

# **Filling the Financing Gap: *Taxpayer funds merely enabling Developer to buy her kid a BMW 7 series?***

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# Discussion Agenda

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- Filling the Financing Gap
  - What are Your Community's Desired Outcomes?
  - Economic Development 1.0
- Making the Incentive Decision
  - Economic Development 2.0
  - Things outside Economic Developers' Control
  - Negotiating in the Dealer's Showroom

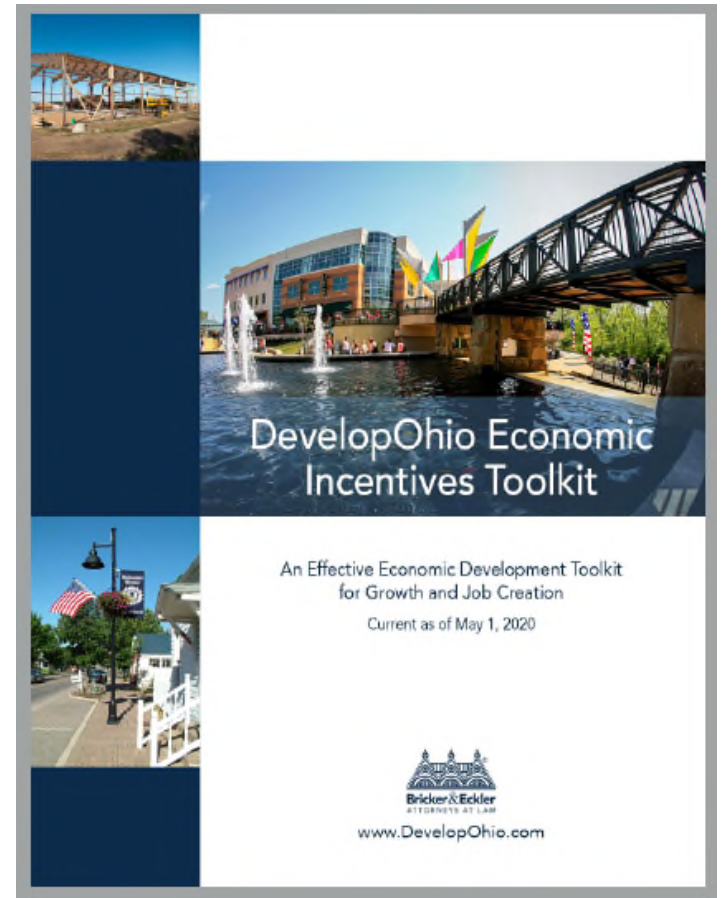
# Resource: *DevelopOhio* Toolkit



## NEW UPDATES August 2022

- *DevelopOhio* blog's free resource:
  - Economic Incentives Toolkit
- First written in 2011
- User-friendly by design
  - Desk reference guide for “greenhorns” to experienced economic developers

<https://www.bricker.com/resource-center/develop-ohio/key-resources/resource/economic-incentives-toolkit-747>



# Filling the Financing Gap – Ohio Constitution’s View

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- Ohio Constitution views **economic development** as activities that:
  - “**create or preserve jobs** and employment opportunities,”
  - “**improve the economic welfare** of the people of the state,”  
or
  - involve “**industry, commerce, distribution, and research**”
- Article VIII, Section 13

# Filling the Financing Gap – What are the desired outcomes?

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Financial incentives constitute public sector's intervention into the private markets to **grow a tax base** or **address perceived imperfections**

- Which tax base(s)?
  - Property taxes
  - Income taxes
  - Sales Taxes
- What “market imperfections?”

