

Tax Increment Financing

To attract development into its three business districts, Columbia Township has adopted a policy of providing assistance in the form of tax increment financing (TIF) to finance public infrastructure improvements needed for developments. The Township policy includes a requirement the development supports the Comprehensive Plan of Columbia Township.

To aid the understanding of tax increment financing for development projects, the following summary is provided:

TAX INCREMENT FINANCING INCENTIVE DISTRICTS (INCLUDING PROVISIONS ENACTED BY AMENDED SUBSTITUTE HB 66, ENACTED JUNE 2005, AND BY AMENDED HB 530, ENACTED MARCH 2006)

Tax Increment Financing (TIF) is an economic development mechanism available to local governments in Ohio to finance public infrastructure improvements and, in certain circumstances, residential rehabilitation. A TIF works by locking in the taxable worth of real property at the value it holds at the time the authorizing legislation was approved. Payments derived from the increased assessed value of any improvement to real property beyond that amount are directed towards a separate fund to finance the construction of public infrastructure defined within the TIF legislation.

A TIF may be comprised of specific parcels or an "Incentive District." An Incentive District TIF is defined as (a) an aggregation of individual parcels of real property comprising an area no larger than 300 contiguous acres and (b) exhibits one or more characteristics of economic distress, as listed in § 5709.40(A)(5) of the O.R.C. Note that an Incentive District TIF may not include any parcel that is currently included in a TIF (whether parcel or another Incentive District TIF). Municipalities, townships, or counties may establish these Incentive Districts. The Service Payments collected through an Incentive District TIF can be used to fund public infrastructure improvements anywhere within the district, even if the public infrastructure does not directly benefit every parcel within the district.

Local governments may authorize Incentive District TIFs to fund a number of public infrastructure needs including public roads and highways, water and sewer lines, remediation, land acquisition, demolition, the provision of gas, electric, and communications service facilities, and the enhancement of public waterways (note: public infrastructure does not include police or fire equipment for Incentive Districts TIFs created after March 30, 2006, and no Incentive District TIF service payments collected in such Districts may be used for such purposes). Along with public infrastructure improvements previously noted, Service Payments generated from private improvements in an Incentive District TIF may be used to fund residential housing renovation projects as long as the TIF includes a public infrastructure component. *(Also note: the legislation must identify one or more commercial or industrial specific projects that are or will be undertaken in the TIF that will place additional demand on the public infrastructure improvements designated in the legislation).* Note that, while this Incentive District TIF provision previously had a sunset date of June 30, 2007, Amended Substitute House Bill 66 (passed June 2005) eliminated the sunset date.

A taxpayer whose operations are located within an Incentive District TIF continues to make payments to the jurisdiction in an amount equal to the real property tax liability that otherwise would have been due had the property not been exempted. These payments in lieu of taxes, or Service Payments, are collected by the county treasurer in the same manner as real property taxes, but are deposited into separate public improvement tax increment equivalent funds.

ELIGIBILITY

For Incentive District TIFs created after January 1, 2006, certain thresholds must be met in order for the local jurisdiction (municipality, township, or county) to enter into this type of TIF. For any municipality, township, or county with a population (based on the most recent federal census) of 25,000 or more, an Incentive District TIF can be created only if the value of real property located within all Incentive Districts, including the proposed Incentive District, will not exceed 25% of the jurisdiction's total real property valuation. Communities with a population of at least 25,000 that are considering creating an Incentive District TIF after January 1, 2006, must compute the following valuations: a) for property located within the proposed TIF, determine the taxable value of the property during the preceding tax year; and, b) determine what would have been the taxable value of property located within an Incentive District TIF during the preceding tax year that would have been taxable but for the fact that the property was located in an Incentive District TIF. Finally, divide the sum of a) and b) by the total taxable value of real property located in the jurisdiction for the preceding tax year. If the result of this calculation does not exceed .25, the proposed Incentive District TIF can be created.

TAX BENEFIT

A local political jurisdiction may exempt the value of private improvements from real property taxes up to 75 percent for a term of up to 10 years. The TIF authorizing legislation enacted by the municipality, township, or county must specify the rate and term of real property tax exemptions. Local jurisdictions seeking to offer greater amounts of assistance under the TIF must first obtain the concurrence of the affected board(s) of education and the statutorily required additional government entities. With the concurrence of its school board(s) and the additional government entity, a local political jurisdiction may exempt the value of improvements up to 100 percent for a term of up to 30 years. Note that in municipalities, TIF Incentive District exemptions for real estate improvements up to 100 percent or up to 30 years may be made without the concurrence of the affected board(s) of education if the TIF authorizing legislation provides that service payments in lieu of taxation will be made to the affected board(s) of education in an amount that would have been payable to the affected board(s) of education if the improvements had not been exempted from taxation.

SCHOOL BOARD INVOLVEMENT

State law requires that local political jurisdictions notify, and in some cases obtain the concurrence of, affected school boards prior to enacting Incentive District TIF authorizing legislation. Municipalities, townships, and counties are required to notify all affected boards of education at least 14 calendar days prior to their formal consideration of proposed

Incentive District TIF legislation. If the Incentive District TIF proposes an exemption greater than 75 percent or a term in excess of 10 years, local governmental entities must provide notice specifically to the affected city, village, and exempted school boards at least 45 business days prior to their formal consideration. State law provides that the school board notification include the specific parcels or Incentive District TIF boundaries comprising the TIF, the estimated value of the real property improvements, and the exemption benefit levels.

