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## Bill Analysis

**Version:** As Introduced

**Primary Sponsor:** Sen. Schuring

Andrew Little, Attorney

### SUMMARY

- Allows a municipality or township to designate a portion of its territory as a Neighborhood Development Area (NDA) after making certain findings about the local housing stock.
- Permits up to three NDAs within each municipality or township at any one time, with each area limited to 300 acres.
- Authorizes the following property tax exemptions, which apply to all residential property within an NDA, unless the municipality or township limits the eligibility to only single-, two-, and three-family homes:
  - A full or partial property tax exemption for vacant residential development property owned by developers, beginning the year the property is subdivided and continuing until the residence is occupied.
  - A full or partial ten-year property tax exemption for owners of a newly constructed residence, so long as the owner occupies the residence.
  - A five-year incremental value property tax exemption for owners who renovate their residence, so long as the owner occupies the residence.
- Specifies that property that is already exempt under a tax increment financing (TIF) agreement or as part of a Community Reinvestment Area (CRA) cannot also be part of an NDA.

### DETAILED ANALYSIS

#### Neighborhood Development Areas

The bill allows municipalities and townships to establish Neighborhood Development Areas (NDAs), within which residential property may receive a full or partial exemption from property taxation.

Under the bill, a municipality or township may designate an NDA with the goal of encouraging the development of adequate affordable or workforce housing or to address a housing shortage. The bill specifies several criteria for making such a designation. Once designated, property developers or owners of residential property located in an NDA may apply to the municipality or township for a property tax exemption. The exemption will equal a specified percentage of the value of new residential property or of the improvements to an existing residence.

### **NDA designation**

A municipality or township may designate a portion of its territory as an NDA. Any single NDA may not exceed 300 acres, and if two or more NDAs adjoin each other the total acreage of all of them is limited to 300 acres. A municipality or township may designate no more than three NDAs within its territory at any one time.

The resolution designating the NDA must include the following information:

1. Findings that there is a lack of adequate affordable or workforce housing or that there is a housing shortage in the municipality or township, that the NDA designation will encourage the construction or renovation of residential buildings in the area, and that such construction or renovation would be unlikely to occur without the designation;
2. A projection of how the designation will enhance property values and cause additional property tax revenue to be generated;
3. A list of all parcels included in the NDA;
4. The percentage of value of property that will be exempt from taxation, which is determined by the municipality or township, as described below;
5. The number of years, not exceeding ten, the area will be designated as an NDA;
6. Identification of the employee or officer who will accept property tax exemption applications from developers and property owners.<sup>1</sup>

Property tax exemptions authorized by the bill apply to all residential single- and multi-family property located within an NDA that is or is to be exclusively comprised of dwellings, but a municipality or township may limit eligibility for the exemptions to only single-, two-, and three-family homes by including a statement in the resolution expressing that limitation.<sup>2</sup>

Upon expiration of the NDA designation, the municipality or township may amend the resolution to extend the NDA's term for up to an additional ten years. The term of an NDA may be extended in this manner an unlimited number of times.<sup>3</sup>

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<sup>1</sup> R.C. 5709.58(B)(1).

<sup>2</sup> R.C. 5709.58(A)(5) and (B)(2).

<sup>3</sup> R.C. 5709.58(B)(5).

Within ten days after adopting or amending an NDA measure, the municipality or township must certify a copy of it to the Tax Commissioner.<sup>4</sup>

### **School district approval**

Before adopting a resolution that would exempt more than 75% of the value of eligible residential property in the NDA, the municipality or township must first notify each school district where the NDA would be located and attempt, in good faith, to explain the proposed NDA and obtain the board's consent for the designation. (The notice requirements are described below.) If an NDA is in more than one school district, each school board would need to agree to the exemption amount. The bill does not address what might constitute the terms of such an agreement, leaving that to the discretion of the parties.

If an agreement cannot be reached within 60 days with all affected school districts, the municipality or township may still designate an NDA, but the percentage of value that may be exempted from taxation may not exceed 75%.<sup>5</sup>

### **Notice to affected taxing jurisdictions and public hearings**

Regardless of the proposed exemption percentage, the municipality or township must conduct three hearings on the NDA proposal before adopting it. The hearings must occur during at least three regularly scheduled public meetings, held on three separate days, in accordance with public meetings law requirements. The municipality or township must notify each school district and every other local taxing unit where the NDA would be located. The notice must state the date and time of each meeting and also include a copy of the resolution. The notice must be sent by certified mail at least seven days before the first meeting is held.<sup>6</sup>

### **Property tax exemptions**

Once an NDA is designated, developers and owners of property located within the NDA may apply for a tax exemption. Three types of exemptions are available:

1. Subdivided but unoccupied property intended for residential development. This exemption applies to parcels that have been subdivided by a developer for residential development and that are part of an area consisting of at least ten such adjacent parcels.<sup>7</sup> The developer applies for the exemption, which begins the year the subdivided property first appears on the tax list and runs through the tax year that a residential structure on the property is first occupied.<sup>8</sup>

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<sup>4</sup> R.C. 5709.58(B)(4).

<sup>5</sup> R.C. 5709.58(A)(4) and (B)(3).

