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Downtown Redevelopment Districts: Overview and Implementation Strategies

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Amended Substitute House Bill 233 (HB 233), which became effective August 5, 2016, established the procedure for designating so-called downtown redevelopment districts (DRDs) and innovation districts. These districts operate much like tax increment financing (TIF) areas except that the collected service payments generally can be utilized for a wider range of uses than TIF service payments. These powerful new tools can also be combined with many existing economic development incentive opportunities to maximize value. The key to the successful implementation of DRDs and innovation districts is determining when to utilize the correct incentives mix in the given circumstances.

Exemption Details

The increase in assessed value of real property (improvements) to parcels within a DRD can be exempted up to 70%, subject to a number of specific levy carve outs, for a period of 10 years without local school district approval. The Improvements may be exempted for up to 30 years with either (a) the approval of the local school district(s) or (b) service payments diverted to the local school district(s) equal to the taxes that would have been payable to the local school district(s) but for the exemption. Amounts exempted are paid as service payments in lieu of taxes to be utilized for specifically enumerated purposes.

Exemptions may commence in any tax year specified so long as it occurs after the effective date of the establishment ordinance. In lieu of stating a year, the ordinance may specify that the exemption commences in the tax year that the value of an improvement exceeds a specific dollar amount or when the construction of one or more Improvements is completed.

Service Payments in Lieu of Taxes

Revenue derived from the DRD service payments made in lieu of taxes exempted may be utilized for a unique variety of purposes. First, just like with TIFs, DRD payments may be utilized to finance public infrastructure improvements within the DRD. The DRD economic development plan, described more fully herein, must identify specific projects that are being or will be undertaken within the DRD and describe how they will assist with the additional demands on the infrastructure within the DRD.

Second, payments may be utilized to finance or support loans or grants to owners of historic buildings within the DRD. These loans or grants must be tracked pursuant to a plan developed by the municipal corporation awarding the amounts, and the progress of the recipient's rehabilitation project must be monitored. Third, payments may be used to finance or support loans, but not grants, to owners of buildings located within the DRD that do not qualify as historic buildings. These loans can only be utilized to assist the owner in making repairs and improvements to the building or buildings. As before, these loans must be tracked and monitored by the municipal corporation that awarded them.

Fourth, revenues derived from service payments may be used to make contributions to a special improvement district, a community improvement corporation, or a nonprofit corporation, the primary purpose of which is to redevelop historic buildings or otherwise promote or enhance the district. Contributions to nonprofit corporations must be used primarily to rehabilitate a building or buildings within the DRD or otherwise promote and enhance the DRD. Revenues for these aforementioned purposes cannot exceed the property tax revenue that would have been generated by 20% of the assessed value of the exempted Improvements in the DRD.

Lastly, service payment revenues may be utilized within an innovation district to finance or support loans or grants to Qualified Businesses (defined herein) or incubators and accelerators that support Qualified Businesses within the innovation district. These loans and grants must also be tracked and monitored by the appropriate municipal corporation.

DRD Redevelopment Charge

In addition to the DRD service payments, property owners may enter into an agreement with the municipal corporation to impose a redevelopment charge on the property for the life of the DRD that runs with the land. The redevelopment charge may be (i) a fixed amount, (ii) an amount based on the assessed value of the property, or (iii) an amount based on the profits, gross receipts, or other revenues of a business operating on the property, including rental proceeds. The revenues generated by this charge may be utilized in the same manner as DRD service payments. Each and every property owner within the DRD must enter into a separate agreement in order to effectuate the redevelopment charge on their property – it is not sufficient to receive the approval of a majority of property owners.

Downtown Redevelopment Districts

DRDs must be created for the purpose of promoting the rehabilitation of historic buildings, creating jobs, and encouraging economic development in commercial and mixed-use commercial and residential areas. DRD areas must be enclosed by a continuous boundary of not more than 10 acres, cannot be used exclusively for residential purposes, and most crucially, must include a historic building that is being or will be rehabilitated. Prohibitively, DRDs cannot include a single parcel that is or has previously been exempted by another DRD, an Ohio Revised Code (ORC) Section 5709.40 TIF, or an ORC Section 5709.41 TIF.

The ordinance establishing the DRD must specify (i) the boundary of the DRD, (ii) the parcel number of every parcel within the DRD, (iii) the parcel or parcels that include a historic building that is or will be rehabilitated in the DRD, and (iv) the proposed life of the DRD. In addition, the ordinance must include an economic development plan for the DRD. The economic plan for the DRD must include a statement describing the purpose and goal to be served by the DRD, an explanation or how the municipal corporation will collaborate with business and property owners within the DRD, and a plan for using the service payments that will be collected in order to promote economic development and job creation within the DRD.

Innovation Districts

An innovation district may be created within a DRD for the purpose of attracting and facilitating the growth of “Qualified Businesses.” Qualified Businesses are those primarily engaged in a trade or business involving (i) research and development, (ii) technology transfer, (iii) biotechnology, (iv) information technology, or (v) the application of new technology developed through research and development or acquired through technology transfer.

The innovation district must be located within an existing or proposed DRD, be enclosed by a continuous boundary, and must be equipped with a high-speed broadband network capable of download speeds of at least 100 gigabits per second. Innovation districts operate in the same manner as DRDs, but any resulting service payments can be utilized, as described, to finance or support loans or grants to Qualified Businesses or incubators and accelerators that support Qualified Businesses within the innovation district.

As with DRDs, innovation districts are established through an ordinance passed by the DRD’s municipal corporation that includes the boundary of the innovation district, the parcel number of each parcel within the innovation district, and an economic development plan for the innovation district, the requirements of which are identical to the DRD economic development plan described previously. The life of the innovation district is identical to the life of the DRD in which it is located.

Putting the Pieces Together

As mentioned at the outset, DRDs and innovation districts can be combined with other economic development tools to maximize value. Doing so requires significant strategizing and planning, however. For example, statutory priority rules must be closely considered in order to ensure that the intertwined incentives operate in the manner desired by the municipal corporation. Great care must be taken to avoid the types of pitfalls that can befall efforts to combine DRDs with other economic development incentive tools such as community reinvestment areas, enterprise zones, and TIFs. Successfully layering incentives can have a transformative effect on the communities that utilize these tools wisely.