# Market Imperfections

An extreme  
example:

## Packard factory complex in Detroit

- Closed in 1956
- 40-acres of derelict property in the urban core





# Market Imperfections



An Ohio example:

**Capitol South  
Community Urban  
Redevelopment  
Corporation**

# Market Functioning... for a time



An Ohio example:

## Columbus City Center Mall

- 1.3M sq. ft. retail center





# Market Imperfections



An Ohio example:

## **Columbus City Center Mall**

- Demolished 2009





# Filling the Financing Gap – What are the desired outcomes?



- Financial incentives induce **desirable public policy outcomes w/in context of private transactions**
- Take many forms:
  - State-based **payroll-based tax credits**
  - Locally administered **real property tax exemptions** (e.g., CRA, EZ)
  - Hyper-local, district-based **diversions of tax revenue** (e.g., TIFs, DRDs)
  - Special-purpose entities that **increase effective tax burdens** (e.g., SIDs, SADs, NCAs, JEDDs)

# Filling the Financing Gap – What are the desired outcomes?

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What's your desired outcome?

- Increase sustainable-wage job opportunities for local residents
- Revitalize your community's downtown

What's worth intervening into private market transactions?

What are the projects you won't support?

Where in your community do you want to encourage economic development?



# Filling the Financing Gap – What are the desired outcomes?

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Are you simply wanting to **Do Something!** to drive development in your community?

- Reactive posture - BEWARE: Professional services firms using “magic words” for incentives

Are you seeking to drive development by **Offering Carrots** in the marketplace?

- Proactive posture – BEWARE: Developers question involvement by gov’t into private developments & some move away after incentive “burns off” – “incentive shopping”

# Filling the Financing Gap – What are the desired outcomes?

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Do you acknowledge incentives constitute the **Rules of the Game** & therefore seek to build guardrails for their careful use?

- Just Right – Grow your long-term relationship with your school district & neighboring political subdivisions
- Where do **incentives rank compared to other economic development factors?**
  - Infrastructure
  - Work Force
  - Proximity to raw materials and market

# Making the Incentive Decision Economic Development 1.0

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Public sector decision-makers & economic developers view property tax exemptions from “always max out” perspective

- Elected officials want to ***Create Jobs!***
- Show we’re ***Doing Something!***
- Deal structuring accounts for neither deal-worth nor nuance
  - **Incentives as entitlements**
    - If law allows 100%, 15-year exemption, that’s the deal offered

# Making the Incentive Decision Economic Development 2.0

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## Engage in real negotiations – begin at 0%

- Local incentives offer should respond surgically to **developer's demonstrated financing gap in the project's budget** that prevents its completion
- LEDO & schools **discuss candidly** to collaboratively fine-tune incentives offer
  - Extract needs of the community
  - Consider needs of school district
    - Remember that commercial / industrial projects typically don't result in students to educate

# Making the Incentive Decision Economic Development 2.0



Engage in real negotiations – begin at 0% - *cont.*

- Don't offer *BMW 7 series* if **Nissan Sentra** suffices to capture project
  - Yes, there are deals deserving the full-throated incentives treatment
  - But many deals can – and should – be structured with minimal investment to **close financing gaps**
    - Be open-minded: 6-yr, 40% CRA may satisfy NPV budget hole
    - Public sector likely often over-paying for development
  - Beware the “**magic words**”



