Local Tools For Housing Development: An Overview of Tax Incentives, Finance and Grant Programs

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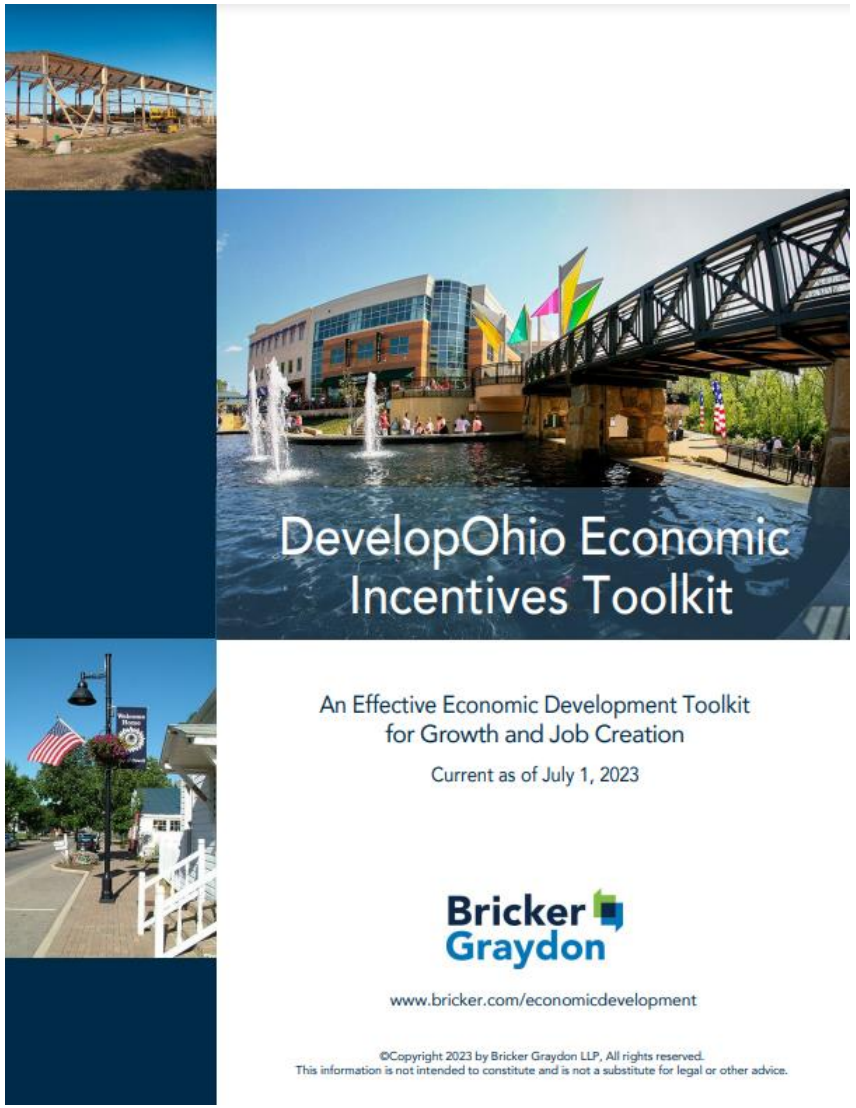
Free resource: *DevelopOhio* Toolkit

