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Bill Analysis
Legislative Service Commission

Sub. S.B. 265*

123rd General Assembly

(As Reported by S. Economic Development, Technology, & Aerospace)

Sen. Horn

BILL SUMMARY

- Requires the Director of Development to submit the annual report on enterprise zones to the General Assembly no later than the first day of August each year, and requires the Director to also send a copy of the annual report to each General Assembly member and to the Legislative Service Commission's Director.
- Adds to the list of information required in the annual report, information on terms in agreements between municipal corporations or counties and enterprises (1) that are not required by statutes and (2) that affect the revenues of a school district or cause revenue to be foregone by a school district.
- Increases the penalty assessed against municipal corporations and counties from \$500 to \$5,000 for each month in which they fail to submit an annual report concerning enterprise zone agreements to which they are a party to the Director of Development and the board of education of affected school districts.
- Transfers the oversight of community improvement corporations and development corporations from the Director of Development to the Auditor of State, including the filing of certain annual reports and audit reports by those corporations with the Auditor of State.

* *This analysis was prepared before the report of the Senate Economic Development, Technology, and Aerospace Committee appeared in the Senate Journal. Note that the list of co-sponsors and the legislative history may be incomplete.*

CONTENT AND OPERATION

Changes to the Enterprise Zone Law

Background

An enterprise zone is a designated area within a municipal corporation or county that meets specified qualifications essentially showing that the area is economically depressed (see **COMMENT 1**). Generally speaking, once a municipal corporation's legislative authority or a board of county commissioners designates a given area as an enterprise zone and the Director of Development certifies that that area meets the qualifications of an enterprise zone, the legislative authority or board of county commissioners may offer certain tax incentives (exemptions) or optional services or assistance to enterprises that would create or preserve employment opportunities and improve the economic climate of the area. Enterprise zones generally are under the oversight of the Department of Development (see **COMMENT 2**). (Sec. 5709.67; secs. 5709.61 to 5709.66--not in the bill.)

Annual report by the Director of Development on enterprise zones

Date of submission and to whom provided. Under current law, the Director of Development is required to submit an annual report to the General Assembly on the state of enterprise zones in Ohio. Current law provides no specific date for the submission of this report. The bill amends the Enterprise Zone Law to require the Director of Development to submit the report not later than the *first day of August* of each year. Under the bill, the Director also must send a copy of the report to *each* member of the General Assembly and the Director of the Legislative Service Commission. No time is specified for that "sending." (Sec. 5709.67(B).)

Contents. Current law requires that the report contain the following information (sec. 5709.67(B)):

(1) The cost over the past year to the state of the tax and other incentives offered to enterprises associated with enterprise zones;

(2) The number of tax incentive qualification certificates, employee tax credit certificates, and extension of benefits certificates issued over the past year to enterprises associated with enterprise zones;

(3) The names of the municipal corporations and counties that have entered into enterprise zone agreements with enterprises;

(4) The number of new employees hired in enterprise zones as a result of tax and other incentives;

(5) The Director of Development's finding as to whether the tax and other incentives have resulted in the creation of more positions in Ohio than would have been created without the incentives.

The bill adds the requirement that the Director of Development also provide in the annual report information on terms in enterprise zone agreements between municipal corporations or counties, on the one hand, and enterprises, on the other hand, (1) that are not required to be included in an agreement by the Enterprise Zone Law (see **COMMENT 3**) but that have been so included, (2) that are forwarded in writing to the Director under current law together with a copy of an agreement, and (3) that *concern school district revenue* (sec. 5709.67(B)(5)). Current law refers to these additional terms as "affecting the revenues of a city, local, or exempted village school district or causing revenue to be foregone by the district" (secs. 5709.62(H), 5709.63(H), and 5709.632(G))--not in, but referred to in, the bill).

Municipal and county annual enterprise zone reports

Date of submission and to whom provided. Under current law, the information contained in the Director of Development's annual report on enterprise zones is compiled from reports submitted by municipal corporations and counties. Each year, every municipal corporation and county that has entered into an enterprise zone agreement must submit a report on all agreements that were in effect during the preceding calendar year to the Director of Development and to the board of education of each school district affected by an agreement. The report must be submitted no later than March 31. (Sec. 5709.68(A).)

