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THE OHIO STATE UNIVERSITY EXTENSION

Extension FactSheet

Community Development, 1050 Carmack Road, Columbus, Ohio 43202-1002

# Ohio's Tax Increment Financing Program

**Gregory A. Davis**
Extension Specialist, Community Development

Tax Increment Financing (TIF) provides local governments with a way to fund public infrastructure improvements (such as roadways, bridges, ditches, water, and sewer lines) that are associated with new development. TIF programs have been widely popular since states began authorizing their use in the 1950s. According to the Tax Increment Finance Coalition, 49 states have enabled local governments to designate TIF districts to finance public infrastructure in some manner or another. Local governments in Ohio are provided authority to redirect funds for such improvements through Ohio Revised Code (ORC) 5709.40-5709.43 for municipalities; 5709.73-5709.74 for townships; and 5709.77-5709.79 for counties.

## What Is Tax Increment Financing?

Because Ohio's Tax Increment Financing program (TIF) is designed to encourage new investment, it is considered by many as an economic development tool. Similar to the Ohio Enterprise Zone (EZ) program, the TIF program enables counties, municipalities, and townships to exempt from real property taxation the new value added to a parcel or group of parcels as a result of new property investment. This, however, is the extent of the similarities between the EZ program and TIF. Unlike the EZ program, TIF can be used with residential development. Another difference involves the exemption associated with a TIF. The EZ program abates taxes, whereas TIF does not change the taxpayer's tax liability or the valuation of the taxpayer's property. Instead, TIF enables the taxpayer to make payments to a special fund in an amount equal to the property tax liability. These payments in lieu of taxes (also referred to as PILOTs) are used by the local government to retire debt incurred for the infrastructure improvements needed to support the new real property investment.

For more information on Ohio's Enterprise Zone Program, refer to CDFS-1552-96 (http://ohioline.osu.edu/cd-fact/1552.html).

## How Does Tax Increment Financing work?

Local legislative authorities exercise use of this program at their discretion. State enabling legislation provides the general framework under which TIF can be used, but local governments are afforded the freedom to decide where and when to implement TIF.

To use TIF, improvements to public infrastructure necessary for proposed new investment must first be declared to have a "public purpose" by local authorities. According to the Ohio Revised Code, "public infrastructure" is considered:

- Public roads and highways.
- Water and sewer lines.
- Environmental remediation.
- Land acquisition.
- Demolition (including demolition on private property deemed necessary for economic development).
- Storm water and flood remediation (including storm water and flood remediation on private property deemed necessary for public health, safety, and welfare).
- Gas, electric, and telecommunication services.
- Public waterway development.

TIF can be used to finance such public infrastructure serving new investment on one parcel or a number of parcels totaling up to 300 contiguous acres. A possible application of TIF is shown in the following example:

Assume a developer has 20 acres on which new homes would be built, but the proposed new investment would not be feasible without the improvement to existing roadway, water, sewer, or other utilities. Ordinarily, such infrastructure improvements are tied to a capital improvements plan, which is usually long-range in nature. If the community was in need of additional new housing but did not have financial reserves in place to finance the needed infrastructure improvements, local officials would be faced with quite a dilemma.

TIF provides for the exemption of taxes associated with the increased value of the proposed development. It also provides for the creation of a special fund (a debt retirement fund) that is designed to accept a portion of the new taxes generated from the proposed new development. Up to 75% of the new taxes associated with the increased valuation resulting from the new investment can be exempted for up to 10 years. With formal concurrence from the boards of the affected school districts, up to 100% of the new taxes can be exempted for up to 30 years.

If, in this example, 75% of the new real property taxes associated with the new investment are TIFed for 10 years, then the value of the property tax exempted (in this case 75% of the tax liability associated with the increase in real property valuation) is redirected, or Paid-in-Lieu of Taxes by the taxpayer (PILOT) to a special fund set up by the county auditor (see the example below). Payments to this special fund are drawn down to retire the infrastructure debt incurred by local government. PILOTs are made at the same time property taxes are due and cannot exceed the annual debt service of the notes or bonds used to finance the public infrastructure improvements.