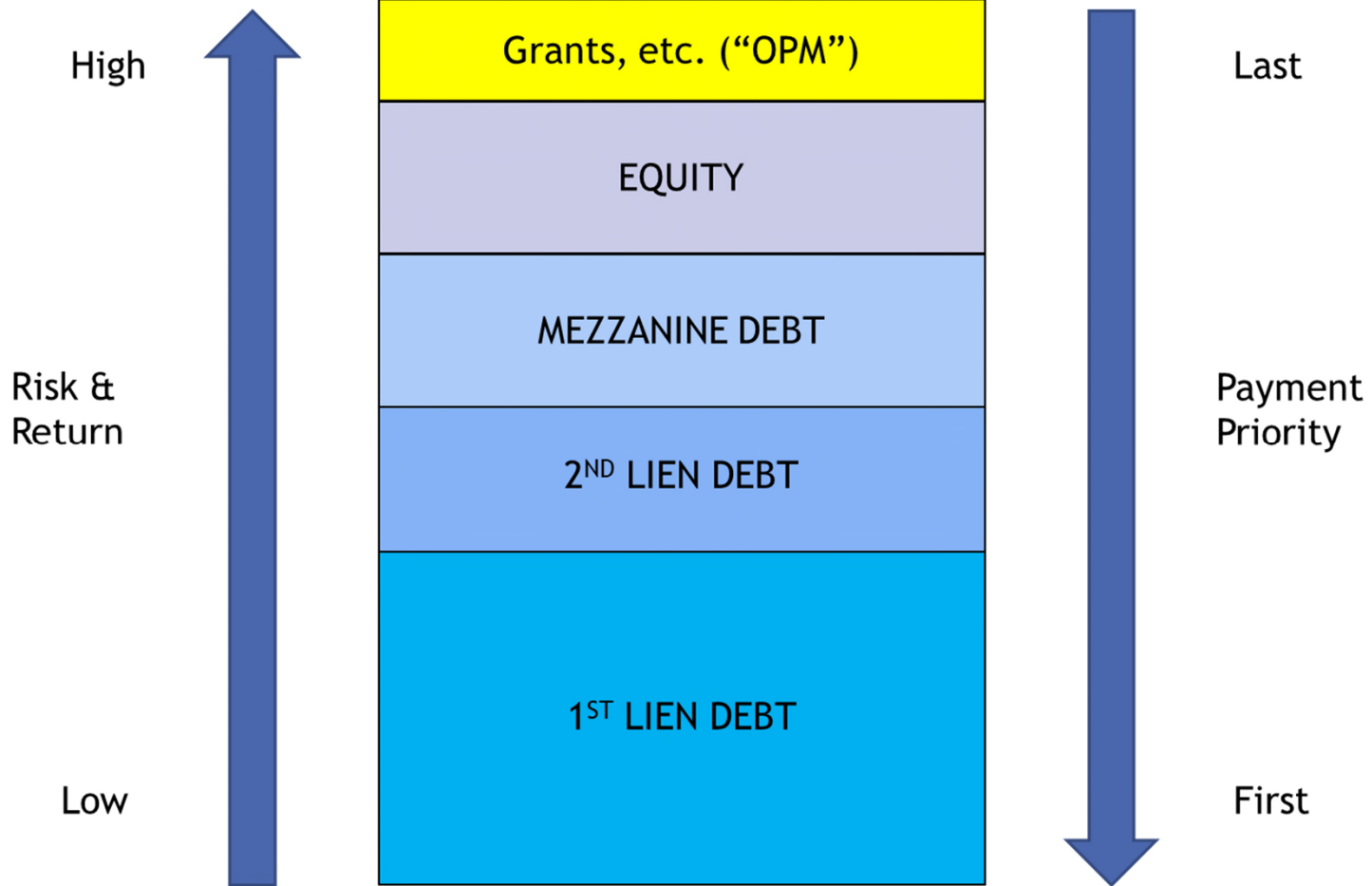
# Making the Incentive Decision Economic Development 2.0



## Questions to ask:

- What level public investment necessary to get the deal to **“pencil out?”**
- What is the **project’s capital stack?**
  - **How does my community’s incentive(s) factor** in the sources & uses of funds table?
- Is there **sufficient debt coverage ratio** for the estimated TIF / special assessment revenues to justify a bond sale?
- What is the **net present value (NPV)** of the public incentives?

# Capital Stack



Source: P. Finley & E. Metzler, *TIF and the Project's "Capital Stack"*, CDFA, Advanced Tax Increment Finance Course, November, 6th 2019

# Making the Incentive Decision Economic Development 2.0

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Development deals *typically* **not shopping homogenous commodities**

- Developers already like your community
  - Community therefore in a relative strength position!
  - Has already “passed” site selectors’ / corporate decision-makers’ filters
- Development deals come with **relocation costs & sizeable existing investments**

# Making the Incentive Decision Economic Development 2.0

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Determine what level participation needed from local community to get project done – period

- Don't be afraid to play Nancy Reagan:
  - “Just Say *No.*”
- There is a difference between what law allows & what's needed

