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# OHIO LEGISLATIVE SERVICE COMMISSION

Office of Research  
and Drafting

Legislative Budget  
Office

**H.B. 704**  
**133<sup>rd</sup> General Assembly**

## **Fiscal Note & Local Impact Statement**

[Click here for H.B. 704's Bill Analysis](#)

**Version:** As Introduced

**Primary Sponsors:** Reps. Cross and Fraizer

**Local Impact Statement Procedure Required:** No

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### **Highlights**

- The bill modifies laws governing Community Reinvestment Areas (CRAs) and the terms under which property may be exempted in these areas. Effects of the changes vary, with many tending to reduce revenues, costs, or both for school districts and other political subdivisions. The dollar amounts of most of these effects appear indeterminate.
- The bill eliminates a CRA fee that will reduce revenue to a state fund, the Tax Incentives Operating Fund, by approximately \$100,000 per year. This fund is used by the Development Services Agency to monitor economic development tax credits and CRA and enterprise zone designations.

### **Detailed Analysis**

#### **Overview of Community Reinvestment Areas**

A CRA is an economic development tool available to local governments. It is a geographic portion of a municipal corporation's territory or of the unincorporated part of a county, for which the legislative authority of the municipal corporation or county has adopted a resolution describing the boundaries of the area. The resolution must state that housing facilities or structures of historical significance are located in the area and new housing construction and repair of existing facilities or structures are discouraged. Historical or architectural significance, designated by the municipality or county, is based on age, rarity, architectural quality, or previous designation by a historical society, association, or agency.

Within the CRA, new residential, commercial, or industrial structures or the increased value of existing structures after remodeling began may be granted exemption from 100% or a lesser percentage of real property taxation for a specified number of years. For residential property the exemption percentage and term are specified in the resolution creating the CRA.

For commercial and industrial property, the exemption percentage and term are negotiated for each project. An owner of real property in a CRA may apply for tax exemption of the value of a new structure or of the increase in value of an existing structure after the start of remodeling. Commercial or industrial property owners pay a state application fee of \$750 to be in a CRA.

Over 1,000 CRA identifying numbers are assigned, based on data posted on the Development Services Agency's website. Whether all remain active is unclear. Use of CRAs is concentrated in the larger urban counties.

## **Fiscal effects of the bill**

### **School districts**

A CRA tax exemption for commercial or industrial property may only be granted if approved by the board of education of a school district with territory in the CRA, unless one or the other of two conditions is met. The school board may waive this right. Alternatively, approval is not needed if tax revenues for the property made partially tax exempt plus any payments to the school district equal or exceed a specified percentage of the amount that tax revenues would be in the absence of any exemption. In current law the percentage is 50%. The As Introduced bill would raise this percentage to 75%.<sup>1</sup> This increase would tend to make approval of tax exemption more difficult and might tend to reduce tax revenue losses to school districts and other political subdivisions.

Payments to a school district may be from the property owner or, in current law, from the municipal corporation or county that established the CRA. Under the bill, authority for the municipality or county that established the CRA to compensate the school district is repealed. This change may tend to result in fewer and smaller payments to school districts, and in more funding being retained by municipal corporations and counties.

The bill repeals a requirement in current law that municipalities share half of municipal income tax revenue from new employees at a commercial or industrial project in a CRA with the school district that has territory in the CRA, if the additional revenue is \$1 million or more. In current law, this compensation is only required if the legislative authority establishing the CRA is unable to negotiate a compensation agreement with the school board. This change would tend to benefit municipal corporations and counties at the expense of school districts.

These provisions could affect school district revenues, and they may work in opposing directions. The net effect on school district revenues is uncertain, and may vary from one CRA to another.

### **Elimination of CRA fees**

The bill eliminates two CRA-related fees from the law. These fees pay for some of the administrative costs to local governments and to the Development Services Agency (DSA) in oversight of CRAs. First, the bill repeals an annual fee payable by the property owner of 1% of taxes exempted, but no less than \$500 or more than \$2,500. However, the repealed section allows the legislative authority to reduce or waive the fee. So the repeal may reduce local fee

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<sup>1</sup> The bill analysis notes that the wording of this requirement in the As Introduced bill includes a drafting error that will be fixed with an amendment.

income, though imposition of the fee currently appears to be discretionary for the local government creating the tax exemption.

Second, the bill repeals the authority for DSA to impose a state fee, currently set by rule at \$750, on commercial and industrial property owners applying to join a CRA. The fee, under codified law, is determined by DSA based on the agency's cost of administering the CRA program, and is deposited in the Tax Incentives Operating Fund (Fund 5JR0). According to DSA, the eliminated CRA fee generated approximately \$120,000 in revenue in FY 2020, and nearly \$90,000 in each of FY 2018 and FY 2019. Fund 5JR0 is used to administer several tax credit programs, plus CRA and enterprise zone classifications. The current balance of Fund 5JR0 is \$1.4 million.

### **Other fiscal effects**

The bill repeals a requirement that the destination municipal corporation or county of a person planning to relocate and enter into a CRA agreement give notice to the origin municipal corporation or county, but only if employment declines or operations cease at a place of business in Ohio. Such notice might help the municipal corporation or county losing the business try to keep it, and loss of employment or cessation of operations clearly would tend to result in loss of tax revenue. But the effect is indirect and permissive; whether the losing municipal corporation or county would try to dissuade the person from moving would be at the discretion of the officials at that government entity.

The bill reduces from five years to two years the wait required after discontinuation of a CRA commercial or industrial project and eligibility of the project's owner for exemption in another CRA or in an enterprise zone. This change may increase revenue losses from tax exemptions.

The bill eliminates requirements for DSA to approve proposed CRAs and for commercial or industrial developers to enter into formal agreements with municipalities or counties to qualify for CRA exemption. The latter agreements are still permitted, however. These changes may reduce costs to the state and the affected local governments.

The bill makes changes to required content and recipients of CRA annual reports. It also repeals a requirement that a municipal corporation or county notify DSA of zoning restrictions, instead providing this notice through the annual report. LBO expects little or no fiscal effect from these changes.