

Goldilocks' Conundrum: *Stirring together the “just right” incentives offer*

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Discussion Agenda



- Filling the Financing Gap
 - Incentives, Generally
 - Economic Development 1.0 & 2.0
- Making the Incentive Decision
- Things outside Economic Developers' Control
- Goldilocks' Porridge
- Case Studies

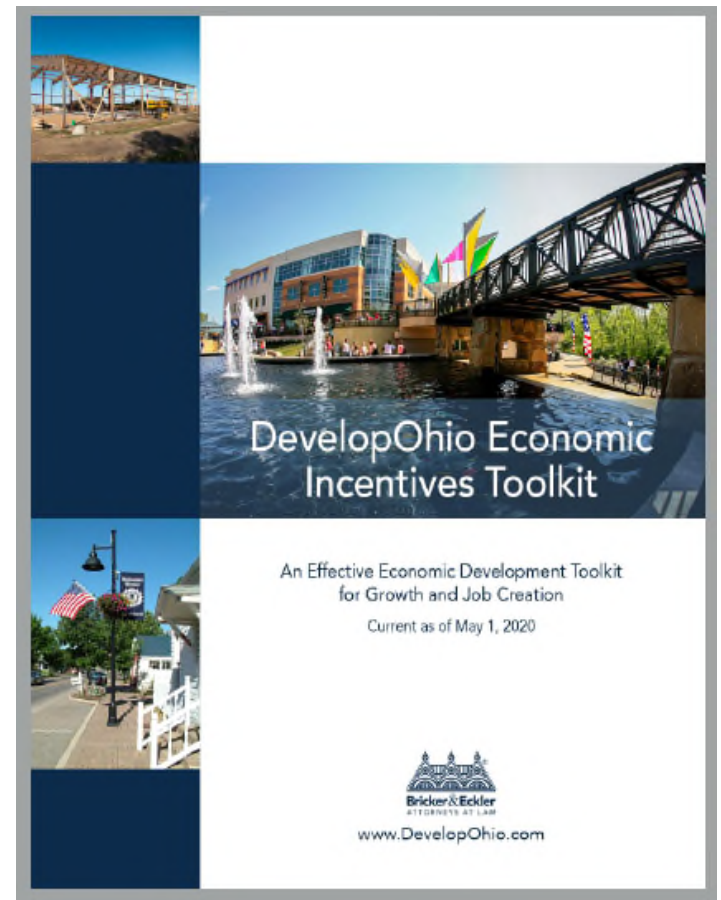
Resource: *DevelopOhio* Toolkit



Updated 2020

- *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



- 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?



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?



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?



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?



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



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



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 *diamond-encrusted jewel necklace* if **hand-beaded friendship bracelet** 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**”

