aid of industry, commerce, distribution, or research;
- **Demolition**, including demolition on private property when determined to be necessary for economic development purposes;
- **Stormwater and flood remediation** projects, including such projects on private property when determined to be necessary for public health, safety, and welfare;
- The provision of **gas, electric, and communications** service facilities, including the provision of gas or electric service facilities owned by nongovernmental entities when such improvements are determined to be necessary for economic development purposes; and
- The enhancement of **public waterways** through improvements that allow for greater public access.

Types of TIFs

Type of Incentive	Code Section
Project TIF	ORC 5709.40(B)
Incentive District TIF	ORC 5709.40(C)
Non-School TIF	ORC 5709.40(D)(1)
Urban Redevelopment TIF	ORC 5709.41

Types of TIFs

Project TIF (Commercial, including apartments)

- Municipality: R.C. § 5709.40(B)
- Comprised of individual parcels
- Public improvements must “directly benefit” parcels exempted

Incentive District TIF (Residential)

- Municipality: R.C. § 5709.40(C)
- Up to 300 contiguous acres exhibiting one or more characteristics of economic distress
- Public improvements do not need to directly benefit every parcel, but must “benefit or serve” the district created

Municipal Urban Redevelopment TIF (R.C. § 5709.41)

- Unique TIF used in urban redevelopment setting
- Municipality must be in chain of title
- “Urban redevelopment” requirement instead of “direct benefit” requirement
- Residential only if blighted area of an impacted city (not applicable to Worthington)

TIF Exemptions & School District Involvement

75% Exemption for 10 years

- 14 days notice to school district
- No school district approval required
- Income tax sharing negotiated

Non-School TIF (No School District Millage Diverted)

- 14 days notice to school district
- No school district approval required
- No income tax sharing required

TIF Exemptions & School District Involvement

100% Exemption for 30 years (School District Approval Required)

- 45 days' notice to school district
- School district's response must be delivered at least 14 days prior to adoption of the TIF legislation
- School district must approve, disapprove, or conditionally approve proposed exemption
- Joint vocational school districts also compensated "at same rate and terms" per R.C. § 5709.82.
- Income tax sharing negotiated

Why Use TIF?

Encourage Development

Facilitate Redevelopment of Existing Sites

Finance Infrastructure

Not an additional cost to developer

- But revenue stream is development dependent

Special Assessments / Special Improvement Districts

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

Special Assessment Basics

Governments authorized to establish:

- 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)

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

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

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

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)

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

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

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

New Community Authorities ("NCAs")

General Characteristics

- A separate governmental body organized to encourage the orderly development of an economically sound new community
- Developer driven
 - All acreage must be owned or controlled, through leases of at least 75 years' duration, options, or contracts to purchase
 - Developer is represented on board
 - Large developments only—minimum 1,000 acres if not wholly within municipality or half is within JEDD

Formation

- Procedure for creation
 - Developer files petition with “organizational board” (board of county commissioners / legislative authority of municipal corporation)
 - Petition must include, among other things, plan that sets forth development program for district
 - Organizational board must hold hearing and must approve creation if district is conducive to the public health, safety, convenience, and welfare

Powers

- Board
 - Appointed by developer, county, and local government until certain population levels met
- Revenue
 - Community development charge
 - Runs with land through declaration
 - An assessment providing a special benefit, not a tax
 - Flexible--can be based on millage, residents' income, gross receipts, or business revenues (including lease rentals)
- Issue taxable or tax-exempt bonds or other obligations

- No general power to offer traditional governmental services
- “Community Facilities”
 - Public buildings, centers and plazas, auditoriums, day care centers, recreation halls, educational facilities, recreational facilities
 - Parks and other open space land, lakes and streams, cultural facilities
 - Streets, pathway and bikeway systems, pedestrian underpasses and overpasses, lighting facilities, design amenities
 - Buildings needed in connection with water supply or sewage disposal installations or steam, gas, or electric lines or installation, telecommunications facilities

