NAIOP
COMMERCIAL REAL ESTATE DEVELOPMENT ASSOCIATION
NAIOP OF OHIO

Co-Chairs Roemer and Blessing, and members of the Joint Committee on Property Tax Review & Reform. Thank you for the opportunity to provide testimony on the important topic of property tax incentives and ways to improve their overall effectiveness in Ohio. I am Chris Knezevic and I serve on the Board of Directors for NAIOP of Ohio, the commercial real estate development association. NAIOP of Ohio is composed of over 500 members from over 300 companies with 4 regional chapters representing the commercial real estate industry statewide.

Economic development in Ohio has seen positive strides, fueled by a broad range of factors. The factors contributing to Ohio's success include (i) thriving sectors, such as advanced manufacturing, healthcare and logistics, (ii) an advantageous geographic location proximate to major population centers, (iii) a large and skilled workforce and (iv) a competitive business climate. One factor that should not be overlooked are the economic development programs available within the state, particularly local property tax incentive programs like Community Reinvestment Areas (CRAs), Enterprise Zones (EZs) and tax increment financing (TIF). These programs are fundamental to keeping Ohio competitive from a cost-of-doing business standpoint compared not only to neighboring states, but also states like Georgia, Texas, North Carolina and others that traditionally have been the powerhouses in economic development.

TIF, in particular, is an extremely valuable and vital tool that has been used by cities, villages, townships and counties to help facilitate development and the construction of critical public infrastructure. TIF continues to be widely utilized not only for commercial and industrial projects, but we are also seeing it utilized more frequently for residential housing projects, which are of critical importance to continued sustainable growth in Ohio.

Ohio is fortunate to have a TIF program that is flexible and can be used both relatively inexpensively and efficiently. Ohio's TIF is the envy of many other state economic development organizations, including those of neighboring states. Compared to Ohio TIFs, TIFs in many states are painstakingly time consuming and expensive to put into place. Certain neighboring states that compete directly with Ohio for economic development projects would be thrilled if Ohio amended its TIF laws to make TIF less effective and more cumbersome to use.

As with any tool, economic development or otherwise, there will be instances where the tool is not used appropriately. However, there are steps that can be taken to ensure TIF is properly and effectively utilized as much as possible. The first is statutory. Every jurisdiction that approves a TIF is required under the Ohio Revised Code to establish a tax incentive review council, or TIRC. Each TIRC is responsible for annually reviewing the increase in value of the property subject to the TIF exemption, the value of improvements subject to the TIF exemption and the number of new employees or retained employees on the property subject to the TIF. Each jurisdiction can utilize the findings of the TIRC to evaluate the performance and effectiveness of a TIF.

Second, guardrails can be put in place to ensure TIFs are utilized responsibly and effectively. TIFs do not have to be structured to run for a full thirty years or to be what some have called a "blank check" to developers. For example, TIFs can be structured to end the earlier of a certain milestone, such as the full repayment of a public infrastructure improvement, or a particular year. Further, both the legislation approving the TIF and any TIF agreement with a developer can explicitly detail or limit what the TIF funds can be used for.

Finally, economic development and government officials can seek training opportunities to learn how to effectively utilize TIF. There are industry organizations, such as the Ohio Economic Development Association (OEDA), and law firms that provide education on TIFs. In fact, NAIOP would be willing to host a seminar on how to effectively use TIFs. As with any tool, the more you know about it, the more effectively it can be utilized.

Although programs like CRAs, EZs and TIFs are very effective economic development tools, there is always room for refinements and improvements. In addition to the three changes below that is NAIOP proposing, the organization is always open to discussing other sensible improvements to make Ohio's important economic development tools even more effective. NAIOP of Ohio is offering the following recommendations for consideration by this committee and the General Assembly:

Proportional JVSD Compensation for Property Tax Exemptions

Clarify that a joint vocational school district (JVSD) shall receive compensation in proportion to how the JVSD is allocated property tax revenue funding relative to the traditional school district.

- Traditional school districts' millage can be roughly 15 to 20 times greater than the JVSD's millage, and the school district is giving up a far greater portion of revenue due to an exemption; therefore, it is not logical that the JVSD would receive the same compensation. The lack of clarity regarding how to interpret "at the same rate and under the same terms received" is leading to additional back and forth between the parties.

TIF Exemption Commencement

Clarify that TIF exemptions can begin on a parcel-by-parcel basis by the earlier of (i) the tax year in which the value of an improvement exceeds a specified amount or (ii) a certain year.

- Under current law, the triggers for when a TIF exemption may commence may not facilitate the desired goal of a TIF or maximize the value of the TIF. The proposed change will provide added flexibility to meet the needs of projects and maximize the value of the TIF for jurisdictions.

Non-School TIF Process Simplification

For non-school TIFs (i.e., those in which school districts receive TIF revenue equal to what they otherwise would receive in property tax revenue), simplify all of the TIF statutes to eliminate (i) the requirement that the school district board of education approve the TIF and (ii) the school district notice requirements.

- Under current law, even though school districts are made whole under non-school TIFs, county and township TIFs require the school district to approve non-school TIFs (even though that approval is not required for municipal TIFs). Additionally, the ORC requires notices to be provided to the school districts for non-school TIFs even though the school district is not impacted. These requirements create added steps in the administrative process and can increase costs through legal or service provider fees for the jurisdictions, developers/companies and traditional school districts.

Co-Chairs Roemer and Blessing, thank you again for the opportunity to participate in this important discussion and we are happy to answer your questions you or the committee has.