# Making the Incentive Decision Economic Development 2.0

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In asking **What is needed to get project done?** you may get some interesting results:

- Project only needed *rezoning, ROW easement, TRES'ing a liquor permit*

**Is the juice worth the squeeze?**

- Public approval processes
- Complicated legal agreements
- Never-ending compliance!
- Spending political capital



# Things Outside Economic Developer's Control

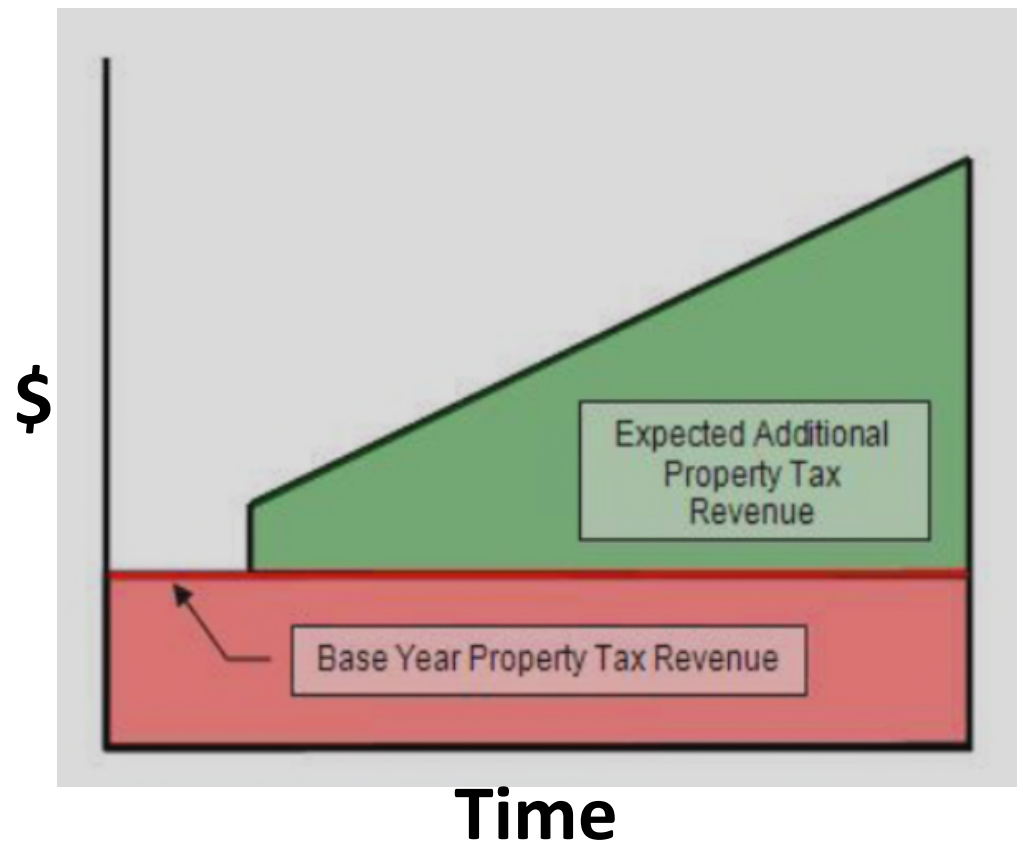


- Local officials' ideological opposition / embrace of financial incentives
- School Board politics
- Township vs. Municipality vs. County dynamics
- Election and levy cycles
- Private ownership of target properties
- Non-local decision-making by business prospects
- Support from Econ Dev'ers further up the ladder
  - JobsOhio, REDOs, ODSA

# Negotiating in the Dealer's Showroom: Overview of Common Tools

Locally administered **real property tax exemptions:**

- Tax Increment Financing (TIF)
- Community Reinvestment Areas (CRAs)
- Enterprise Zones (EZs)



# Negotiating in the Dealer's Showroom: Overview of Common Tools

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Special-purpose entities / tools that **increase effective tax burdens:**