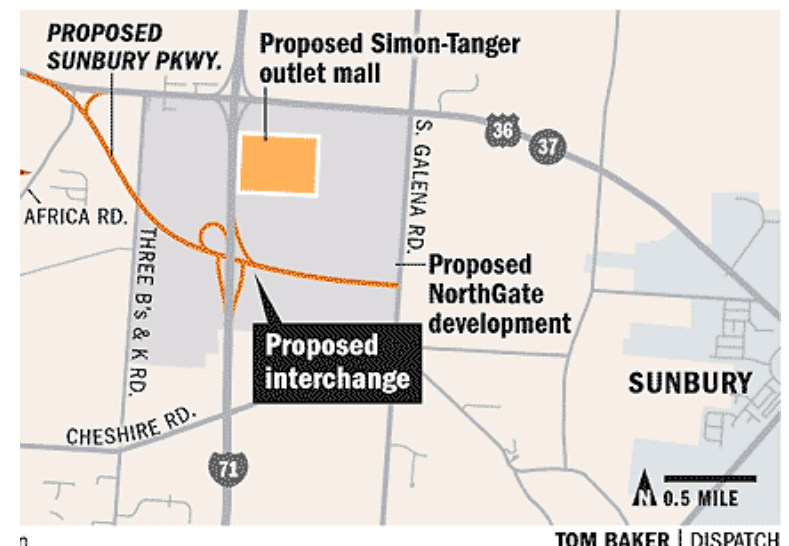
Union Village

- \$1.5 billion new community
- Anticipated 12,000 residents
- NCA and multiple TIFs
- Multiple series of bonds to pay infrastructure costs over time
- New sports complex with bed tax support



Delaware Outlets

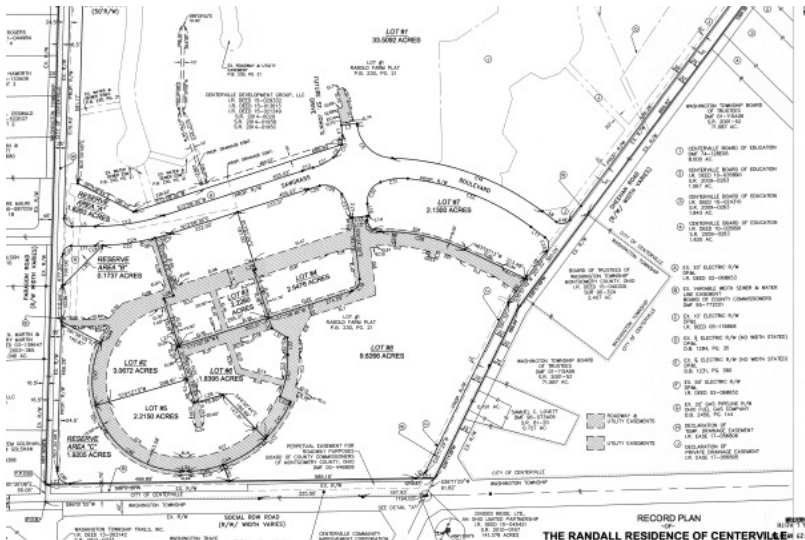
- \$100 million outlet mall
- Inadequate roadway infrastructure
- Berkshire Landing NCA / Delaware County Finance Authority / Delaware County / JEDD