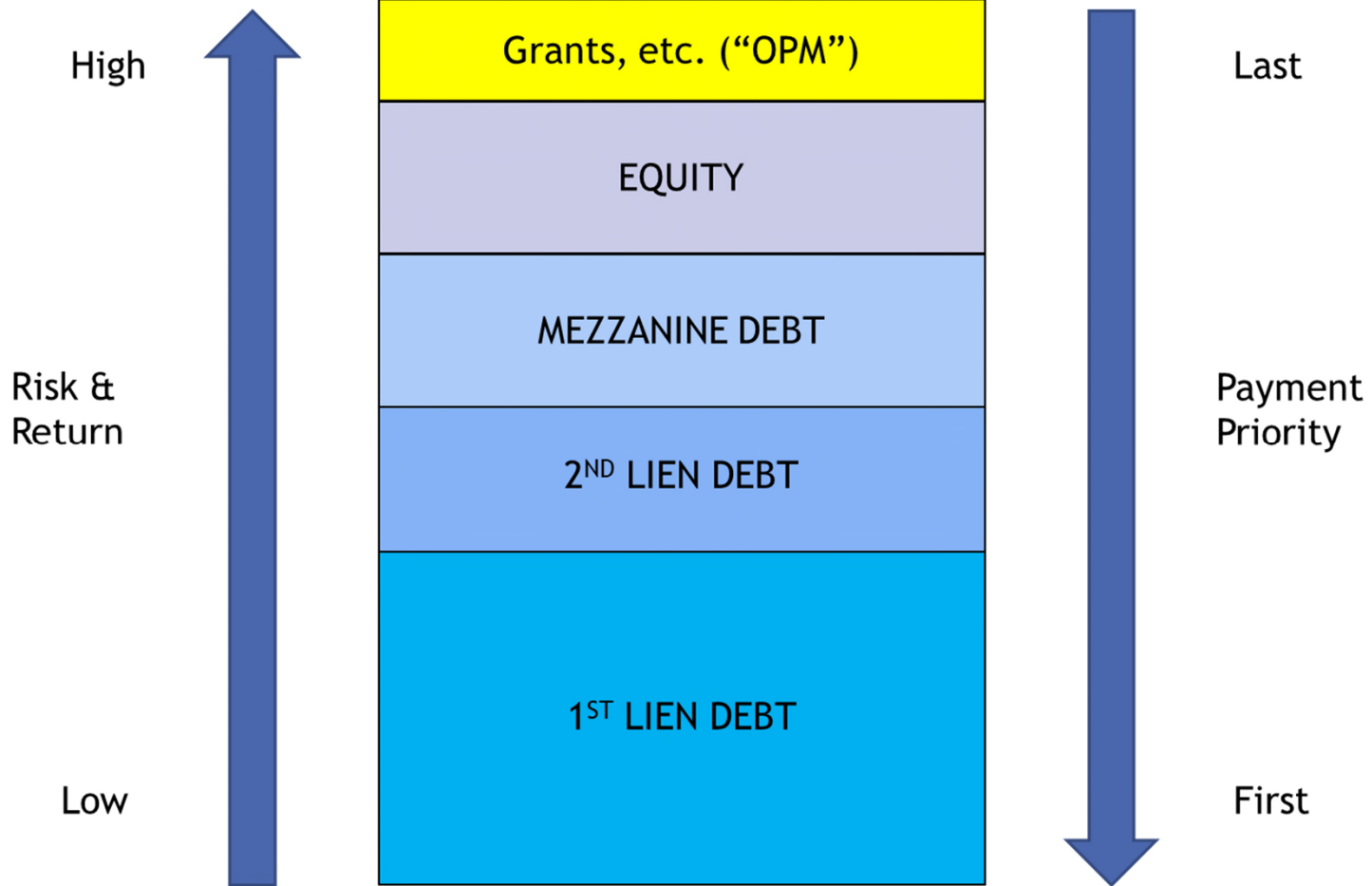
Making the Incentive Decision Economic Development 2.0



