Medina County Economic Development Corporation

Comments on HB 123 – Modifying Community Reinvestment Areas

Dear Chairman Merrin and Members of the House Ways & Means Committee:

Having managed Medina County's Community Reinvestment Area programs for nearly thirty years, the Medina County Economic Development Corporation speaks to this bill from a position of experience. Our four-person economic development staff administers 22 CRA programs for cities, villages, and townships in Medina County, both Pre-1994 and Post-1994, and we can verify that the State's CRA program is a powerful tool for attracting and retaining businesses. From this perspective, we certainly appreciate House Bill 123's goals of streamlining the process of tax abatement administration, but we have a number of grave concerns about the bill's approach.

The proposed revisions to the CRA program in HB 123 remove the balance of Ohio's property tax incentives programs between pro-active business support and the accountability of companies when a community is trying both to attract business expansion and to justify the use of valuable taxpayer dollars to their citizens and school districts.

The bill eliminates language in Ohio Revised Code specifying the exact form and content of the agreement between the local government and the owner of a project. Instead, ODSA will have to create a new "model agreement" which does not require job creation, retention, or payroll requirements, leaving these elements to the discretion of the local government.

While this bill does not preclude a county, township, or municipality from incorporating accountability for job and payroll creation into their agreements with companies, it takes away the moral authority provided by state law for communities to plan their growth and hold companies accountable for incentives so that they become part of that community.

The bill encourages damaging competition among communities within our state, putting Ohio counties in competition with each other, rather than other states. Eliminating the language of job commitment in ORC makes it extremely difficult for local officials to ask a company to make a commitment for fear that their incentive offer may not be competitive enough with a community on the other side of the state which is not asking the company for any accountability. So instead of having consistent requirements that are enforced statewide, the bill encourages a "race to the bottom," as the Medina County Commissioners have put it in their written testimony to the Committee.

This lack of accountability runs completely counter to the current economic development practice modeled for local communities by JobsOhio, which is given leeway by the State of Ohio to negotiate incentives like the Job Creation Tax Credit. JobsOhio requires a reasonable "Return on Investment" to the State of Ohio's payroll tax system when calculating a specific tax credit offer. This means that the company must provide information on, and make a commitment to, a specific number of new jobs and new payroll. This commitment is evaluated on an annual basis to ensure that the State is receiving the promised payroll that justified the incentive in the first place.

Why would the State of Ohio want to require anything less than full accountability from the local communities who are administering a property tax incentive program that actually diverts more taxpayer dollars for incentives than most other State incentives?

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Local elected officials have an obligation to their constituents to use taxpayer dollars wisely, and to be completely transparent with their budgeting process. This transparency must apply not only to the dollars it receives, but to the dollars which it otherwise *would have received* if a tax abatement were not approved. If they can report that in exchange for the future tax dollars they are giving up, the community is benefiting from a good number of new jobs, new payroll, and capital investment, local officials can defend their approval of a tax abatement agreement with solid facts and economic impact data on their side. Without a job creation commitment requirement to explain their decisions, elected officials could face very challenging questions from their voting constituents.

Bill proponents have indicated that the proposed CRA program changes would make Ohio more competitive. I would argue that Ohio has been very competitive since the early 1990's, even with our current CRA regulations in place, as evidenced by the state rankings for the most "new and expanded" corporate facilities as tracked by *Site Selection* magazine for over forty years. Since 1993, Ohio has been ranked #1 ten times for the most plant expansions, and has been in the top three since 2003, usually in first or second place.

Our existing incentive programs must be quite acceptable by the businesses and development community for Ohio to see these kinds of results decade after decade. On a local level, we have never seen a company walk away from a deal in Medina County because we asked them to sign an agreement committing to new jobs, or even because of the public notice periods.

The CRA property tax abatement program is the one of the state's most-used incentives. Forty-three Ohio counties currently offer a post-1994 CRA program, according to the Ohio Development Services Agency (ODSA), and we all have created a process to handle these agreements using the model agreement already in place in Ohio Revised Code.

The changes being proposed in HB 123 purport to streamline the process by eliminating the requirement for ODSA to approve a proposed community reinvestment area (CRA), and by repealing certain reporting requirements.

In actuality, the changes made in the bill do not actually streamline the process. Referring to lines 43-47 and lines 58-72, the new regulations would require that the director of development services "assigns to each community reinvestment area a unique designation by which the area shall be identified…." From a practical perspective, this "assignment" process acts virtually the same as approval of the proposed CRA area, in that the local community cannot grant any CRA tax exemption until such time as ODSA assigns it a designation – or in other words, until the CRA is registered with the State, which right now occurs during the ODSA approval process.

Just as we feel it is vital to have checks and balances on companies receiving tax abatements, it is logical to have a State agency verify that a CRA program has been created correctly and according to ORC.