Yankee Trace Randall Residence Public Improvements

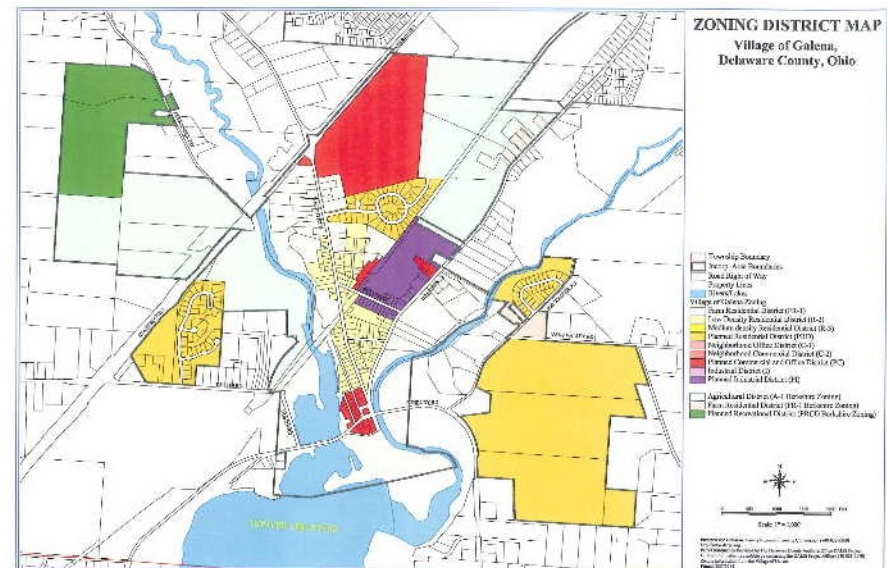


- Development of significant green field site with signature development features
- Infrastructure challenges
- Dayton-Montgomery County Port Authority / City of Centerville / Montgomery County / Randall Residence NCA



Galena NCA

- Community north of Westerville and New Albany anticipates tens of thousands of new residents in coming years
- Desire for new developments to pay costs as community grows



Bridge Park New Community Authority



Four charges:

- Assessed valuation
- Debt service coverage
- Retail charge
- Hotel charge



Joint Economic Development Districts ("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”

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



Background: Establishment of JEDD Tool



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- 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

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



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

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

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

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)

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

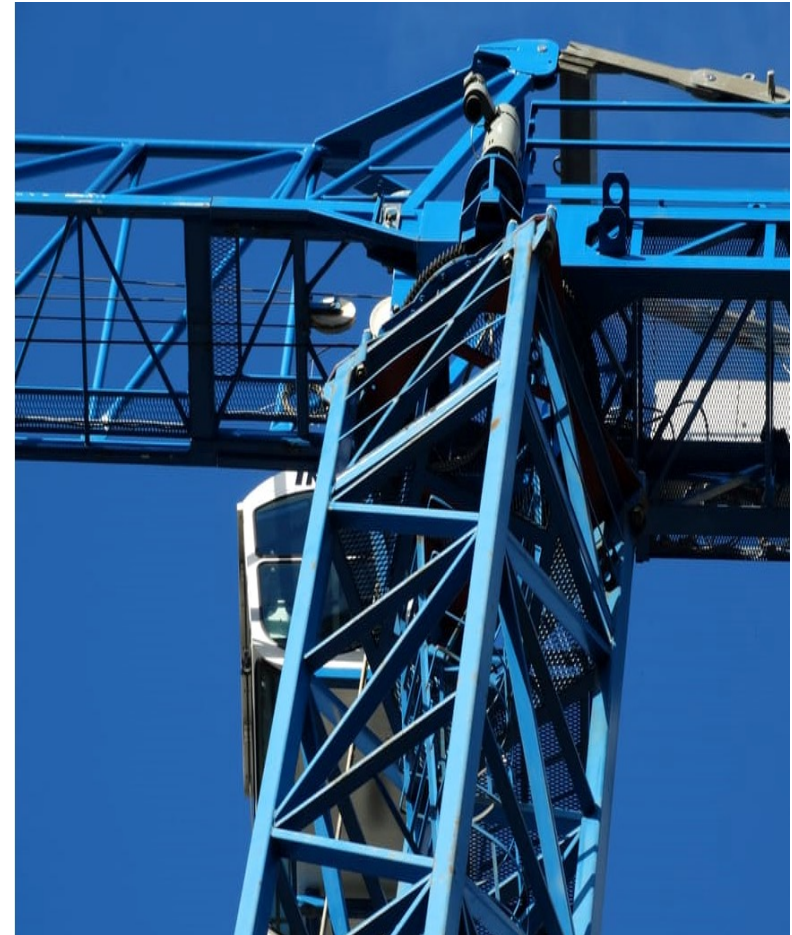
Roadmap: Contract Provisions (2 of 2)

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

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



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?