The affected boards of education must approve, conditionally approve, or reject any proposed exemptions in excess of the statutory rate and term limits. Note that State law allows a board of education to (a) waive their rights to approve proposed TIF exemptions, or (b) grant local governmental entities the ability to provide notice in fewer than 45 business days in applicable circumstances. After the appropriate notice to the affected board(s) of education, the local jurisdiction must formally approve the TIF legislation in an open public meeting.

In those municipalities that levy their own income taxes, if the respective project receiving assistance generates annual payroll for new employees of \$1,000,000 or more, legislatively authorized Incentive District TIFs must be accompanied by revenue sharing agreements with the affected city, village, and/or exempted school board(s). If a municipality and its above mentioned school board(s) fail to execute an acceptable compensation agreement within six months following the passage of the legislation, State law mandates that the municipal income tax revenues generated from the new employees be divided on a 50/50 basis between the two parties. This arrangement must occur in each year that the Incentive District TIF is in effect and the statutory payroll threshold is satisfied. Given the requirement that income tax revenues are shared with the affected board(s) of education, municipalities must collect employment and payroll information regarding the project prior to enacting the legislation and annually monitor such project data.

ADDITIONAL GOVERNMENTAL ENTITY INVOLVEMENT

Originating with Am. Sub. HB 66, if a municipal or township Incentive District TIF created on or after January 1, 2006 proposes an exemption greater than 75 percent and/or a term in excess of 10 years, the local jurisdiction enacting the Incentive District TIF must notify the county prior to enacting its legislation. The county commissioners must be notified at least 45 business days prior to acting on the legislation to create the district. The notice must: include a copy of the proposed legislation, identify the parcels in the proposed district, provide an estimate of the true value of the improvements that will be made in the district, state the duration and percentage of the exemption, and state the date on which the legislation will be adopted. The county may accept or object, through legislation, to the rate and/or term of the exemption proposed under the Incentive District TIF and certify this legislation to the local jurisdiction within 30 days of notice receipt. If the county does not object, the municipality or township may adopt the Incentive District TIF and no compensation is thereafter payable to the county. If the county objects to the rate and/or term, a negotiation between the county and local jurisdiction may be made that will provide compensation to the county. The compensation may not exceed the property taxes foregone by the county as a result of the exemption. If following an objection no compensation agreement is reached, the legislation creating the Incentive District TIF must provide compensation *to the county* in the 11th and subsequent years of the exemption period. The compensation will be equal to 50% of the county's foregone taxes or, if the objection was to the exemption percentage in excess of

75%, the compensation will be equal to not more than 50% of the county's property taxes foregone that are in excess of the 75% exemption. For example, for a 100 percent, 30-year Incentive District TIF, the compensation could be in effect from years 11 through 30, and the calculated compensation would be not more than 12.5 percent of the exempted value (100 percent minus the 75 percent threshold, divided by two).

ADDITIONAL PROVISIONS

If, in conjunction with an Incentive District TIF, the municipality, township, or county establishing the district plans on applying for the real property exemptions on behalf of the real property owners located within the district, the jurisdiction is statutorily required to hold a public hearing prior to district approval. Notice of this public hearing and a copy of the proposed legislation must be sent to and received by every real property owner whose property is located within the proposed district boundaries at least 30 days prior to the public hearing. Note that this hearing must be held at least 30 days prior to the passage of the Incentive District TIF enabling legislation.

For Incentive District TIFs created after January 1, 2006, service payments in lieu of taxation must be made to the taxing authorities that make certain tax levies as follows:

- A tax levied under division (L) of Section 5705.19 or Section 5709.191 of the ORC for community mental retardation and developmental disabilities programs and services pursuant to Chapter 5126 of the ORC.
- A tax levied under division (Y) of Section 5705.19 of the ORC for providing or maintaining senior citizens services or facilities.
- A tax levied under Section 5705.22 of the ORC for county hospitals.
- A tax levied by a joint-county district or by a county under section 5705.19, 5705.191 or 5705.221 of the ORC for alcohol, drug addiction, and mental health services or facilities.
- A tax levied under Section 5705.23 of the ORC for library purposes
- A tax levied under Section 5705.24 of the ORC for the support of children services and the placement and care of children.
- A tax levied under division (Z) of section 5705.19 of the Revised Code for provision and maintenance of zoological park services and facilities under section 307.76 of the ORC.
- A tax levied under section 511.27 or division (H) of section 5705.19 of the ORC of the Revised Code for the support of township park districts.
- A tax levied under division (A), (F), or (H) of section 5705.19 of the Revised Code for parks and recreational purposes of a joint recreation district organized pursuant to division (B) of section 755.14 of the Revised Code.
- A tax levied under section 1545.20 or 1545.21 of the ORC for park district purposes.
- A tax levied under Section 5709.191 of the ORC for public assistance, human or social services, public relief, public welfare, public health and hospitalization, and support of general hospitals.
- A tax levied under section 3709.29 of the Revised Code for a general health district program.

These levies must be passed after January 1, 2006, and must represent a new levy, a replacement levy, or a renewal levy. For new levies, the amount of the service payment will be equal to the amount of taxes from the new levy. For replacement or renewal levies, the

amount of the service payment will be equal to the increase in the effective tax rate of the renewal or replacement levy.

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