Regarding the notion that it is mostly large and wealthy districts who are able to use CRAs because they can pay for lawyers and administrative upkeep, and that the current program puts up barriers to entry for small, rural, and medium-sized communities, I respectfully beg to differ. As the Executive Director of a small economic development organization in a county with some suburban and many rural communities, I have sent eleven CRA creation applications to the State's development agency over the past two decades,

and it generally takes around three weeks to receive approval. This is not an onerous time frame, and much briefer than the approval process for many other incentive programs such as the Job Creation Tax Credit program (30-45 days) or Community Development Block Grant programs (1-3 months). If smaller communities need a model to create a new CRA zone, those applications are public record. They do not need to hire an attorney to get a copy of an approved application and follow the same process. That's what I did when I first started creating CRA zones in Huron County nearly twenty years ago.

The repeal of annual reporting requirements is also of great concern from a transparency perspective. The bill eliminates locally impacted boards of education from receiving reports on agreements that are in place during a given year. This seems to target our school districts as an enemy in the tax abatement process, deliberately making it difficult on them to receive updates on information which has a significant impact on their school systems.

The other two elements of the bill that directly target school districts is the increase from 50% to 75% for proposed CRA exemptions that require obtaining prior permission from a school district, and the removal of a municipal income tax-sharing requirement for projects generating over $1 million in new payroll.

I am certain that uncooperative school districts have impacted local economic development projects, but I question how many times that actually happens. With over 80% of the existing Post-1994 CRA agreements allowing for tax abatements in excess of 50%, it seems to me that most school boards in the State of Ohio have actually been very cooperative.

The importance of strong partnerships with local schools cannot be understated by an economic development perspective; they provide the pipeline of future workers to companies in the State of Ohio. An ongoing supply of quality labor is one of the most critical elements in business attraction, even more important than incentives offered for the construction of a new building.

Companies interested in expanding in Medina County have been very pleased to see our great relationships with local districts. Strong schools mean we can offer an effective workforce, attract new population, and provide a great quality of life. We have seen business attraction deals that decided on our community based on the strength of our school systems. We use the tax abatement approval process to help companies see our partnership and engage with our schools from the very beginning. We have had a number of workforce and career development programs suggested to the schools through those meetings, and many companies have reported how much they appreciate the conversations.

In the proponent testimony, the revenue-sharing arrangement was presented as a tax on companies without a vote to enact it. We do agree that this arrangement is unfair to cities as it only applies to payroll tax and therefore only concerns cities, but sending such a strong devaluation message to our local schools who are already struggling with school funding issues does not put Ohio in a competitive position.

Another reporting requirement that HB 123 proposes to repeal is notice to another jurisdiction that is impacted by the relocation of business to a community offering a new tax abatement. Yes, it is true that this current requirement may not impact the final result, but this change represents another loss of transparency in the approval process for CRA agreements. All economic developers and public officials know that expanding businesses need to make decisions that are best for their operations, but without

such a required notice, the native community may never get the opportunity to reach out to the potentially relocating company and make an offer to keep them where they are.

HB 123 would also reduce the eligibility of a company to apply in between tax exemption programs from five down to two years. We believe that the existing five-year rule has actually helped Ohio avoid lots of cases of such "jurisdiction jumping." By keeping this five-year limit in place, we are avoiding the circumstances common in other states with lower requirements where companies do move back and forth over jurisdiction lines just to avoid property taxes.

Relocations are disruptive for businesses, their employees, and the community they leave behind. If there is an opportunity to try and solve a problem for them that would keep them in their existing community and help them grow there, it would be less costly for the business, for workers, for the existing community, and perhaps even for a new community which may be spending more than it can afford to attract a new business that will not actually add any net new jobs for the State of Ohio.

One last issue of concern is the elimination of fees paid by tax abatement beneficiaries to the local authority and ODSA to cover the cost of administering such projects.

Fees paid to the municipal corporation or the state that are associated with the processing of CRA agreements are used by many municipalities to cover the very real expenses incurred in managing these agreements. Even if reporting requirements are streamlined through HB 123, the work required to administer and monitor CRA agreements still must be done, such as coordinating with public bodies, investigating the status of facilities with abatements, organizing Housing Council meetings, and reporting to the state.

If these fees are not able to be collected, this loss of non-tax revenue could damage communities which are trying to be creative with other economic development incentive programs. The lack of non-tax revenue inhibits a local community's ability to fund grants to businesses through local Job Creation Grant programs that also incentivize job creation, but which cannot be funded from local payroll taxes; this and other creative incentives depend on non-tax revenue.

HB 123 encourages the creation of an unlevel playing field. For those communities which choose to continue the responsible administration of CRA tax abatements by involving their school districts and holding companies accountable to a job creation commitment in their CRA agreements, they will be pitted against communities who throw caution to the wind and enact no standards in the cavalier distribution of valuable taxpayer dollars.

We encourage you to oppose the passage of HB 123 and continue allowing for public accountability and transparency in the administration of a very useful and powerful business attraction tool for the State of Ohio. Thank you for the opportunity to testify on this important issue.

Sincerely,

Bethany Dentler

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