Ohio Legislative Service Commission

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Fiscal Note & Local Impact Statement

Bill: H.B. 309 of the 128th G.A. **Date**: November 4, 2009

Status: As Introduced **Sponsor**: Rep. Batchelder

Local Impact Statement Procedure Required: Yes

Contents: To lengthen the term of a property tax exemption for qualified Community Reinvestment Areas by 15 years if new construction is initiated in the next year

State Fiscal Highlights

STATE FUND	FY 2010	FY 2011	FUTURE YEARS
General Revenue Fund			
Revenues	- 0 -	- 0 -	- 0 -
Expenditures	- 0 -	- 0 -	Potential decrease

Note: The state fiscal year is July 1 through June 30. For example, FY 2010 is July 1, 2009 – June 30, 2010.

- Commercial and industrial property owners may pay less in property taxes than they otherwise would pay 16 to 30 years after the Community Reinvestment Area (CRA) designation is approved. A reduction in commercial or industrial property taxes would reduce the amount of GRF expenditures for the 10% rollback, which reimburses local governments and school districts for a 10% property tax reduction granted to property owners.

Local Fiscal Highlights

LOCAL GOVERNMENT	FY 2010	FY 2011	FUTURE YEARS
Counties			
Revenues	- 0 -	- 0 -	Potential loss
Expenditures	- 0 -	- 0 -	- 0 -
Municipalities and school districts			
Revenues	- 0 -	- 0 -	Potential permissive loss
Expenditures	- 0 -	- 0 -	- 0 -

Note: For most local governments, the fiscal year is the calendar year. The school district fiscal year is July 1 through June 30.

- Commercial and industrial property owners may pay less in property taxes than they otherwise would pay 16 to 30 years after the CRA designation is created.
- The reduction in property tax revenue would be permissive for municipalities and school districts, but a county may forego revenue if a municipality offers a CRA.

Detailed Fiscal Analysis

The Ohio Community Reinvestment Area (CRA) Program is an economic development tool administered by municipal and county governments that provides real property tax exemptions to businesses making investments in Ohio. An area may be designated a CRA if the legislative authority determines: (a) the area possesses housing facilities or structures that are of historical significance or (b) new housing construction and repair of existing facilities or structures is discouraged.

Up to 100% of the real property value within a CRA may be exempted from taxation for up to 15 years. Although the CRA Program is primarily a housing-oriented incentive, property owners may also seek a CRA designation for commercial and industrial projects. Commercial and industrial projects involving new construction may have a CRA designation that exempts the property from taxes for 15 years.

H.B. 309 lengthens the period for which commercial and industrial projects in a CRA may be exempted from property taxation. The bill authorizes local legislative authorities to exempt new structures from property taxation for a period up to 30 years assuming certain requirements are fulfilled. Namely, the total cost of construction of the new structure must be at least $100 million, and at least 100 individuals must be employed in its construction. Moreover, at least 75% of the employees must be Ohio residents, and the occupants of the new structure must employ a total of at least 200 new full-time employees when it is completed. Finally, the new structures may not be occupied by any business that has reduced operations elsewhere in Ohio within one year before or after occupying the new structure. If this final provision is violated, the CRA reverts to a 15-year exemption as defined under current law.

A construction project may not be approved for the extended tax exemption authorized by H.B. 309 unless the Director of Development approves its application. The application must be approved and construction must begin within one year after the effective date of H.B. 309. After one year, a CRA authorized by the bill cannot be granted to any property owner.

Fiscal effect

The local revenue loss is dependent on decisions made by local legislative bodies to grant the extensions of tax exemptions that the bill authorizes. For municipalities and school districts, the potential revenue loss would be permissive. Counties may forego revenues if a municipality within its jurisdiction authorizes a CRA. The local revenue loss also depends on the value of new property that utilizes CRA benefits granted under the terms of H.B. 309 that would have come into existence regardless of the H.B. 309 incentives. These projects represent a local revenue loss because the property owner does not begin the new endeavor on account of the 30-year property tax exemption. Although the new construction was not initiated because of the H.B. 309 incentive, the property owner would still receive the benefits of a lengthier tax exemption. However, the revenue loss is only applicable to the latter half of the 30-year exemption.

There would be no revenue loss on account of those new construction projects initiated solely because of the beneficial tax treatment provided by H.B. 309. Those properties would not have come into existence without the exemption. In those instances, the expanded tax base can be directly attributed to the incentives set forth in this bill. Thus, exempting these property owners from taxation affects neither the current nor anticipated future revenue collections by local governments.

LSC staff cannot estimate the number of new construction projects that will be initiated due to the tax incentives in H.B. 309. LSC staff cannot estimate the number of construction projects that would have proceeded without the incentives provided by the bill. For those construction projects that would be initiated regardless of the 30-year tax incentive, there is a potential revenue loss for those local governments that did not approve of a real property exemption for their tax base. Because a CRA may be sought by a local legislative authority, a municipality may reduce revenues to the county without the county's consent by designating an area as a CRA.[1] Depending on the county's respective tax rate, the county could lose hundreds of thousands of dollars per year, potentially millions, for each qualifying new structure, and the total revenue loss for all new CRAs could be several million depending on the number of new structures and the value of these new structures.

The state of Ohio reimburses school districts and local governments for a 10% property tax rollback granted to all real property owners. School districts are reimbursed through an appropriation in the Department of Education's budget, while local governments receive their reimbursement through the Department of Taxation's budget. Depending on the local tax rates for the area benefiting from a CRA authorized by H.B. 309, this could reduce annual GRF expenditures by tens of thousands of dollars, if not hundreds of thousands of dollars, for a given structure. The cumulative annual savings could total a million dollars or more if numerous property owners are granted a property tax exemption in accordance with this bill.

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[1] Counties do not have the same statutory authority as school districts as it pertains to CRA agreements. Generally, the Revised Code mandates that the local school district provide approval if the CRA legislation seeks to exempt more than 50% of an owner's real property from taxation. H.B. 309 further requires school district approval for all terms and conditions set forth in the CRA authorized by the proposed bill.