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



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



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



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

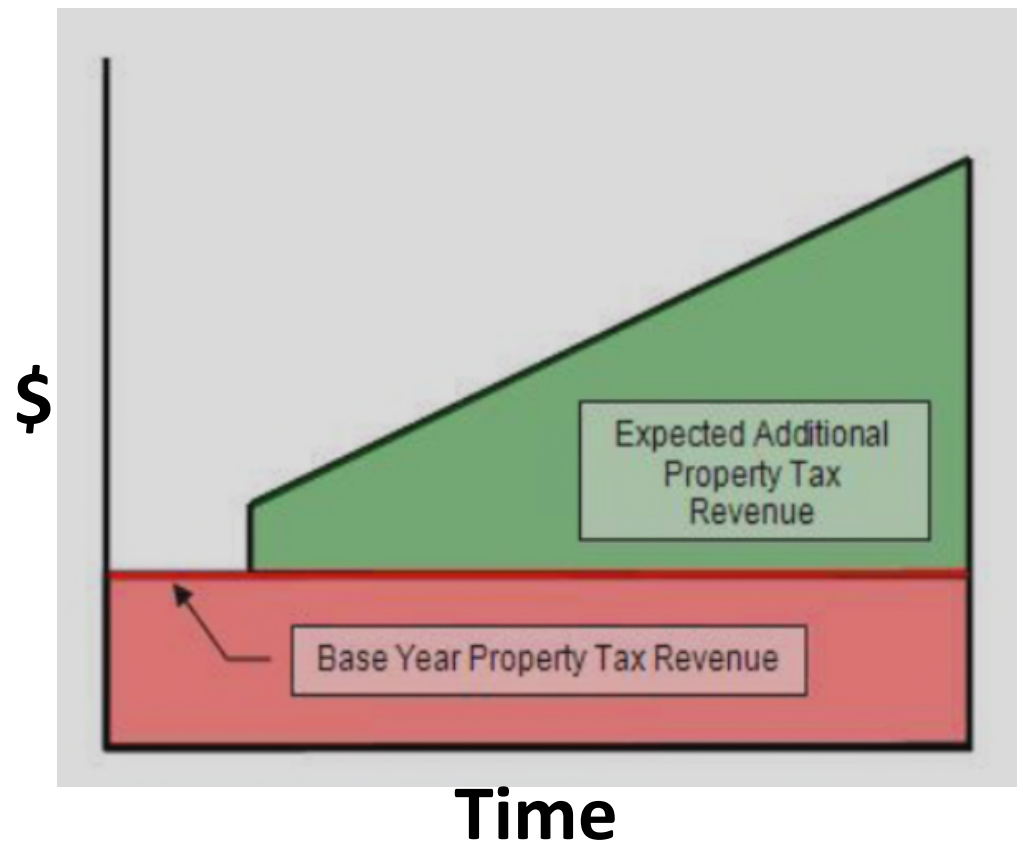


- Local officials' ideological opposition / embrace of financial incentives
- School Board politics
- Township vs. Municipality vs. County dynamics
- Election and levy cycles
- Private ownership of target properties
- Non-local decision-making by business prospects
- Support from Econ Dev'ers further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

Goldilocks' Porridge: Overview of Common Tools

Locally administered **real property tax exemptions:**

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



Goldilocks' Porridge: Overview of Common Tools



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)

Goldilocks' Porridge: Secret Ingredients



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**

Goldilocks' Porridge: Secret Ingredients



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?

Goldilocks' Porridge: Secret Ingredients



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] |
| Total | | \$ - |

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

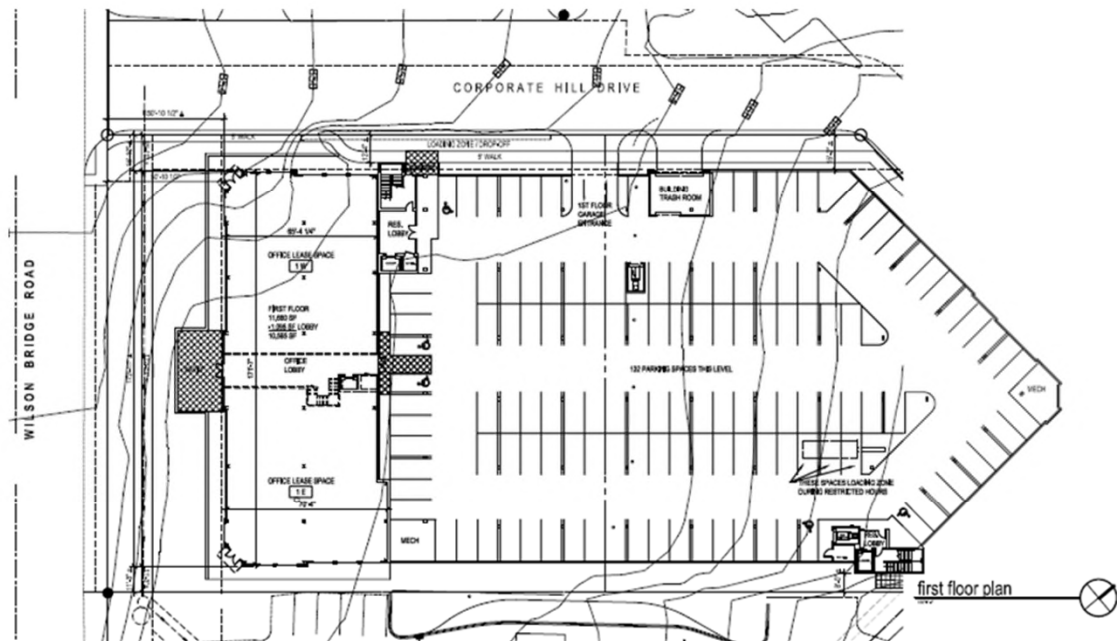


Max \$110,000 Payments to Developer from TIF Fund

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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