Substantial Changes to Ohio's Community Reinvestment Area and Tax Increment Financing Economic Development Programs Take Effect in Early April

April 2023

Two bills passed by the Ohio General Assembly late last year and effective this April are intended to boost economic development throughout the state. Senate Bill 33 (SB 33) makes significant changes to community reinvestment areas (CRAs) and House Bill 501 (HB 501) increases tax increment financing (TIF) options available to townships.

Senate Bill 33

SB 33, effective April 3, 2023, modifies the requirements for implementation and maintenance of CRAs.

CRAs are an economic development tool providing property tax exemptions on the assessed valuation of improvements to residential, commercial and industrial development projects within defined CRA zones for a defined number of years. Under current law, only counties and municipalities can establish CRAs. However, starting April 3, limited home rule townships may also designate unincorporated areas within their boundaries as CRAs. Additionally, local authorities seeking to create CRAs will no longer need approval from the Ohio Department of Development (ODOD). Localities are required to send, by certified mail, a copy of the establishing resolution and a map of the CRA's area to ODOD.

SB 33 also modifies the requirements for CRAs pertaining to commercial and industrial development projects. Significant changes effective on April 3 include:

- Increased percentage of CRA tax exemptions without approval of the applicable school district. Current law requires that CRA tax exemptions for commercial and industrial projects exempting more than 50% of the increased assessed valuation of the project must receive approval from the school district. SB 33 modifies the requirement for school district approval to tax exemptions of more than 75% of the increased assessed valuation of the project.
- Increased thresholds triggering income sharing requirements. Municipalities are required to share income tax revenue with school districts when a CRA project generates additional payroll of $2 million, as opposed to the $1 million threshold under current law. The $2 million threshold will be increased annually by ODOD to keep pace with inflation.
- Modifications to annual CRA exemption reporting requirements.
- Elimination of certain state fees applicable to commercial and industrial projects.
- ODOD Model CRA Agreement. ODOD will produce a model exemption form agreement while also permitting subdivisions to negotiate their own agreements.
- Increased availability of additional tax exemptions. Owners need wait only three years (reduced from five) after discontinuing a CRA project to seek an enterprise zone tax exemption or another CRA exemption for the project.

The changes to the CRA program in SB 33 are intended to aid the creation and encourage the use of CRAs, making it easier for localities and project owners to utilize property tax exemptions to foster economic development. The new rules simultaneously modify the role of school districts in CRA negotiations and potentially decrease their rights to sharing income tax revenue.

House Bill 501

HB 501, effective April 6, 2023, expands TIF options available to townships. TIFs are an economic development tool typically used to finance public infrastructure improvements by granting property tax exemptions for the incremental increases in assessed valuation generated by private improvements to designated parcels involved in a development project. Parcel owners make payments in lieu of taxes (PILOTs) to the local government authority in amounts equal to the increased taxes that would have otherwise been levied on the improvements. As a result, TIF revenues flow back to the local government authority that created the TIF. These PILOTs typically are used to pay necessary public infrastructure costs associated with the project.

Historically, townships could establish TIFs only to fund public infrastructure improvements. HB 501 permits townships to utilize an option previously available only to municipal corporations – redevelopment TIFs. In a redevelopment TIF, the municipality or township acquires land while engaged in urban redevelopment; leases or conveys the land to a private party; and exempts private improvements on the land from taxation by declaring them a public purpose. Resulting PILOTs can be applied to directly support the project subject to the TIF. Such TIFs can be used for residential improvements if the property is in a blighted area (i.e., an area with at least 75% of its properties posing a menace to public health and safety). Redevelopment TIFs are a powerful economic development tool and can play a significant role in completing a project.

Much like SB 33, HB 501 will facilitate economic development and impact school districts. If you are a developer, a local governmental authority or a school district with questions or concerns regarding SB 33 or HB 501, please reach out to our Public & Infrastructure Finance team for detailed analysis and creative solutions.

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