Contents. The report must include, but is not limited to, the following information (sec. 5709.68(B)):

(1) The number of enterprises, and the number of full-time employees, that are subject to agreements within each enterprise zone;

(2) The number of agreements in effect on December 31 of the previous year;

(3) The number of agreements receiving compliance reviews by the tax incentive review council of the municipal corporation or county, and certain information from the results of each review;

(4) The number of enterprises subject to agreements that expanded or were established within each enterprise zone;

(5) The number of enterprises subject to agreements that closed or reduced employment at any place of business in Ohio for the primary purpose of establishing, expanding, renovating, or occupying a facility;

(6) For each agreement, the enterprise's employment at the project site before and after the agreement, its payroll for the previous year, the amount of taxes paid on tangible personal property and real property at the project site, and the amount of taxes that were not paid on tangible personal property and on real property at the project site because of an exemption granted under the agreement.

Penalties for the failure of a municipal corporation or county to submit a timely or complete report. Under current law, if the report is incomplete or is not submitted by March 31, the municipal corporation or county may not enter a new enterprise zone agreement until the municipal corporation or county has complied with all of the reporting requirements (sec. 5709.68(B)(1)). Beginning on the first day of each ensuing month, *for each month* of the municipal corporation's or county's noncompliance, the Director of Development is required to order the proper county auditor *to deduct \$500* from the next succeeding disbursement to the municipal corporation or county of funds derived from tax levies or assessments held in the county treasury or from the Undivided Local Governments Fund. The county auditor must transmit at a specified time, by warrant, the amount of the penalty for noncompliance to the Director of Development, who is required to deposit the penalty into the State Enterprise Zone Program Administration Fund. (Sec. 5709.68(B)(2) and (C).)

The bill increases the amount of the penalty that must be so transmitted to \$5,000 per month of noncompliance (sec. 5709.68(B)(2)).

Transfer of oversight functions to the Auditor of State

Community improvement corporations

Community improvement corporations (CICs) are nonprofit corporations established "for the sole purpose of advancing, encouraging, and promoting the industrial, economic, commercial, and civic development of a community or area" (sec. 1724.01, not in the bill). (See **COMMENT 4**.) Under current law, CICs must submit an *annual report* to the Director of Development, must submit to an audit by a certified public accountant (CPA) when required by rule of the Director to do so, and must submit a copy of each *CPA audit report* to the Director "when required" by the Director. A CIC annual report must cover all financial and other transactions of the corporation for the preceding year, and each CPA audit report

of a CIC must cover the period the Director specifies. The Director must analyze these annual reports and audit reports and determine whether the activities of a CIC are in accordance with the CIC Law (R.C. Chapter 1724.). (Sec. 1724.05.)

If a CIC fails to make an annual report or an audit report within 90 days after the time that is prescribed by law (annual reports--January 31; audit reports--Director specifies time) to the Director, the Director must notify the Secretary of State, who then must cancel the CIC's articles of incorporation (sec. 1724.06).

Under the bill, all of the functions of the Director of Development described above are transferred to the Auditor of State. The bill also technically revises the affected provisions of the CIC Law. (Secs. 1724.05 and 1724.06.)

Development corporations

A development corporation is a for-profit corporation formed for the purpose of promoting industry and business ventures in the state (secs. 1726.01 and 1726.02, not in the bill). (See **COMMENT 5**.) Under current law, a development corporation is required to submit an annual report *together with* a report of an audit by a CPA to the Director of Development before January 31. These reports must cover all financial and other transactions of the development corporation for the preceding year. The Director must analyze these reports and determine whether the activities of the development corporation are in accordance with the Development Corporation Law (R.C. Chapter 1726.). (Sec. 1726.11.)

If a development corporation fails to submit these reports "together" within 90 days after the time prescribed by law (January 31), or if a report discloses that the development corporation has failed to begin business for a period of three years from the effective date of the filing of its articles of incorporation, the Director must notify the Secretary of State, who then must cancel the development corporation's articles (sec. 1726.12).

Under the bill, all of the functions of the Director of Development described above are transferred to the Auditor of State. The bill also technically revises the affected provisions of the Development Corporation Law. (Secs. 1726.11 and 1726.12.)

