Fiscal Note & Local Impact Statement

122 nd General Assembly of Ohio

BILL: **Sub. H.B. 434** DATE: **December 7, 1998**

STATUS: **As Passed by the Senate** SPONSOR: **Rep. Schuring**

LOCAL IMPACT STATEMENT REQUIRED: **Yes**

CONTENTS: **Revises the law for Joint Economic Development Districts (JEDD), and creates provisions for Cooperative Economic Development Agreements (CEDA)**

State Fiscal Highlights

- No direct fiscal effect on the state.

Local Fiscal Highlights

LOCAL GOVERNMENT	FY 1998	FY 1999	FUTURE YEARS
School Districts with Area in Certain JEDDs			
Revenues	- 0 -	Potential loss	Potential loss
Expenditures	- 0 -	- 0 -	- 0 -
Certain Municipalities			
Revenues	- 0 -	Potential loss	Potential loss
Expenditures	- 0 -	Potential savings	Potential savings
Certain Counties			
Revenues	-0-	-0-	-0-
Expenditures	- 0 -	Potential increase	Potential increase
Certain Municipalities and Townships			
Revenues	-0-	Potential loss	Potential loss
Expenditures	- 0 -	Potential increase	Potential increase

<u>School Districts</u>

- Potential revenue loss to certain school districts that collect, or could in the future collect, property tax revenues within JEDDs created under the procedures with restrictive application (found in ORC sections 715.70 or 715.71) and which are, or could become, enterprise zones. Currently there are four JEDDs that were created under the restricted application where school districts could be affected. These include two JEDDs in Summit County, one in Butler County and one in Clark County.

<u>Municipalities</u>

- Likewise, certain municipalities with JEDDs created under the restricted procedures could save money by not reimbursing school districts for part of the lost property tax revenues.

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- Potential revenue loss to municipalities that collect, or could in the future collect, income tax revenues within JEDDs created under the procedures with restrictive application.

Local governments contracting to a CEDA or JEDD

- Any county, municipality, or township contracting to create a JEDD would incur costs to file certain required documents with the Director of Development and to notify by certified mail any property or business owners in the proposed JEDD area(s) that did not sign the JEDD petition.
- Any county, municipality, or township contracting to create a Cooperative Economic Development Agreement (CEDA) would incur costs to meet public hearing requirements in the bill.
- Potential revenue loss to municipalities and townships that are a party to a JEDD agreement, which chose to offer corporate franchise or individual income tax credits to a project located in the unincorporated area or township area within the JEDD.

Detailed Fiscal Analysis

Joint Economic Development District (JEDD) changes

The bill would allow certain municipalities and townships creating JEDDs under the restricted procedures to offer tax abatements under Ohio's Enterprise Zone Law, thereby removing the hold harmless provisions in current law as they apply to school districts impacted by such property tax exemptions.

The bill makes various other revisions to JEDD laws that are permissive in nature.

Potential impact on school districts

In certain limited instances, the bill's provisions could result in lost property tax revenues for school districts with areas in Joint Economic Development Districts (JEDD) created under the restricted procedures and which are enterprise zones or could become enterprise zones. The restricted procedures for creating a JEDD can be found in ORC sections 715.70 and 715.71.

Those sections apply only to a JEDD with territory that fits one of the following:

1. It is within a county that has adopted a charter.
2. It consists entirely of municipal owned territory including an airport that is owned by the municipality and is located entirely beyond the municipal corporation's boundary.
3. It is part of a municipal corporation or township that was a part of or contiguous to a transportation improvement district and had created a JEDD under the restricted procedures prior to November 15, 1995.

Under current law, municipalities are not permitted to offer tax exemptions under Ohio's Enterprise Zone Law within a JEDD created with under the above-restricted procedures. The bill, on the other hand, specifically exempts a municipal corporation participating in a JEDD created under the restrictive procedures from the requirement that it compensate school districts for lost revenues because that municipal corporation consented to the granting of a property tax abatement under Ohio's Enterprise Zone Law. The provision would allow townships and municipalities that are participating in a JEDD created under ORC section 715.70 or 715.71 to grant tax abatements within the JEDD if the area is also an enterprise zone. This provision, while permissive to the contracting parties, could result in lost revenues to certain school districts that receive revenue from property tax revenues collected within a JEDD created under the restrictive procedures. Only those school districts that collect property taxes within JEDDs that are created under the restricted procedures are potentially impacted by the bill's removal of the prohibition against providing tax exemptions under the enterprise zone law.

Currently, there are four JEDDs in Ohio that were created under the restricted procedures and where school districts could potentially lose property tax revenue:

- Two such JEDDs are in Summit county in the Akron area,
- One is in Clark county in the Springfield area
- One is in Butler County in the Fairfield area.

The bill also increases the possibility that schools in the Springfield area (Clark County) will be affected by elimination of the hold harmless provision for Enterprise Zones. It does so by allowing municipalities that are parties to the JEDD in that area to contract for additional JEDDs under the restricted procedures without having to meet the territory requirements set forth in section 715.70 (A)(2) of the Ohio Revised Code.

