

Downtown Redevelopment Districts, *Property-Under-Development Exemptions and Other Ohio Legislative Changes Impacting Developers*

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Downtown Redevelopment Districts

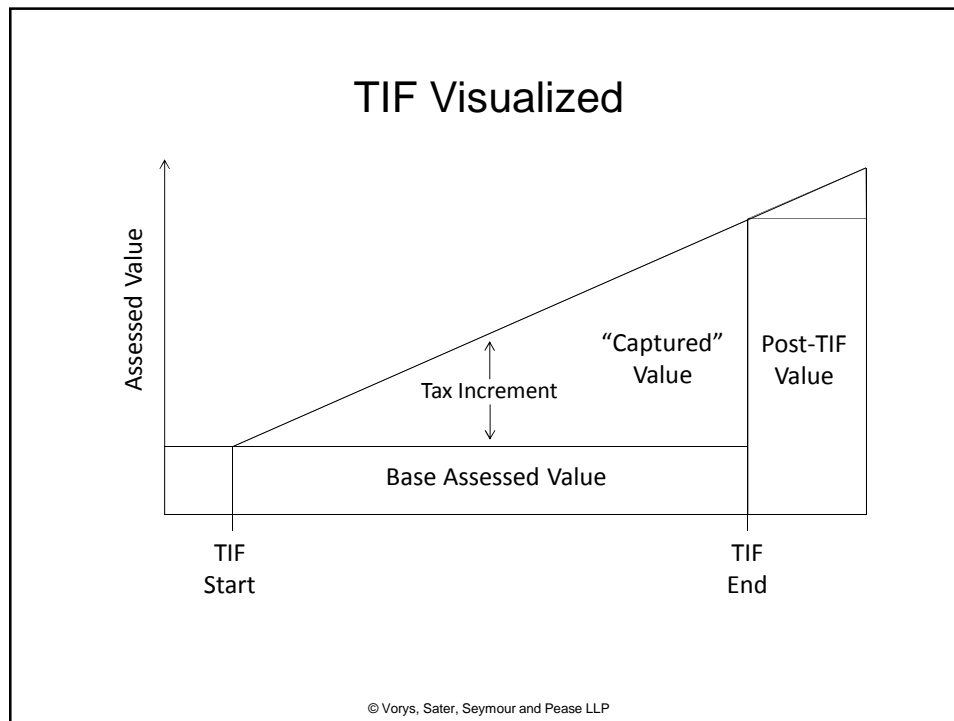
- Amended Substitute House Bill 233 (“HB 233”) allows for the creation of:
 - Downtown redevelopment districts (“DRDs”)
 - Innovation districts within DRDs
- Operate much like tax increment financing (“TIF”) areas
 - Service payments can be used for a wider range of uses than traditional TIF payments

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What is Tax Increment Financing?

- Increase in assessed value of real property is “exempted” from taxation
 - Rather than paying property taxes, amounts otherwise due from this increase in assessed value are placed into a special fund
- TIF funds, in general, can be used for defined “public infrastructure improvements”
 - Certain TIF types permit broader uses of TIF funds

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DRD Exemption Details

- Improvements to parcels within a DRD can be exempted as follows:
 - Up to 70% for 10 years without school district approval; or
 - Up to 70% for 30 years with either (a) school district approval or (b) service payments to the school district(s) equal to the taxes exempted; and
 - Certain levy/increased levy carve outs
- Amounts exempted are paid as service payments in lieu of taxes

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DRD Service Payment Uses

1. Loans or grants to owners of historic buildings within the DRD;
2. Contributions to SIDs, CICs, or certain nonprofit corporations (20% limit);
3. Loans to owners of buildings located within the DRD that do not qualify as historic buildings;
4. Financing “public infrastructure improvements”; and
5. Loans or grants to “qualified businesses” or businesses that support “qualified businesses” within an innovation district.

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DRD Redevelopment Charge

- Property owners may enter into an agreement with the municipal corporation to impose a redevelopment charge on the property for the life of the DRD
 - Runs with the land;
 - Revenues may be utilized in the same manner as DRD service payments
- Redevelopment charge amount may be:
 - Fixed amount;
 - Based on the assessed valuation of the property; or
 - Based on the profits, gross receipts, or other revenues of a business operating on the property (including rental proceeds)
- Unpaid amounts are certified to the county auditor

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DRD Credit Enhancement Opportunities

- Like other tax-like property charges, a DRD Redevelopment Charge can be pledged and securitized.
- Depending on underwriting and credit-quality, these charges could be packaged into a Bond Fund Bond offering or as a stand-alone issuance.
- A DRD Redevelopment Charge is levied in addition to any property taxes due and, unless property taxes are otherwise exempt (such as CRA or EZ), the property will be burdened with charges above ordinary taxes.