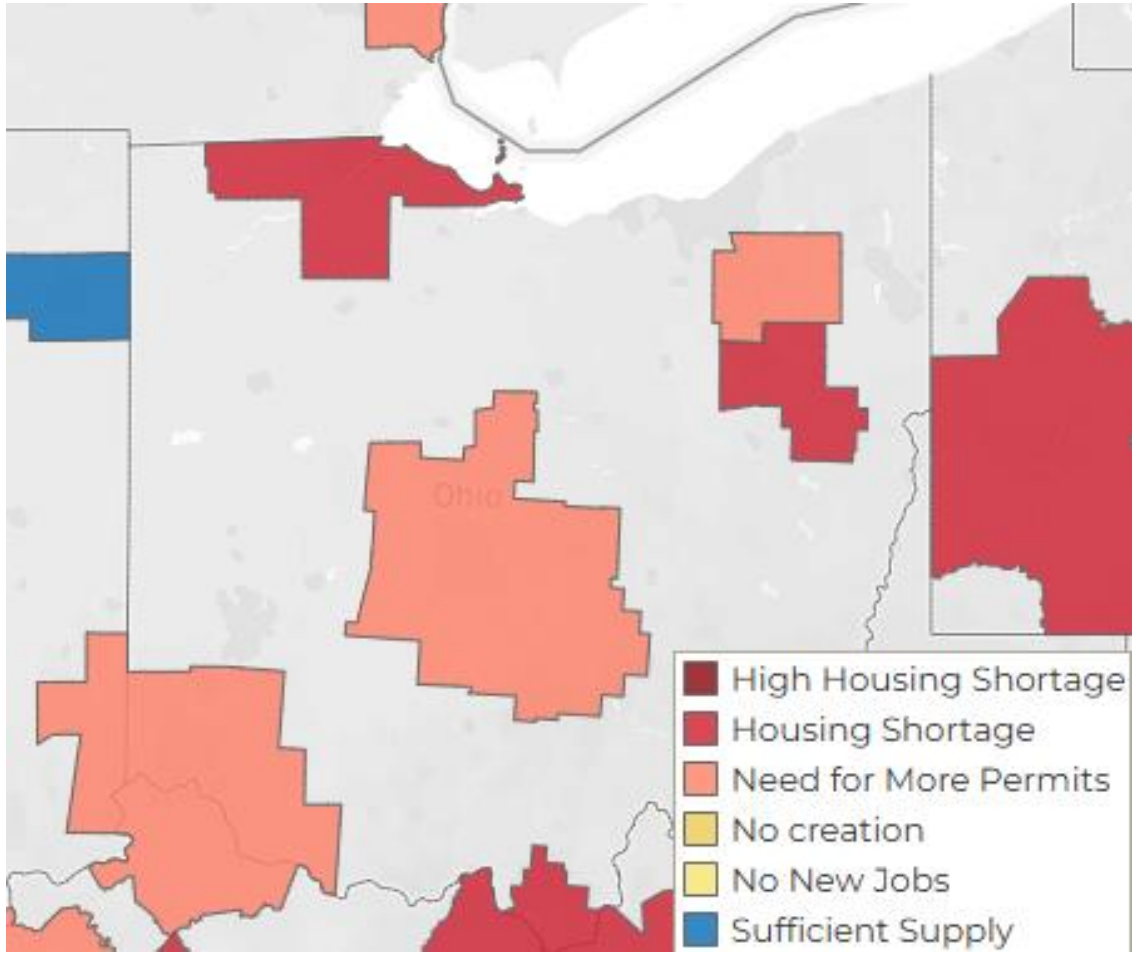


- *DevelopOhio* blog's free resource:
  - Economic Incentives Toolkit
  - State & local public finance tools
- Since 2011
- User-friendly by design
  - Desk reference guide for "greenhorns" to experienced economic developers

NAR Housing Shortage Tracker

The National Assoc. of Realtors Housing Shortage Tracker computes how many new housing unit permits are issued for every new job in 174 **metro areas**. Data below shows new jobs per new permitted housing unit as of the 12-month period ending Q4 2024 for single-family units.

Ft. Wayne, IN	1 permit per 2 jobs
Columbus	1 permit per 4 jobs
Cinci-NKY	1 permit per 4 jobs
Toledo	1 permit per 5 jobs
Akron	1 permit per 4 jobs
Canton-Mass.	1 permit per 5 jobs
Hunt.-Ironton-Ash.	1 permit per 9 jobs



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OLD Tools to Promote Housing

- Community Reinvestment Area (CRA)
- Tax Increment Financing (TIF)
- New Community Authority (NCA)
- Low Income Housing Tax Credit (LIHTC)
- Bonds for infrastructure

NEW-ISH Tools to Promote Housing

- Downtown Redevelopment District
- PACE Financing – multi-family
- State Historic Tax Credits (mixed use rehabs)
- Port Authority Sales Tax Exemptions
- ODOD Brownfield and Demolition Grants
- TMUD