The conditions surrounding the creation of enterprise zones are broad enough that many areas could be designated as such in the future. For example, it is possible that additional counties could adopt charters or that additional municipal airports owned by a municipality and located entirely beyond the municipal corporation's corporate boundary could be included in a JEDD. If such occurrences were to happen, there could be additional school districts that would lose revenue.

<u>Limits to Enterprise Zone tax abatements</u>

While there is a potential for an overall revenue loss to school districts, the enterprise zone sections of the law require that impacted school districts get a place at the bargaining table. Municipalities are not permitted to grant more than a 60% tax exemption without the approval of affected school district(s). The net result is a potential future revenue loss for certain school districts due to tax abatements within JEDDs created under ORC sections 715.70 or 715.71, procedures with restricted application, where enterprise zone areas coincide with JEDDs.

<u>Uniformity in granting income tax credits</u>

The bill requires that municipalities grant tax exemptions to residents working within a *JEDD to the same extent that the municipality grants a credit against its tax on income to its residents who are employed in another municipal corporation.* Therefore, municipalities that collect income tax within JEDDs that were created under the restricted application could lose income tax revenue under the bill. It is also possible that certain municipalities that chose in the future to create a JEDD, under the restricted application, could lose revenue because of this requirement.

New JEDD notification requirements

The bill requires that one of the contracting parties, after the creation of a JEDD, file a copy of certain JEDD documents with the Director of Development. The required notification would increase the cost of creating a JEDD.

Each contracting party must also give notice to any owners of property and/or businesses within the area(s) to be included in the JEDD, that did not sign the JEDD petition and whose property is located within the boundaries of that contracting party. The notice must be given by certified mail and must specify that those owners of property and businesses are located within the area(s) to be included in the JEDD district. The notice must also indicate that certain documents regarding the JEDD are available at the offices of the clerk of the respective contracting parties.

The cost of the reporting requirements could vary widely depending upon the number of owners of property and/or businesses that must be notified. Currently, the post office charges $1.35, in addition to the cost of postage, to certify a letter sent in the United States mail. The contracting parties must equally bear the cost of providing the required notice.

Cooperative Economic Development Agreements (CEDAs)

The bill allows municipalities, counties, townships, the state, and certain persons and private entities to enter into a new type of economic development agreement (CEDA). A CEDA permits political subdivisions to cooperate in providing services and/or permanent improvements such as infrastructure repair or construction, provision of sewer, public utility or other services, and land acquisition. These agreements are permissive in nature.

Fiscal benefits. Allowing municipalities, counties, townships, the state, and certain persons and private entities to enter into Cooperative Economic Development Agreements (CEDA) could result in local governments and the state entering into agreements that benefit them financially. For example, sharing resources on a capital improvement project could allow two or more local governments to achieve economies of scale that reduce the overall cost of the project. Presumably, contracting parties would only enter into agreements that they perceived as beneficial to them.

Notification costs. The bill requires that before entering into a CEDA the parties to the proposed agreement hold a public hearing. Public notice about the hearing must be given in a newspaper of general publication in the affected area at least thirty days in advance. The hearing and public notification requirements could cost parties to the agreement between a few hundred to several thousand dollars, depending upon the area in which the parties must purchase newspaper space to advertise the public hearing.

Research and Development Tax Credit

Finally, the bill would make minor changes to the research and development tax credit currently administered by Ohio's seven Thomas Edison Centers and the Department of Development's

Industrial Technology and Enterprise Advisory Council (ITEAC). These changes appear to have no fiscal impact. Notable changes the bill makes include:

- First, it would clarify that no *repayment of principal* invested in the Ohio entity would be made for a period of three years; and that the annual amount of any dividend and interest payments to be made to the investor will not exceed *ten per cent for at least three years,* from the date the investment is made.
- Second, for an investor in a pass-through entity, it would 1) allow the distribution of portions of an Ohio entity's profit equal to an investor's federal, state and local income tax obligations, and 2) allow the sale of part or all of the investor's interests by way of public offering.
- Third, the bill would require investment funds to be placed in escrow during the time period of application and consideration of the tax credit by the Industrial Technology and Enterprise Advisory Council.

Extension of Ohio Investment Tax Credit Provisions to Eligible Township or Unincorporated Areas

The bill allows, under certain conditions, for an unincorporated area or a township that is a party to a JEDD agreement to offer corporate franchise or individual income tax credits to a project located in the unincorporated area or township area within the JEDD. This provision would apply only when the parties to a JEDD agreement include a municipal corporation that is located in a designated distressed area of the state, as found in Section 122.16 of the Revised Code.

Currently, only through a JEDD agreement can an unincorporated area or a township directly benefit from corporate franchise or individual income tax revenue created through the agreement. Similarly, with this provision, only through a JEDD could an unincorporated area or a township offer tax credits through the Ohio Machinery and Equipment Investment Tax Credit Program.

According to a Department of Development spokesperson, for calendar year 1998, thirty-five municipal corporations are located in designated distressed areas. At this time, only one JEDD agreement involving one of these municipal corporations and an unincorporated area is seeking to use this provision.

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