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DRD Purpose

- DRDs must be created for the purpose of:
 1. Promoting rehabilitation of historic buildings;
 2. Creating jobs; and
 3. Encouraging economic development in commercial and mixed-use commercial and residential areas.



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DRD Area Characteristics

1. Must be enclosed by a continuous boundary not more than 10 acres;
2. Must include a historic building that is being or will be rehabilitated;
3. Not used exclusively for residential purposes; and
4. Does not include a parcel that is currently exempted by a DRD, a .40 TIF, or a .41 TIF.



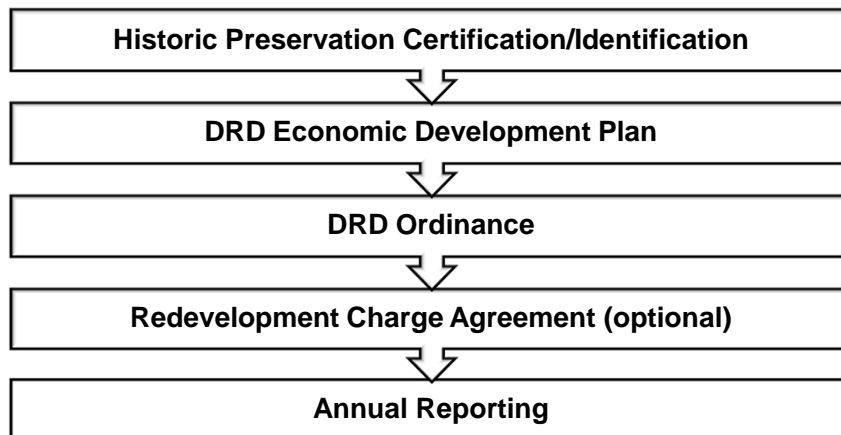
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DRD Ordinance

- Once an area is identified, an ordinance must be passed specifying:
 - The boundary of the DRD;
 - The parcel number of every parcel in the DRD;
 - The parcel(s) that include a historic building that is being or will be rehabilitated in the DRD;
 - The proposed life of the DRD; and
 - An economic development plan for the DRD.

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DRD Creation



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Innovation District Purpose

- Innovation district may be created within a DRD for purpose of attracting and facilitating the growth of “qualified businesses”



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Innovation District Area Characteristics

- Must be located entirely within an existing or proposed DRD;
- Must be enclosed by a continuous boundary; and
- Must be equipped with a high-speed broadband network capable of download speeds of at least one hundred gigabits per second.



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Innovation District Creation

- An ordinance designating an innovation district within a proposed or existing DRD shall include:
 - The boundary of the innovation district;
 - The parcel number of every parcel in the innovation district; and
 - An economic development plan for the innovation district.
- The life of the innovation district is identical to the life of the DRD in which it is located.

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Putting the Pieces Together – Generally

- Can be combined with other economic development incentives tools with sufficient strategizing and planning
- Consider impact of statutory priority rules



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Putting the Pieces Together – Tools

- **Community Reinvestment Area**
 - **Pros:** Strong incentive for development
 - **Cons:** True tax abatement that does not generate funds for improvements
- **ORC 5709.41 TIF**
 - **Pros:** Very flexible fund uses: public and private improvements
 - **Cons:** City must enter chain of title; exemption begins when ordinance is passed
- **ORC 5709.40(B) TIF**
 - **Pros:** Exemption may commence on a “rolling” basis
 - **Cons:** Fund uses are more narrow than .41 TIF
- **Downtown Redevelopment District**
 - **Pros:** Very flexible fund uses; redevelopment charge available
 - **Cons:** Requires historic building; tax levy carve outs; max of 70%

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Property Under Development Exemption

- SB 235 created a new real property tax exemption for commercial or industrial “newly developable property” or “redevelopment property”
- Effective on March 28, 2017



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Property Under Development Exemption