Hot Topics: Lessons Learned

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- ✓ 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

Recent Examples

Circleville and Pickaway Township (Pickaway County)

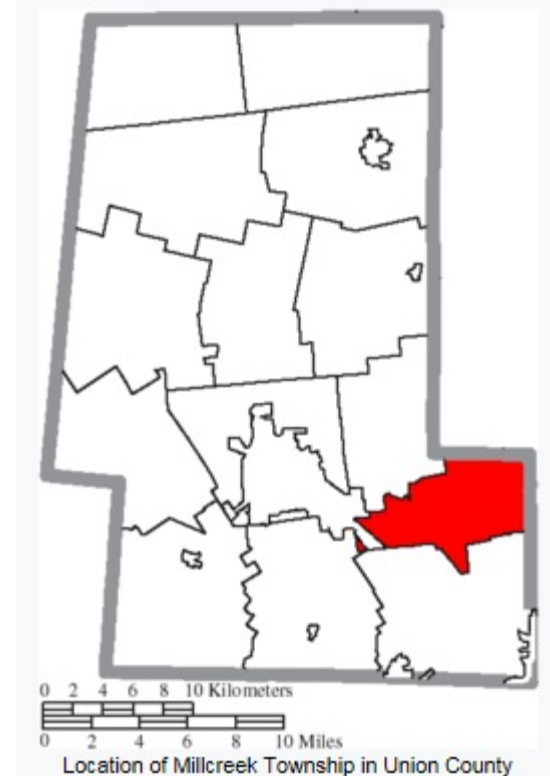


Circleville-Pickaway Township JEDD

- 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

Recent Examples

Marysville and Millcreek Township (Union County)



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

Recent Examples:

Village of Walton Hills and Sagamore Hills Township

Ohio



Recent Examples

Village of Walton Hills and Sagamore Hills Township

- 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
- 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

Downtown Redevelopment Districts
("DRDs")

Innovation Districts ("IDs")

Downtown Redevelopment Districts

- New tools for municipalities to promote redevelopment of historic downtowns
- Offer (i) opportunities for new property tax exemptions and (2) redevelopment charges that can be applied flexibly for redevelopment purposes
- Additional feature is innovation districts - mechanism to fund high-speed internet and related infrastructure

DRDs: Background

- Nationally, increasing demand for opportunities to work and live in historic downtown communities, especially in innovation economy and among millennials and baby boomers
- Ohio has many beautiful, historic downtowns, thanks to its explosive growth years during the first half of the 20th century
- Redevelopment of historic properties and neighborhoods is often more expensive than “greenfield development”

DRDs: Background

- Many communities do not have the resources necessary to kick-start redevelopment efforts
- Downtown needs include:
 - Façade improvements
 - Historic preservation
 - High-speed internet connectivity for business incubators and innovators
 - Streetscaping
 - Amenities to accommodate downtown living
 - Incentives to accelerate business incubation and growth

Legislation: Am. Sub. H.B. 233

- Authored by Rep. Kirk Schuring, R-Jackson Township after discussions with Heritage Ohio (Michigan's DDA) and Bricker & Eckler (TIFs)
- H.B. 665 in the 130th General Assembly was similar but did not include innovation districts
- Progress:
 - October 27, 2015: Passed the Ohio House
 - April 13, 2016: Passed the Ohio Senate as amended
 - April 20, 2016: House concurred in Senate amendments
 - Signed into law May 6, 2016; Effective August 5, 2016