- New Community Authorities (NCAs or sometimes called CDAs)
- Joint Economic Development Districts (JEDDs)
- Special Assessments (Revised Code Ch. 727) and Special Improvement Districts (Revised Code Ch. 1710)

# Negotiating in the Dealer's Showroom: Floor mats & free oil changes



Involve school district leadership in incentives discussions

- Open & frank discussions
- Invest to grow the relationship – there is future pay-off

Remember that **County Auditors' valuations** may not align w/ parties' expectations

- What if no incremental value assessed?
  - 100% abatement of \$0 in assessed improvement value is... \$0
- Tax abatements don't "cash flow" to beneficiary
  - Rather, serve as **hedge against future increases**

# Negotiating in the Dealer's Showroom: Floor mats & free oil changes



It matters whether exemptions / tax redirections deployed in projects with **leased sites & facilities**

- Does lease provide tenant to pay “general real estate taxes and assessments”?
  - *Chu Bros. Tulsa P’ship, PLL v. Sherwin-Williams Co.*, 187 Ohio App. 3d 261 (12th Dist., Madison County 2010)
- Tenants expect to see rent savings from CRA exemption?



# Negotiating in the Dealer's Showroom: Floor mats & free oil changes

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## Don't rely on private developer's financial pro forma

- Be comfortable with financial spreadsheets
  - Excel very helpful with visualizing incentive benefits

Be aware of the total “cost” to taxpayers of the incentives offered



Last Update: 05.30.2020  
 Author: Jeffrey Harris  
 TIF Rate: 1.00  
 Triennial Adjustment: 0.01  
 Sexennial Adjustment: 0.03

**Proposed TIF Cost Budget**

Line Item	Time Frame	Projected Cost
[1] Future development concept	2021-2022	[2]
[3] Future development concept	2027	[2]
[4] Future development concept	2033	[2]
<b>Total</b>		\$ -

School Compensation Rate: 1.00

Table: 30-YEAR TIF --- XXXXXXXX Property -- Projected TIF revenue stream (tax parcel ID XXXXXXXXXXXXX)