Since TIF debt is not typically considered part of a local government's debt load, local officials may find TIF an appealing way to finance needed public infrastructure. Such infrastructure can be financed without asking residents for a tax increase. Likewise, a portion of the new taxes associated with new investment may still be paid. In short, improvements can be made to accommodate new investment without the political expense associated with short-term tax increases to fund needed infrastructure.

## What Are TIF Roles and Responsibilities?

### *Local Legislative Authorities*

(Includes Township Boards of Trustees, County Boards of Commissioners, and Municipal Councils)

- Determine the costs of the public infrastructure under consideration and the value of the proposed exemptions (proposed exemption must generate revenue necessary to retire associated debt).
- Propose resolution or ordinance declaring public infrastructure improvements to be a public purpose necessary for the development of certain parcels of land within their jurisdiction.
- Give notice of public hearing at least 30 days prior to the public hearing.
- Provide a detailed description of the anticipated improvements including estimates of true investment for such improvements to affected school boards when exempted amounts exceed 75% and/or district life exceeds 10 years — this must be done within 45 days of adopting such a resolution or ordinance.
- Conduct a public hearing within 30 days before adopting the proposed resolution or ordinance.
- Adopt the proposed resolution or ordinance (townships: by unanimous vote).
- Execute a revenue-sharing agreement within six months of adopting the ordinance (applies only to municipalities collecting an income tax) with affected school districts in cases where the new investment results in annual payroll for new employees of $1,000,000 or more.
- If a compensation agreement is not reached within six months, ORC provides for a mandatory 50/50 sharing between the municipality and its affected city, village, or exempted school district
- Submit TIF-related and PILOT agreement to ODOD within 15 days of enactment of the TIF.

| **Real Property** | **Valuation** |
|---|---|
| 20 acres containing 20 new homes | $ 2,010,000 |
| 20 acres (without homes) | $10,000 |
| Difference in value as a result of investment | $ 2,000,000 |
| Percentage of taxable value exempted (75%) | x 0.75 |
| Value of new investment on which taxes are redirected to retire debt for infrastructure | $ 1,500,000 |
| Value of new investment on which taxes are paid to county auditor in normal manner | $ 500,000 |

- Submit a status report by March 31 each year in which a TIF district is in effect to the Director of Development. Report describes such things as the public infrastructure improvements and housing renovations financed with redirected property taxes; changes in private investment resulting from the TIF; and a summary of payments made in lieu of taxes

### *County Auditor*
- Works with local legislative authorities to obtain the market value and taxable value of the proposed new real property investment.
- Works with local legislative authorities to determine projected tax revenues resulting from the proposed new real property investment.

### *Property Owner*
- Enters into a contract with the local legislative authority describing the obligation to make PILOTs.

### *County Treasurer*
- Creates tax equivalent account to accept the PILOTs.

### *School Board*
- Approves resolutions that provide for exempted percentages of more than 75% and/or a district life of more than 10 years.
- May disapprove percentages, term, or both.
- Proposes compensation percentage in resolution to legislative authority within 14 days of formal approval of proposed resolution or ordinance.
- Failure to certify such a resolution to legislative authority permits the adoption of the proposed resolution or ordinance with no provision for a compensation percentage for the affected school districts.

## Conclusion
Tax Increment Financing provides local governments with a mechanism for funding a variety of public infrastructure improvements needed to stimulate private investment or meet growing community needs without raising taxes. The infrastructure financing program requires significant communication and coordination among a variety of players and levels of government, as well as analysis and planning. As such, the economic development tool probably ranks among the more administratively complex programs available to local legislative authorities. Many of the references on this topic cite the importance of working with legal counsel when working with TIF.

## References

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**http://www.knowledgeplex.org/news/90556.html**

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**http://www.odod.state.oh.us/TIFSummary1.31.pdf**

Ohio Revised Code, (Online)

**http://onlinedocs.andersonpublishing.com/revised-code/index.cfm**

Tax Increment Finance Coalition.

**http://www.cdfa.net/cdfa/cdfaweb.nsf/pages/tifcoverview.html**

The Ohio Enterprise Zone Program. Ohio State University Extension Factsheet, CDFS-1552-96

**http://ohioline.osu.edu/cd-fact/1552.html**


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Keith L. Smith, Associate Vice President for Agricultural Administration and Director, OSU Extension