NEW! Tools for Housing

- Welcome Home Ohio
- OHFA Single Family Housing Tax Credit
- Federal programs to support office conversions
- Residential Development Revolving Loan Fund

Yellow Highlights Indicate Local Government Involvement

Community Reinvestment Areas (CRA)

Abatement of Taxes

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Community Reinvestment Areas ("CRA")

Abates real property taxes:

- Eligible property types (residential, commercial/industrial)
- Tax abatement on new improvement value
- Eligible investment thresholds
- Period of exemption (maximum 15 years)
- Percentage of exemption (maximum 100% of increase in taxes)
  - May require obtaining school district approval
- Incentive may be limited to specified types and sizes of projects (i.e., residential; construction over $100,000)
- The incentive may apply to any qualifying project completed after the legislation is enacted

Required characteristics of area:

- Housing facilities or structures of historical significance
- New construction and repair of existing facilities or structures has been lacking or discouraged
- Objective signs of dis-investment

Housing Survey Requirement

CRA – Development Agreement

- Development Agreement will front-load much of the “roadmap” for a project
  - Development Plan
  - Infrastructure needs
  - Available Incentives
  - Permitting and approval processes
  - Financial obligations and due diligence items
  - “What else is important to the Legislative Authority?”

CRA – School District Involvement

- **Notice** – 14-45 days' notice required; waiver often requested due to time constraints
- **Approval Thresholds** – Approval required if total of the following three (3) items estimated to **equal / exceed 75% (not 50%) of the amount of taxes the project would generate if no exemption were granted**:
  - The taxes assessed on the construction or remodeling that are not exempted (i.e., still collected)
  - The taxes generated by personal property located in the property
  - The amount of any cash payment, or the value of any services, provided to the school district by the owner of the property (i.e., compensation payments made to schools)

CRA – School District Involvement

- **Income Tax Sharing** – Municipal Income Tax Sharing - Must share income tax with School District if:
  - Municipal income tax in place
    - New payroll in excess of $2,000,000
    - No make whole provision for School District in place
  - Six Months to Negotiate Agreement
    - 50/50
    - Municipality entitled to infrastructure set-off (up to 35% of annual income tax increase)
- **Compensation Agreements**

CRA - Creating a Township CRA

- Note: currently available only for limited home rule townships
- Board of Township Trustees must pass legislation
- Housing officer must be appointed
- Incentive parameters indicated
- Notice must be given to affected school district
- Legislation must be published once a week for two weeks in local newspaper
- Only available for area that is (i) unincorporated; and (ii) not already within a county CRA

CRA - Use for Housing?

- Providing property tax abatement on new construction and significant renovations for residential and commercial development

Port Authorities

Financing Support

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Port Authority Options

- Powerful financing mechanism for development projects
- Flexible structures; can include public and private portions of project
- Local government debt issuance may be avoided
- Sales tax exemption for commercial projects
- Prevailing wage and competitive bidding

Port Authority - Use for Housing?

- Provide sales tax abatement for eligible port authority facilities including mixed-use and multi-family development
- Finance public infrastructure improvements
- Own, operate, and manage public infrastructure improvements

Tax Increment Financing (TIF)

Redirection of Taxes

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Tax Increment Financing (TIF)

- What is Tax Increment Financing (TIF) and How Does it Work?
  - Redirect new tax property tax revenue in connection with a new development (or redevelopment) away from normal recipients and toward payment of costs of improvements that benefit that development
    - Infrastructure Improvements
    - Direct Development Costs

TIF - Redirect Taxes – Increment

- Increase in real estate taxes resulting from development over and above the value prior to the date that the development occurred.
- Existing taxes continue to go to taxing districts (i.e., schools, county, city, continue to receive predevelopment tax revenues).
- Typically, property owner does NOT receive a tax break--Service Payments in Lieu of Taxes (PILOTs). But could be used in conjunction with a tax abatement.

