Ohio Legislative Service Commission

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Fiscal Note & Local Impact Statement

Bill: S.B. 235 of the 131st G.A.

Date: May 3, 2016

Status: As Reported by Senate Ways & Means

Sponsor: Sens. Beagle and Coley

Local Impact Statement Procedure Required: Yes

Contents: To authorize a property tax exemption for the increased value of property planned for commercial or industrial development until the owner either conducts commercial or industrial operations or obtains a certificate of occupancy for a building or structure on the property

State Fiscal Highlights

- No direct fiscal effect on the state.

Local Fiscal Highlights

- Exempting the increased value of real property before its planned development or redevelopment for commercial or industrial purposes would temporarily reduce property tax revenue in affected political subdivisions. The magnitude of the revenue loss is indeterminate.

Detailed Fiscal Analysis

S.B. 235 applies to real property that meets the bill's definition of "newly developable property" or "redevelopment property." In both instances, the exemption generally applies to parcels on which one or more commercial or industrial buildings or structures have not yet been issued their certificates of occupancy or otherwise used for commercial or industrial operations. Please refer to the LSC Bill Analysis for the additional details of S.B. 235 and how the term "newly developable property" differs from that of "redevelopment property."

A large number of parcels could be affected based on the bill's qualifications for receiving the exemption. To fulfill the criteria, an owner must file a written declaration with the county auditor of the county in which the property is located attesting to each of the following:

a. That the property is newly developable property or redevelopment property;

b. If the property is newly developable property, that the property is zoned to permit construction of a new commercial or industrial building or structure;

c. If the property is redevelopment property, that the property is zoned to permit construction or reconstruction of a new commercial or industrial building or structure.

Based on these parameters, it is conceivable that all newly developable property and redevelopment property in Ohio that is not already under another tax incentive agreement (e.g., Tax Increment Financing or Community Reinvestment Area) will benefit from this exemption. As long as the owner files the appropriate declaration and does not conduct commercial or industrial operations, commercial and industrial property that is zoned to permit construction or reconstruction will not pay taxes on their increase in value until a certificate of occupancy is issued to the property owner.[1] This property tax exemption on the increased value can continue for ten consecutive years, in the case of property that remains eligible that long, but the property must be unexempt for the following tax year. The exemption may resume after the property is unexempt for one year, but the value of the exemption is reset and the increased value of the property is measured against its value in the most recent unexempt year.

The exemption would cause temporary revenue losses from tax levies within the Ohio Constitution's 1% limitation (i.e., unvoted levies or inside millage). These types of levies are not subject to tax reduction factors, so the effective tax rates are not lowered in response to the growth in property values (or raised in response to decreases in value). Therefore, exempting (albeit temporarily) the increased value of certain types of property reduces the tax base for entities benefitting from inside millage levies. The

[1] The tax exemption ceases if the owner transfers title to the property to another person, but it appears that the new owner could seek an exemption for the property if the zoning remains the same and the new owner has not yet obtained a certificate of occupancy for the building or structure nor conducted any commercial or industrial operations.

magnitude of this local revenue loss depends on a variety of factors, including the incidence of commercial and industrial construction as well as the increased value of affected property. The bill makes the tax exemption available for tax year 2016 and every year thereafter, affecting revenues for school districts, counties, municipalities, townships, and other political subdivisions beginning in FY 2017.

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