<sup>6</sup> R.C. 5709.58(B)(1).

<sup>7</sup> R.C. 5709.58(A)(1) and (3).

<sup>8</sup> R.C. 5709.58(C)(1).

2. Newly occupied residential buildings. This exemption applies to property that did qualify, or could have qualified, for an exemption under (1). However, the new owner seeks this exemption, which would apply for ten years, beginning the year after the first year the residence is occupied by the owner. (In the first year of occupancy, the residence is eligible for exemption under (1).)<sup>9</sup>
3. Renovation of existing residential buildings. This exemption applies to any existing residential building in the NDA where the owner spends at least \$5,000 to renovate their home. The exemption applies to the increase in the value of the property, and extends for five years, beginning the tax year after the year in which an increase in value resulting from the remodeling is first reflected on the tax list.<sup>10</sup> Such a property does not need to be located in any relationship to property eligible for the other two exemptions; it only needs to be in the territory of an NDA, which itself may encompass areas where there are not ten or more adjacent newly built residences.

The exemptions described in (2) and (3), above, apply only so long as the owner continues to occupy the residence on January 1 of the tax year (the “tax lien date”); in other words, if the owner lives elsewhere or is letting out the property for rent on January 1, the exemption does not apply to that year. Ownership for this purpose would be determined under the same criteria applying to the homestead exemption (i.e., it includes not just outright ownership of the title but also various forms of tenancy and holding property under a living trust).

### **Application process**

To receive the exemption, a developer or owner must file an annual application with the designated officer of the municipality or township. That officer will grant the application if all of the bill’s requirements are met. In the first year an applicant applies for an exemption, the officer must forward the application to the Tax Commissioner for approval. For the rest of the exemption’s term, the officer is not required to forward anything to the Commissioner, but must alert the Commissioner if the property no longer qualifies for the exemption.

If the designation of an area as an NDA expires, any exemption that was first approved before the NDA’s expiration will continue to be allowed in future years for the exemption’s applicable term.<sup>11</sup>

Under continuing law, most property tax exemptions are granted only after the property owner files an exemption application with the Commissioner and obtains the Commissioner’s approval.<sup>12</sup>

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<sup>9</sup> R.C. 5709.58(C)(3).

<sup>10</sup> R.C. 5709.58(C)(3).

<sup>11</sup> R.C. 5709.58(D) and 5713.08.

<sup>12</sup> R.C. 5715.27, not in the bill.

## **CRA and TIF property**

Under the bill, property that is already exempt under a tax increment financing (TIF) agreement or as part of a Community Reinvestment Area (CRA) cannot also become part of an NDA.<sup>13</sup>

### **Comparison with CRAs**

A CRA is similar to an NDA, as proposed in the bill, in that a CRA also allows certain political subdivisions to (1) designate an area in which newly constructed or renovated properties are eligible for property tax exemption and (2) accept applications for property owners to exempt the value of a new home or of improvements to an existing home.

However, there are some key differences. For one, only municipalities and counties – not townships – may adopt a resolution creating a CRA. Second, a CRA exemption is not available for vacant property or property on which a home is in the process of being constructed – the exemption only applies to completed homes. Third, CRA exemptions are available for commercial and industrial property, whereas NDAs are limited to residential property.

In addition, the determinations a subdivision must make before designating a CRA are different: the municipality or county must find that the area is one where housing of “historical significance” is located or where new construction and the repair of existing homes is “discouraged.” The subdivision must also make a housing survey, and submit the proposed CRA to the Development Services Agency for approval.<sup>14</sup>

### **Comparison with TIFs**

Under a TIF, municipalities, townships, and counties may grant a real property tax exemption with respect to the amount by which the assessed valuation of designated parcels increase after the TIF is established. A TIF may be comprised of specific parcels or may be what is called an “incentive district” (an area of not more than 300 acres that satisfies certain distress or infrastructure criteria). Owners of the exempted property make payments in lieu of taxes (“PILOTs”) to the political subdivision that created the TIF equal to the amount of taxes that would otherwise have been paid with respect to the exempted improvements. The PILOTs are used to finance nearby or related infrastructure or, in some cases, to fund housing renovation.

TIFs differ from NDAs, as proposed in the bill, in several ways. Most significantly, property owners are not required to pay PILOTs to a municipality or township that creates an NDA. In addition, the ability of subdivisions to establish a TIF with respect to specific parcels that include residences is limited. (However, incentive districts may include residential property.)<sup>15</sup>

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<sup>13</sup> R.C. 5709.58(B)(1).

<sup>14</sup> R.C. 3735.66; R.C. 3735.65 and 3735.661 to 3735.70, not in the bill.

<sup>15</sup> R.C. 5709.40, 5709.41, 5709.73, and 5709.78, not in the bill.

## CRA resolutions

The bill specifically authorizes a county or municipal resolution creating a CRA to state that the CRA property tax exemptions are for the public purpose of encouraging the development of adequate affordable or workforce housing or addressing a housing shortage – the same public purposes for which an NDA may be designated. Current law does not specifically authorize the inclusion of such a statement.<sup>16</sup>

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### HISTORY

Action	Date
Introduced	04-27-22

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<sup>16</sup> R.C. 3735.66.