- Property Qualifications
 - No certificate of occupancy issued
 - No current commercial, agricultural, or industrial operations being conducted on property
 - Must have plans for the construction or reconstruction of new commercial or industrial buildings/structures
 - Does NOT apply if any portion will be used as a dwelling

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Property Under Development Exemption (cont'd)

- Any increase in assessed value is exempt from real property taxation for a period of up to six (6) years while under development
- Expires in the tax year that a certificate of occupancy is obtained
 - Limited value

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CRA Remodeling Exemption Changes

- Effective April 5, 2017
- Extends maximum exemption period for remodeled property to fifteen (15) years
 - Was previously 12 years
- Statutory language clarified to exempt any increase in assessed value after remodeling began
 - Consistent with enterprise zone and TIF exemptions

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Environmental Remediation Exemption Revision

- HB 463
- Effective April 5, 2017
- Relates to the ORC Section 5709.87 exemption, known as the Voluntary Action Program (“VAP”), granted for environmental remediation efforts
- Exemption is 10 years, 100% of the increase in assessed value of land and improvements, buildings, fixtures, and structures located on the property in base year

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Environmental Remediation Exemption Revision (cont’d)

- The “base year” for purposes of the exemption is clarified as the tax year in which remedial activities began
 - Department of Taxation previously took the position that the “base year” was the tax year before the exemption order was issued, leading to potentially negative results for projects that required multi-year remediation efforts

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QUESTIONS?



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Aaron is a partner in the Vorys Akron office and a member of the corporate group. He represents issuers, underwriters and conduit borrowers on tax-exempt and taxable security offerings, and provides counsel to companies on complying with the Securities Exchange Act of 1934 and with NYSE and NASDAQ rules. Aaron also provides counsel to a wide range of public and private companies on their corporate and transactional matters, including mergers and acquisitions.

His notable experience includes:

- Represented a port authority in connection with the issuance of bonds and tax increment backed notes to finance the construction of airport facilities
- Represented an underwriter in connection with the issuance of tax increment backed bonds to finance the redevelopment of a public parking garage supporting approximately 260,000 square feet of office development and 290,000 square feet of retail development
- Serving as bond counsel for a \$205 million financing of a state university's construction of a stadium, student housing and other campus improvements
- Serving as bond counsel for a state university's refunding of approximately \$130 million of its bonds
- Serving as bond counsel for a hospital's refunding of approximately \$90 million of bonds

Aaron is a member of the National Association of Bond Lawyers.

Aaron received his J.D. from the University of Michigan Law School and his B.A. from the University of Pennsylvania, *cum laude*.

Practice Areas

Corporate and Business
Organizations

Financial Institutions
Government Relations

Industries

Government

Education

University of Michigan Law
School, J.D., 2000

University of Pennsylvania, B.A.,
1997, *cum laude*

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Insights

"*Securities Alert: SEC Updates Guidance on Non-GAAP Financial Measures*," May 20, 2016

"*Securities Alert: SEC Adopts Final Pay Ratio Disclosure Requirements*," August 10, 2015

"Be Prepared: Strategic Planning for M&A Activities," *The Bankers' Statement – Summer 2015*, July 30, 2015

"Change-in-Control Compensation Agreements," *The Bankers' Statement – Summer 2015*, July 30, 2015

"In Depth: Financial Regulators Issue Policies and Practices for Diversity," July 30, 2015

"Regulation FD: A Refresher on the SEC Rules Governing Selective Disclosure," *The Bankers' Statement - Summer 2015*, July 30, 2015

"*Securities Alert: SEC Proposes Executive Compensation Clawback Rules*," July 6, 2015

"*Securities Alert: SEC Proposes 'Pay Versus Performance' Disclosure Rules*," May 5, 2015

"*Securities Alert: SEC Amends Regulation A Exemption to apply to Offerings of up to \$50 Million of Securities Annually*," April 3, 2015

"2015 Compensation Update," *The Bankers' Statement – Spring 2015*, Spring 2015

Professional and Community Activities

Goodwill Industries of Akron, Board, March 2007-present

Honors and Awards

Ohio Super Lawyers Rising Stars, Bonds/Government Finance, 2005-2006, 2010

Aaron S. Berke

(Continued)

Events

2017 Ohio Economic Development Incentives Conference

Grow Licking County Economic Development Series

Ohio Economic Development Incentives Conference

You've Got Tax-Exempt Bonds! Now What?: Tax-Exempt Bond Compliance for Health Care Entities