TIF Year	Tax Year	Frozen Base Value of TIF [4]	Projected Value Increases Due to Redevelopment and Inflation				Gross TIF Revenues				School Compensation				NET TIF Fund Collections			
			Value of New Improvements from Redevelopment (w/ Increased Auditor Valuations) [5]			Base Value Adjusted for Triennial / Sexennial Valuations	Total Value of TIF'ed Property	Incremental Value [6]	Incremental Assessed Value (@35%)	Total Effective Rate Millage [7]	TIF Fund Collections (w/ 1 year lag)	School District + Career Center Effective Rate Millage [7]	Gross School District Collections from Incremental Assessed Value	School District Collections Directed to TIF Fund (Abated)		Net School District Collections	Minimum Compensation Amount Pd to School District (from TIF fund)	
			Projected Triennial / Sexennial Value: Project Phase I	Projected Triennial / Sexennial Value: Project Phase II	Projected Triennial / Sexennial Value: Project Phase III													
0	2020	1,000,000	-	-	-	1,000,000	1,000,000	-	-	0.054671079	-	-	0.037608672	-	-	-	-	-
0	2021	1,000,000	-	-	-	1,000,000	1,000,000	-	-	0.054671079	-	-	0.03936318	-	-	-	-	-
0	2022	1,000,000	-	-	-	1,000,000	1,000,000	-	-	0.054671079	-	-	0.03936318	-	-	-	-	-
1	2023	1,000,000	-	-	-	1,000,000	1,000,000	-	-	0.054671079	-	-	0.03936318	-	-	-	-	-
2	2024	1,000,000	-	-	-	1,010,000	1,010,000	10,000	3,500	0.055671079	-	-	0.04008318	-	-	-	-	-
3	2025	1,000,000	-	-	-	1,010,000	1,010,000	10,000	3,500	0.056671079	195	140	0.04080318	140	(140)	-	140	55
4	2026	1,000,000	-	-	-	1,010,000	1,010,000	10,000	3,500	0.057671079	198	143	0.04152318	143	(143)	-	143	56
5	2027	1,000,000	-	-	-	1,040,300	1,040,300	40,300	14,105	0.058671079	202	145	0.04224318	145	(145)	-	145	57
6	2028	1,000,000	-	-	-	1,040,300	1,040,300	40,300	14,105	0.059671079	828	596	0.04296318	596	(596)	-	596	232
7	2029	1,000,000	-	-	-	1,040,300	1,040,300	40,300	14,105	0.060671079	842	606	0.04368318	606	(606)	-	606	236
8	2030	1,000,000	-	-	-	1,050,703	1,050,703	50,703	17,746	0.061671079	856	616	0.04440318	616	(616)	-	616	240
9	2031	1,000,000	-	-	-	1,050,703	1,050,703	50,703	17,746	0.062671079	1,094	788	0.04512318	788	(788)	-	788	306
10	2032	1,000,000	-	-	-	1,050,703	1,050,703	50,703	17,746	0.063671079	1,112	801	0.04584318	801	(801)	-	801	311
11	2033	1,000,000	-	-	-	1,082,224	1,082,224	82,224	28,778	0.064671079	1,130	814	0.04656318	814	(814)	-	814	316
12	2034	1,000,000	-	-	-	1,082,224	1,082,224	82,224	28,778	0.065671079	1,861	1,340	0.04728318	1,340	(1,340)	-	1,340	521
13	2035	1,000,000	-	-	-	1,082,224	1,082,224	82,224	28,778	0.066671079	1,890	1,361	0.04800318	1,361	(1,361)	-	1,361	529
14	2036	1,000,000	-	-	-	1,093,046	1,093,046	93,046	32,566	0.067671079	1,919	1,381	0.04872318	1,381	(1,381)	-	1,381	537
15	2037	1,000,000	-	-	-	1,093,046	1,093,046	93,046	32,566	0.068671079	2,204	1,587	0.04944318	1,587	(1,587)	-	1,587	617
16	2038	1,000,000	-	-	-	1,093,046	1,093,046	93,046	32,566	0.069671079	2,236	1,610	0.05016318	1,610	(1,610)	-	1,610	626
17	2039	1,000,000	-	-	-	1,125,838	1,125,838	125,838	44,043	0.070671079	2,269	1,634	0.05088318	1,634	(1,634)	-	1,634	635
18	2040	1,000,000	-	-	-	1,125,838	1,125,838	125,838	44,043	0.071671079	3,113	2,241	0.05160318	2,241	(2,241)	-	2,241	872
19	2041	1,000,000	-	-	-	1,125,838	1,125,838	125,838	44,043	0.072671079	3,157	2,273	0.05232318	2,273	(2,273)	-	2,273	884
20	2042	1,000,000	-	-	-	1,137,096	1,137,096	137,096	47,984	0.073671079	3,201	2,304	0.05304318	2,304	(2,304)	-	2,304	896
21	2043	1,000,000	-	-	-	1,137,096	1,137,096	137,096	47,984	0.074671079	3,535	2,545	0.05376318	2,545	(2,545)	-	2,545	990
22	2044	1,000,000	-	-	-	1,137,096	1,137,096	137,096	47,984	0.075671079	3,583	2,580	0.05448318	2,580	(2,580)	-	2,580	1,003
23	2045	1,000,000	-	-	-	1,171,209	1,171,209	171,209	59,923	0.076671079	3,631	2,614	0.05520318	2,614	(2,614)	-	2,614	1,017
24	2046	1,000,000	-	-	-	1,171,209	1,171,209	171,209	59,923	0.077671079	4,594	3,308	0.05592318	3,308	(3,308)	-	3,308	1,286
25	2047	1,000,000	-	-	-	1,171,209	1,171,209	171,209	59,923	0.078671079	4,654	3,351	0.05664318	3,351	(3,351)	-	3,351	1,303
26	2048	1,000,000	-	-	-	1,182,921	1,182,921	182,921	64,022	0.079671079	4,714	3,394	0.05736318	3,394	(3,394)	-	3,394	1,320
27	2049	1,000,000	-	-	-	1,182,921	1,182,921	182,921	64,022	0.080671079	5,101	3,673	0.05808318	3,673	(3,673)	-	3,673	1,428
28	2050	1,000,000	-	-	-	1,182,921	1,182,921	182,921	64,022	0.081671079	5,165	3,719	0.05880318	3,719	(3,719)	-	3,719	1,446
29	2051	1,000,000	-	-	-	1,218,409	1,218,409	218,409	76,443	0.082671079	5,229	3,765	0.05952318	3,765	(3,765)	-	3,765	1,464
30	2052	1,000,000	-	-	-	1,218,409	1,218,409	218,409	76,443	0.083671079	6,320	4,550	0.06024318	4,550	(4,550)	-	4,550	1,769
											74,831					20,953		
															Total TIF Revenues, 2023 - 2052 (Gross)		20,953	
															Net Present Value (@ rate)		3%	9,327
															TIF Capacity (Low): NPV with Debt Coverage Allowance of		1.3	7,175
															TIF Capacity (High): NPV with Debt Coverage Allowance of		1.2	7,772