TIF - Service Payments in Lieu of Taxes

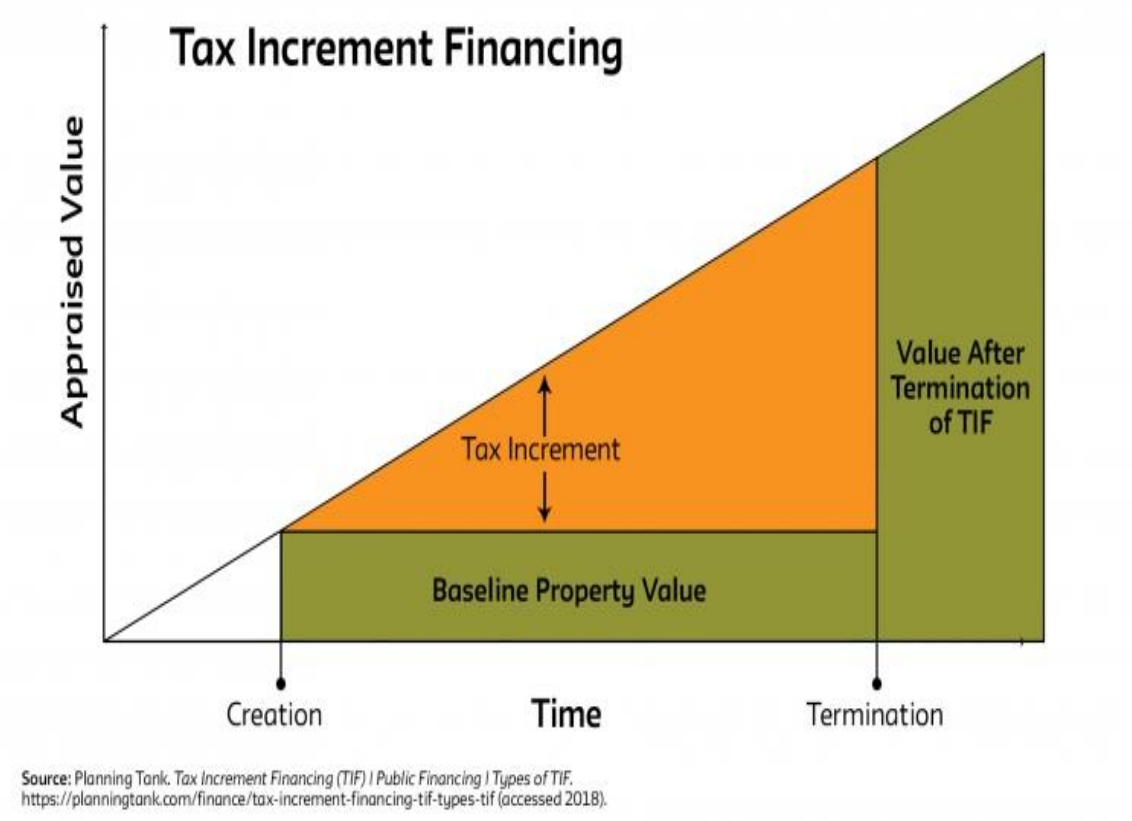
- PILOTs
  - Taxes that would have been paid by a property owner are made instead as PILOTs
  - Paid in the same manner and at same time as property taxes
  - Paid to County Treasurer (payment enforceable in same way as property taxes – ORC 5709.91)
  - Used to pay for infrastructure improvements or to pay debt service on securities issued to finance such improvements

Types of TIFs

1) Parcel TIF
2) Incentive District TIF
3) Urban Redevelopment TIF
4) Urban Renewal TIF
5) Community Urban Redevelopment Corp. TIF
6) Downtown Redevelopment TIF

TIF Revenue Stream

Tax Increment Financing (TIF) is a property tax diversion mechanism—not a reduction.



Source: Planning Tank. *Tax Increment Financing (TIF) | Public Financing | Types of TIF.* https://planningtank.com/finance/tax-increment-financing-tif-types-tif (accessed 2018).