COMMENT

1. Existing law defines an "enterprise zone" as any of the following (sec. 5709.61(A)--not in the bill):

(a) An area with a single continuous boundary that is designated in a specified manner by the legislative authority of certain types of municipal

corporations or by a board of county commissioners (see related sections 5709.62 and 5709.63--not in the bill) and that is certified by the Director of Development as having a population of at least 4,000 according to the best and most recent data available to the Director and having at least two of the following characteristics:

- It is located in a municipal corporation defined by the United States Office of Management and Budget as a central city of a metropolitan statistical area.
- It is located in a county designated as being in the "Appalachian region" under the Appalachian Regional Development Act of 1965.
- Its average rate of unemployment, during the most recent 12-month period for which data are available, is equal to at least 125% of the average rate of unemployment for the State of Ohio for the same period.
- There is a prevalence of commercial or industrial structures in the area that are vacant or demolished, or are vacant; the taxes charged on them are delinquent; and certification of the area as an enterprise zone would likely result in the reduction of the rate of vacant or demolished structures or the rate of tax delinquency in the area.
- The population of all census tracts in the area, according to the 1990 federal census, decreased by at least 10% between 1970 and 1990.
- At least 51% of the residents of the area have incomes of less than 80% of the median income of residents of the municipal corporation or municipal corporations in which the area is located, as determined in the same manner specified under Section 119(b) of the Housing and Community Development Act of 1974.
- The area contains structures previously used for industrial purposes but currently not so used due to age, obsolescence, deterioration, relocation of the

former occupant's operations, or cessation of operations resulting from unfavorable economic conditions either generally or in a specific economic sector.

- It is located within one or more adjacent city, local, or exempted village school districts, the income-weighted tax capacity of each of which is less than 70% of the average of the income-weighted tax capacity of all city, local, or exempted village school districts in Ohio according to the most recent data available to the Director from the Department of Taxation.

(b) An area with a single continuous boundary that is designated in a specified manner by a board of county commissioners and that is certified by the Director of Development as (i) being located within a county that contains a population of 300,000 or less, (ii) having a population of at least 100,000 according to the best and most recent data available to the Director, and (iii) having at least two of the characteristics (other than the "central city" characteristic) listed above (see related section 5709.63--not in the bill).

(c) An area with a single continuous boundary that is designated in a specified manner by a legislative authority of a specified type of municipal corporation and that is certified by the Director of Development as having a population of at least 4,000, or an area with a single continuous boundary that is designated in a specified manner by a board of county commissioners and that is certified as having a population of at least 1,000, according to the best and most recent data available to the Director (see related section 5709.632--not in the bill).

2. Section 5709.67(A) generally requires the Director of Development (a) to administer the Enterprise Zone Law, (b) to adopt rules necessary to ensure that no zone is certified or remains certified unless it meets the applicable requirements listed in **COMMENT** 1 above, and (c) to perform other specified functions. The Tax Commissioner, however, must administer certain tax incentives provided under the Enterprise Zone Law and must adopt rules necessary to carry out that duty. Finally, the Director of Human Services (Job and Family Services) must administer a particular tax incentive under the Enterprise Zone Law and must adopt rules necessary to carry out that duty.

3. The Enterprise Zone Law requires that each agreement entered into between a municipal corporation or county, on the one hand, and an enterprise, on

the other hand, be in writing and include specified information and statements listed in section 5709.631 (not in the bill).

4. Some of the activities that a community improvement corporation is authorized to undertake include the following (sec. 1724.02, not in the bill):

(1) Borrowing money for the purposes of the corporation and issuing bonds, debentures, notes, or other evidences of indebtedness, whether secured or unsecured;

(2) Making loans to any person or business entity, provided that the CIC does not approve a loan unless the loan applicant has been refused a loan by at least one bank or other financial institution;

(3) Purchasing, leasing, or transferring real property;

(4) Acquiring the good will, business rights, real or personal property, or other assets of any person or business entity, or assuming the obligations, debts, or liabilities of any person or business entity;

(5) Acquiring shares or other securities in any person or business entity, and exercising all associated powers of ownership.

5. The activities that a development corporation is authorized to undertake include, among others, activities similar to those listed in **COMMENT 4** above with respect to CICs (sec. 1726.04, not in the bill).

HISTORY

ACTION	DATE	JOURNAL ENTRY
Introduced	03-14-00	p. 1447
Reported, S. Economic Development, Technology, & Aerospace	---	---

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