# Case Study 1:

## TIF Structure:

- Term: 10 Years
- TIF'ed tax revenue:
  - 75% City
  - 0% Schools
- Base: \$1.1M
- Improvement value: \$4.7M
- NPV (3%): \$277K



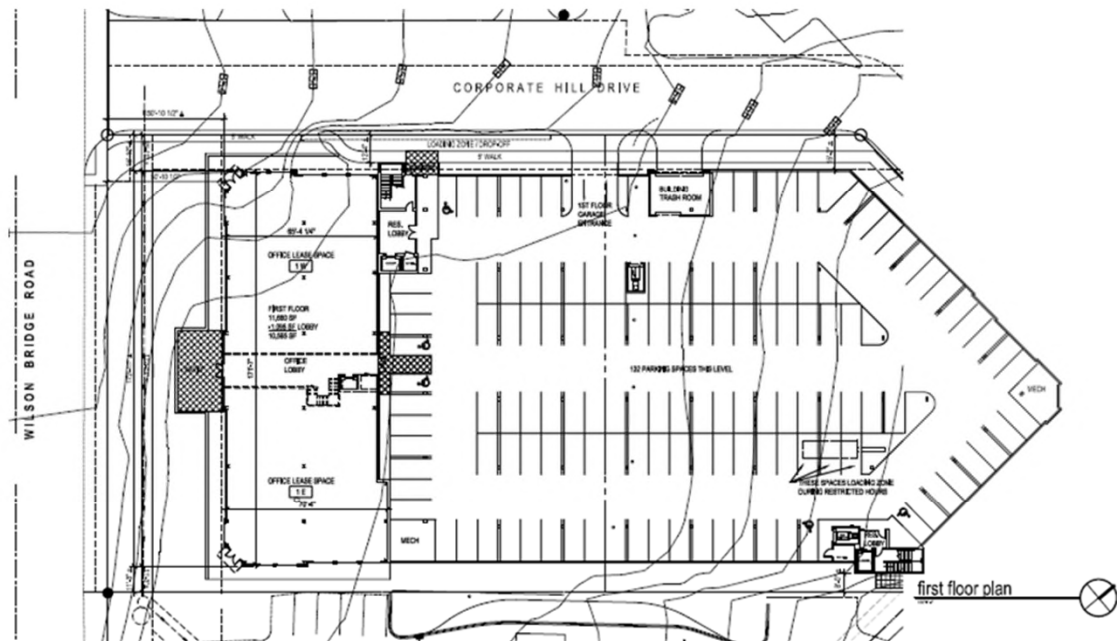
***Max \$110,000 Payments to Developer from TIF Fund***



# Case Study 2:

## Grant Structure:

- Term: 10 Years
- Grant:  
\$750,000 (NPV 3%)
- Payroll: \$1M/yr
- Office: 23K sq ft
- Construction Jobs:  
\$200K in income taxes



**Questions?**

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