Use of TIF Revenues

- TIF can be used indirectly to support development
  - Finance public infrastructure costs necessary to support new development
  - Incentivize developers by paying for public infrastructure costs otherwise payable by the developer
- TIF can be used directly to support development
  - Assist with private development costs

Use of TIF Revenues cont'd

- PUBLIC INFRASTRUCTURE
- Land Acquisition
- Demolition
- Utilities
- Road, Water, and Sewer Maintenance
- Planning/Soft Costs
- Debt Service
- Private Costs of Development (Special TIFs Only)

Project/Parcel TIF

Characteristics

- Comprised of individual parcels
- Public improvements must “directly benefit” parcels exempted
- Commercial, including apartments
  - Housing – NO single family BUT apartments okay

Municipal Urban Redevelopment TIF

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Characteristics

- Unique TIF used in urban redevelopment setting
- Municipality must be in chain of title
- "Urban redevelopment" requirement instead of "direct benefit" requirement
- Residential only if "blighted" area of an impacted city
- More flexible use of TIF revenue permitted
  - Can be used to redevelop private developer costs

Incentive District TIF

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Characteristics

- Allows municipalities (and counties and townships) to grant TIF exemption for any improvements within RID (residential and/or commercial)
- Up to 300 contiguous acres exhibiting one or more characteristics of economic “distress”
- Public improvements do not need to directly benefit every parcel, but must “benefit or serve” the district created
- Housing Renovations (if RID includes comm/ind.)

Incentive District TIF

Distress Characteristics

- Blighted Area Test
- Median Income Test – 51% of residents in the District have incomes less that 80% of the median income of residents of the political subdivision in which District resides
- Unemployment Test – 150% greater in District than rate in State for previous 12-month period
- Poverty Test – 20% of residents in District live below poverty level
- Situational Distress Test – District is in a county with a population of 125,000 or less and the county is experiencing the loss of a major employer which will effect the economy
- Unimproved Land Test – District is comprised entirely of unimproved land located in a distressed area

Incentive District TIF

Distress Characteristics cont'd

- City Engineer Inadequacy Infrastructure Test –Engineer certifies public infrastructure is inadequate to meet development needs of the RID as evidenced by a written economic development plan or urban renewal plan adopted by council

TIF – School District Involvement

- **Notice** – 14-45 days' notice required; waiver often requested due to time constraints
- **Approval Thresholds** – Percentage: Exceeds 75%
- **Income Tax Sharing** – Municipal Income Tax Sharing - Municipality must share income tax with School District if:
  - Municipal income tax in place
    - New payroll in excess of $1,000,000
    - No make whole provision for School District in place
  - Six Months to Negotiate Agreement
    - 50/50
    - Municipality entitled to infrastructure set-off (up to 35% of annual income tax increase)
- **Compensation Agreements**

TIF - Use for Housing?

- Finance public infrastructure costs necessary to support new development
- Incentivize developers by paying for public infrastructure costs otherwise payable by the developer
- Assist with private development costs (.41 TIF only)

TIF – Big Picture Issues

- How will the TIF benefit the TIF'ing jurisdiction?
- How aggressive will the TIF'ing jurisdiction be in defining the public infrastructure to be financed with TIF revenues?
- What will be the public's perception of the TIF? The development?
- How will the TIF impact the School District?
- How will the TIF impact other taxing entities?

New Community Authority

Self-assessed Charges

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New Community Authorities ("NCA")

- General Characteristics
  - Newly popular economic development tool designed to create user-paid revenue streams for public infrastructure projects
  - Not a property tax diversion and not a reduction - creates a NEW stream of revenue
  - A separate governmental body organized to encourage the orderly development of an economically sound new community
  - Developer driven
    - All acreage must be owned or controlled, through leases of at least 75 years' duration, options, or contracts to purchase
    - Developer is represented on board
    - Until March 22, 2019—large developments only—minimum 1,000 acres unless wholly within a municipality or at least half of territory is within JEDD
    - After March 22, 2019—no minimum acreage required regardless of location