Downtown Redevelopment Districts (DRDs) – Territory

Not more than 10 acres

- Must have continuous boundary (i.e., contiguous properties only)
- Must include at least one historic building that is being or will be rehabilitated
- “Historic building” has specific definition in state historic tax credit statute
- Cannot be residential-only
- **NEW!** Can include areas previously exempted from taxation under a TIF (SB 235; R.C. 5709.45(B)), but not those currently under a TIF

Downtown Redevelopment Districts (DRDs) – Establishment

Notice by first class mail to owners of property within proposed district

- Public hearing no sooner than 30 days after notice
- Created by ordinance of municipal corporation no sooner than 30 days after public hearing
- Ordinance must:
 - Specify term and amount of exemption and area
 - Include economic development plan for DRD, which outlines goals, explains collaboration among municipality, businesses and property owners, and plan for using revenue including infrastructure

Downtown Redevelopment Districts (DRDs) – Establishment (cont.)



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- No school district approval is needed if term is 10 years or less
 - Must provide notice to school district and JVS 14 days before adopting ordinance (unless school district has waived right to notice)
 - Term can last up to 30 years, if obtaining school district approval (identical to TIF process)
 - Notify school district and JVS 45 business days before adopting ordinance
 - Receive any approval 14 days before adopting ordinance

Downtown Redevelopment Districts (DRDs) – Establishment (cont.)

- Development Services Agency (DSA) requirements:
 - Must notify DSA Director within 15 days of adopting ordinance
 - Annually by March 31, municipality must provide written report to DSA regarding DRD

Downtown Redevelopment Districts (DRDs) – Service Payments



- Real Property Tax Exemption:
 - Exempt up to 70% of improvements within DRD from taxation
 - Entire amount from exempted improvements must be distributed to municipal DRD fund for use per plan
 - Can begin in year specified, when improvement value exceeds specified amount, or when specified improvements are complete
 - As with existing TIFs, revenue from certain levies (e.g., MRDD, children's services) not affected by DRD

Downtown Redevelopment Districts (DRDs) – Additional Funding

- Redevelopment charge may also be collected
 - Requires consent of property owner
 - Also deposited into Municipal DRD Fund
 - Can be fixed dollar amount or amount determined based on formula (e.g. based on valuation or receipts of business)
 - Can be passed through to lessees
 - Agreement with property owner is covenant running with the land (i.e., transfers to subsequent property owners); must be disclosed in sales contracts
 - Unpaid amounts can be certified to county auditor for collection

Downtown Redevelopment Districts (DRDs) – Use of Revenue

- Broader use of funds allowed (versus TIFs)
- Can offer loans or grants to owners of historic buildings within DRD for rehabilitation or repair; must include plan for tracking award and progress of project
- Up to 20% can be dedicated to contributions to community improvement corporations, special improvement districts, or non-profit that promotes historic redevelopment. CICs or SIDs must use funds to promote the DRD.
- Can also use for public infrastructure authorized in ordinance (continued)

Downtown Redevelopment Districts (DRDs) – Use of Revenue (cont.)

- To finance public infrastructure improvements within DRDs, must provide description of how development will place new demands on infrastructure (must be specified in economic development plan)
- Funds cannot be used for police or fire equipment
- Notes or bonds are not subject to R.C. Chapter 133 (not considered to be general obligation bonds or bond anticipation notes; don't count toward statutory debt limits)

Innovation Districts

- May be designated by ordinance of the municipality
 - Must be within existing or proposed DRD
 - Must have continuous boundary
 - Must have high-speed broadband network with ability to download at least 100 gigabits per second
- Purpose
 - To attract and grow tech businesses and support economic development by incubators and accelerators
 - Ordinance must include separate economic development plan for the Innovation District

Funding Authority

- DRD revenue can be used to offer loans or grants to incubators or accelerators within ID with condition that it must be used for businesses within ID; must include monitoring and tracking provisions

DRDs/IDs: Local Examples

- Newest tool
- None in Southwest Ohio
- Existing DRDs/IDs in Ohio include: Canton, Circleville, Portsmouth, Utica, and Zanesville