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COMMITTEE

Witness Form

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Testifying on Bill Number: SB 39

Testimony:  Verbal  Written  Both

Testifying As:  Proponent  Opponent  Interested Party

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## **Testimony on SB39 - Transformational Mixed-Use Developments**

**Gregg Fusaro**

**Capital Investment Group**

**April 2, 2019**

Good morning. My name is Gregg Fusaro, and I am a Partner in Capital Investment Group, a real estate development company located in Cincinnati. Capital develops mixed use high density projects in urban and midtown environments in major metropolitan areas. Our company has been instrumental in redevelopment of the downtown riverfront in Cincinnati/Northern Kentucky with projects like SouthShore condominiums, a 21 story luxury condominium development, and Aqua on the Levee, a mixed use development which includes multifamily residential, office, retail, a hotel and structured parking. Most recently we completed a seven story mixed use project in the heart of downtown Louisville.

SB 39 provides a tax incentive for major economic development projects that will have a transformative effect in stimulating business activity and generating new revenue to state and local governments. Our experience is that insurance companies are very interested in projects like those contemplated in this legislation from an investment perspective, as these major projects provide low risk, steady, and long-term returns.

This tax credit is designed to incentivize insurance companies to invest in high density, critical mass type development projects. Encouraging the deployment of more capital into large scale projects is critical in ensuring that economic growth continues in major employment centers and that our cities continue to be competitive compared with other States. This is especially true in those situations where we can create infill projects with more intense uses to create urban environments that are extremely desirable and utilize structured parking to promote even more density on the development site.

Obviously, development in these infill neighborhoods is cost prohibitive based on the cost of land and the need for structured parking which few markets can charge for and whose cost continues to escalate year after year. Other factors driving up development costs include generally escalating construction costs – for both materials and labor at a time where rents have not kept pace with these cost increases.

Ohio boasts about its low-cost business environment, but as an example, the expectation that Class A office space should cost no more than \$20.00-22.00 a square foot, thereby making it nearly impossible to produce new office space without enhancing the financial structure with new sources of capital and public finance tools. Every urban project we are considering is dependent on some financial assistance to have any economic feasibility.

Under the proposed legislation, project eligibility requirements currently include:

- 1) The development project must have a transformative effect within a minimum of  $\frac{1}{4}$  quarter mile radius of the project.
- 2) It also must demonstrate that the new income taxes, property taxes and sales taxes will exceed the amount reflected in the tax credit over a five-year period after the

project is completed. This will ensure that there will be a net tax gain for state and local governments.

- 3) The development must be a mixed-use project that includes retail, office, residential, parking and similar uses and be of the magnitude to truly have a transformative effect.
- 4) The project must exceed 50 million dollars in development costs; and
- 5) The project must include a building that is at least 15 or more stories high or 350,000 or more square feet in floor space.

Given the eligibility criteria, it's important to note that not all Transformational Mixed-Use Developments will be located in a strictly urban environment that welcomes high-rise development. Some planned, large scale developments, in particular some I am aware of in Cincinnati, are located adjacent to, or in close proximity to, residential neighborhoods. Neither the neighborhood nor the local governments envision high-rise development in such close proximity to a residential area.

Given this situation, we respectfully request that the Senate consider amending the bill to provide a means for large-scale developments in sub-markets of an urban area to take advantage of this tool.

We recommend an amendment that allows for multiple buildings that collectively total a minimum of 350,000 square feet of space in a defined area. Limiting the multiple buildings to a defined area encourages density. To further promote density and limit the number of eligible projects, I suggest that the amendment also require eligible projects to include structured parking – thus preventing sprawling projects utilizing massive surface parking lots from being eligible. As a further restriction to limit the number of eligible projects, it might also make sense to require the project buildings to be contained in an area that if a circle were drawn around it, could contain no more than 10 acres. To give you some perspective, this is an area about the size of the Capital area.

The advantage of adding this language is that it provides the ability to create developments which, because of multiple buildings, instill a better sense of place and give residents, office workers, and customers a more engaged experience. This is often very difficult in a single high-rise building. It is interesting to see how lower height buildings, a little green space, and multiple facades tend to make the customer experience better, thus equating to a more beneficial project for the long term. This will allow a more diverse set of development sites across the state to benefit from this tax credit rather than just a few urban downtown blocks of Ohio's cities.

Higher overall densities can: support better and less expensive public transportation, promote greater energy efficiency in buildings, create more opportunities for mixed-income housing, reduce urban sprawl and in cases of redevelopment, utilize existing infrastructure rather than requiring new.

Thank you for the opportunity to speak before the Committee today. We respectfully ask for your support for this bill and the changes we recommend. I am happy to answer any questions.