NCAs

- Powers
  - Board
    - Appointed by developer and organizational board until certain population levels met
  - Revenue
    - Community development charge
      - Runs with land through declaration
      - An assessment providing a special benefit, not a tax
      - Flexible--can be based on millage, residents' income, gross receipts, business revenues (including lease rentals), other bases
  - Issue taxable or tax-exempt bonds or other obligations
- No general power to offer traditional governmental services

NCAs

- NCA Board may levy “charges” on property that operate like:
  - Bed Taxes
  - Real Property Taxes
  - Sales Taxes
  - Income Tax on Residents
- Charges can be used to finance “Community Facilities”
  - Public buildings, centers and plazas, auditoriums, day care centers, recreation halls, educational facilities, recreational facilities
  - Parks and other open space land, lakes and streams, cultural facilities
  - Streets, pathway and bikeway systems, pedestrian underpasses and overpasses, lighting facilities, design amenities
  - Buildings needed in connection with water supply or sewage disposal installations or steam, gas, or electric lines or installation, telecommunications facilities
  - Debt service

Special Assessments

Self-Assessed Charges

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Special Assessment

- Overview
  - Special: in addition to other real property taxes and charges, and for a very specific purpose
  - Assessment: levied against real property for payment with real property taxes
  - Note: unlike other economic development tools, special assessments are very old

Special Assessment

- Public improvements for which special assessments may pay:
  - Streets and sidewalks
  - Water and sewer
  - Off-street parking
  - Lighting
  - Trees

Special Assessment

- Amount and term:
  - Aggregate amount generally cannot exceed costs (including soft costs) of public improvements
  - Term generally cannot exceed useful life of public improvements
  - Other limits may apply
- Apportionment
  - Aggregate amount must be apportioned among all parcels being assessed
  - General methods:
    - Proportion of “front footage” along improvement
    - Proportion of tax valuation
    - Proportion to “special benefits” resulting from the improvements

Special Assessment

- Procedural Steps Involved
  - Preliminary Resolution of Necessity
  - Notice of Preliminary Resolution and Estimated Assessments
  - Public Hearing (if objections by property owners)
  - Publication of Notice of Estimated Assessment List
  - Ordinance to Proceed with Levy Special Assessment
  - Notice of Passage of Ordinance

Putting it All Together

- Model out expectations — infrastructure needs, revenue of TIF and NCA, Impact of CRA, PILOTs to Schools
- Development Agreement
  - Planned development parameters
  - TIF, CRA, NCA items
    - TIF Extension
    - CRA Creation
    - NCA Modifications
  - Bond financing potentially available via NCA charges but requires precise process
  - “Who’s on first” for what kind infrastructure—Local government or developer driven?

Welcome Home Ohio

Tax Credits and Grants

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Welcome Home Ohio Program

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Dual-track grant / tax credit program:

- NEW R.C. 122.631 - R.C. 122.633
- ODOD to implement, w/ grant funds exclusively available to land banks & tax credits available to a limited set of eligible entities
- Public financing tool available for development of single-family residential units comprising at least 800 sq. ft.* living space

* Denotes and recent amendment to the rules

Welcome Home Ohio Program

Purchase grants:

- Land banks may receive **grants** for purchase of single-family residential units
- Acquired properties become part of those land banks' **land reutilization programs** under R.C. Chapter 5722
- General Assembly appropriated $25MM/state fiscal year ('24 & '25)
  - Per-housing unit grant amount: $90,000*

Welcome Home Ohio Program

Rehabilitation / Construction Grant Track:

- Land banks may receive **additional grants** to offset costs of rehabilitation or construction of single-family residential units
- General Assembly appropriated $25MM/state fiscal year (’24 & ’25)
  - Per-housing unit grant amount: $90,000*
  - To receive **grant** of funds for such rehab / construction work, land banks **cannot also seek a tax credit** for the same work on the subject property
  - AMI Adjusted to 120% of AMI*
  - Property sale price cap raised to $220,000*

Welcome Home Ohio Program

Rehabilitation / Construction Tax Credit Track:

- Land banks may receive **additional tax credits** from ODOD by land banks and eligible developers to support capital stacks for rehabilitation or construction of single-family residential units
- General Assembly capped total credits at $25MM/state fiscal year (’24 & ’25)
  - Tax credit cap: $90,000/unit or 90%* project costs (whichever is lower)
  - Tax credits are fully transferrable to “any person” (i.e., syndication)
    - Taken against taxpayers’ state financial institutions or personal income tax obligations

OHFA Single-Family Housing Development Tax Credit

Tax Credits

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OHFA Single-Family Housing Development Credit

- Goal is to leverage public private partnerships construct/rehab more single family homes)
- Tax credits to be awarded on a competitive basis ($50M per year for four years)
- Developers must build a minimum of five units. Max tax credit of $100,000 per home
- Amount of credit is limited to the amount by which the project's estimated development costs exceed the fair market value
- Tax credits may be claimed over a 10-year period
- Credit claimed after project completion

OHFA Single-Family Housing Development Credit

- Authorizes a nonrefundable tax credit against insurance premiums tax, FIT, or income tax for investment in affordable single-family homes
- Units must be sold to qualified buyer (120% of AMI or less) who will spend no more than 30% of their income on housing.
- OHFA to administer program through a competitive application process.
- Urban, Suburban and Rural Targets
- Program now open: https://ohiohome.org/singlefamilytaxcredit.aspx

Transformational Mixed Use Development (TMUD) Tax Credit

Tax Credits

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TMUD

- State tax credit designed to support new “transformational” mixed-used construction projects or renovation of vacant buildings across the state by providing a tax credit of up to 10% of eligible construction costs.
- This Development must be a combination of retail, office, residential, recreation, and other similar uses into one mixed-use Development. Urban locations are the priority, but $40 million was set aside in the budget for projects outside of major cities.
- $125 million allocated in FY each of ’26 and FY ‘27
- Projects are accepted through competitive funding rounds that usually open in the fall. An economic impact analysis is required for the application process demonstrating the transformational nature and scale of the project. At least $5 million in new payroll at the project site is required. Projects must also create a 10% increase in tax collections.
- Projects must start construction within 12 months of award. Learn more at https://development.ohio.gov/business/state-incentives/transformational-mixed-use-development-program

Residential Development Revolving Loan Fund

Infrastructure Financing Tool

RDRLF Language in Budget

- New program in FY26 State Budget; $100 million appropriation (no rules yet)
- Eligible Borrowers: Local governments in counties with:
    - Less than 75,000 population
    - And below average number of private residential building permits
- Eligible uses: water, sewer, road, electric, and natural gas
- Must be at least 4 single-family dwellings per acre
- Must be zoned exclusively for single family residential use

RDRLF Language in Budget

- Cannot support Low Income Housing Tax Credit projects
- Loans must not exceed the lesser of:
  - 50% of infrastructure costs
  - $30,000 per single family residential dwellings
- Application to be open by no later than January of 2026
- Exempt from Prevailing Wage except if threshold amounts are exceeded. (Need to see rules for clarification.)

Summary of How We Can Help

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Early-Stage Proactive Steps

- Facilitation: needs assessment, evaluate options, educate partners, build consensus
- Form site control entity
  - Port Authority/CIC
  - Non-profit and for-profit corporations
- Site control agreements
  - Options/PSAs
  - Development agreements
- Title search
- Financial Pro Forma
- Refresh Zoning/Permitting

Urban Redevelopment and Reuse Tools

- Welcome Home Ohio
- Demolition & Brownfield grants
- Historic tax credits for mixed use buildings
- PACE Financing
- Low Income Housing Tax Credits
- Transformational Mixed Use Tax Credits
- Community Reinvestment Area (CRA)
- Sales Tax Exemptions through Port Authorities

Greenfield Tools

- Tax Increment Financing (TIF)
- New Community Authorities (NCA)
- Community Reinvestment Area (CRA)
- State developer tax credit
- Bond financing for infrastructure
- Low Income Housing Tax Credits

Getting It Built

- RFP to developers
- Public-private partnership agreements
- Prevailing wage considerations
- Zoning & Annexation approvals
- Environmental Permitting
- Construction agreements
- Reporting & compliance

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