Corporate Governance: To Disclose or Not Disclose

Bar and Court Admissions

Ohio



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Practice Areas

Taxation

Education

Boston College Law School, J.D.,
2012

Boston College Law Review,
senior editor, 2011-2012

The Ohio State University, B.S.,
2009

Chris is an associate in the Vorys Columbus office and a member of the tax group. He has experience in a wide variety of state and local tax disciplines, including income and franchise tax, tax credits and incentives, and sales and use tax. In addition, he has provided counsel on state and local tax issues surrounding prospective strategic corporate acquisitions and reorganizations. Currently, Chris focuses his practice on the utilization of tax and economic development incentives by developers, operating businesses, and political subdivisions located throughout the country.

Chris has lectured on economic development incentives topics for Heritage Ohio, the Ohio Economic Development Association (OEDA), and the Ohio Conference of Community Development (OCCD).

Chris received his J.D. from Boston College Law School, where he was a senior editor for the *Boston College Law Review*. He received his B.S. from The Ohio State University.

Insights

"State and Local Tax Alert: Lame Duck Economic Development Incentive Legislative Activity – DRD Update, TIF Opt-Out, CRA Remodeling Exemption Changes, and ORC Section 5709.87 Covenant Not to Sue Exemption Revisions," January 5, 2017

"State and Local Tax Alert: New Property Tax Exemption Available for Commercial or Industrial Property Under Development," December 29, 2016

"Downtown Redevelopment Districts: Overview and Implementation Strategies," Fall 2016

"State and Local Tax Alert: New Economic Development Incentive Tools Created – Downtown Redevelopment Districts and Innovation Districts," April 25, 2016

Christopher J. Clements (Continued)

"State and Local Tax Alert: Vendors Need to Prepare for Ohio's Upcoming Ohio Sales Tax Holiday," July 17, 2015

"State and Local Tax Alert: Ohio Budget Bill Includes Changes to the Job Creation and Job Retention Tax Credits," July 13, 2015

Professional and Community Activities

Independents' Day, Board of Trustees, 2016-present

Events

2017 Ohio Economic Development Incentives Conference

Bar and Court Admissions

Massachusetts

Ohio



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Practice Areas

Taxation

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Education

Wake Forest University School of
Law, J.D., 2003

Ohio Northern University, B.S.,
with distinction, 2000

Hilary is an associate in the Vorys Columbus office and a member of the tax and probate group. Her practice is focused on state and local taxes, with an emphasis on real property tax exemptions, Board of Revision complaints, multi-state real property tax valuation matters, personal property tax disputes, the certification of exempt facilities and oil and gas tax. Hilary has represented clients before the Ohio Department of Taxation, the Ohio Board of Tax Appeals and various local Boards of Revision.

Hilary has been a frequent speaker at the Ohio Tax Conference.

Before joining Vorys, Hilary was an attorney with the Ohio Department of Taxation where she focused on real property tax exemptions, the certification of exempt facilities and personal property taxes.

Hilary received her J.D. from the Wake Forest University School of Law and her B.S.B.A. with distinction from Ohio Northern University.

Insights

"The Evaluator - Special Edition: Ohio BTA Holds That Big Box Property Is NOT Special Purpose; Finds Value Near Taxpayer's Total," June 23, 2016

"Analysis of Appeals of BTA Decisions," Winter 2016

"Ohio Supreme Court Decisions," Winter 2016

"Time to File Ohio 2015 Real Property Tax Complaints," Winter 2016

"41 of Ohio's 88 Counties are Reappraising or Updating Tax Valuations for 2014," November 3, 2014

"Appeals of BTA Decisions Skyrocket," November 3, 2014

"Ohio Supreme Court Decides Several Significant Cases Related to

Hilary J. Houston (Continued)

Real Property Taxation," November 3, 2014

"The Evaluator - Fall 2014," November 3, 2014

"*State and Local Tax Alert: Ohio Tax Reform Bill Introduced* - House Bill No. 59," February 15, 2013

"2012 Ohio Valuation Complaints Can Now be Filed;
Contact Us for Your Complimentary Review," January 24, 2013

Events

2017 Ohio Economic Development Incentives Conference

20th Annual Ohio Tax Conference

19th Annual Ohio Tax Conference

18th Annual Ohio Tax Conference

Bar and Court Admissions

Ohio