State and Local Tax Alert: New Economic Development Incentive Tools Created – Downtown Redevelopment Districts and Innovation Districts

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On April 20, 2016, the Ohio House of Representatives approved Amended Substitute House Bill 233 (HB 233) as amended and passed by the Ohio Senate, which, among other things, establishes 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.

HB 233 is expected to be sent to the governor shortly for his signature. It will become effective 90 days after he signs it. The procedures and benefits of DRDs and innovation districts are outlined in this Alert.

Downtown Redevelopment Districts

HB 233 permits municipal corporations to adopt ordinances establishing downtown redevelopment districts (DRDs) – areas with continuous boundaries of not more than ten acres that include at least one historic building that is currently being rehabilitated or will be rehabilitated. Improvements to parcels within the DRD are partially exempt from taxation, and property owners may be required to make service payments in lieu of taxes, as described in more detail below.

DRDs cannot be created in areas that are exclusively residential and cannot be utilized for the development or redevelopment of residential areas. Also, if a parcel is or has been exempted from taxation under a TIF ordinance, it cannot be included in a DRD.

Innovation Districts

Municipalities may also establish an "innovation district" within the boundaries of a DRD – an area 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 for a broader range of purposes aimed at supporting R&D, bio-tech, information technology, and other similar qualified business types (Qualified Businesses).

Exemption Details

Up to 70% of improvements to parcels within a DRD or innovation district can be exempted 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. Service payments may be required in the same amount as the taxes exempted.

Service Payments in Lieu of Taxes

Revenue derived from service payments made in lieu of taxes exempted may be utilized for a variety of purposes, including:

1) financing public infrastructure improvements within the DRD;

2) financing or supporting loans or grants to owners of historic buildings within the DRD;

3) making contributions to a special improvement district or community improvement corporation the primary purpose of which is to redevelop historic buildings or otherwise promote or enhance the district; and

4) financing or supporting loans to owners of buildings located within the DRD that do not qualify as historic buildings.

Lastly, revenues derived from service payments may also be utilized within an innovation district to finance or support loans or grants to qualified businesses or incubators and accelerators that support qualified businesses within the innovation district.

Vorys encourages you to review this Alert and contact your Vorys attorney or advisor with questions about how these new economic development tools may be put to use for your business. Please feel free to contact the following Vorys attorneys: Scott J. Ziance, (614) 464-8287, sjziance@vorys.com; Chris J. Clements, (614) 464-5427, cjclements@vorys.com.