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Vorys Economic Development Incentives Conference

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Intersection of Incentives and Property Tax:

What Everyone Needs to Know

Seven Key Principles and Why They Matter

1. Real Property vs Personal Property
2. Property Tax Classification
3. Real Property Value Generally Based Upon Market Value
4. Personal Property Value Generally Based Upon Cost and State-Mandated Schedules
5. Tax Lien Dates
6. Taxes to Schools May Be Treated Differently
7. Other Payments and Mitigating Assessment Risks

Key Principle #1: Real Property vs Personal Property

- All states tax real property and most tax personal property
  - Real property taxes are generally levied at the local level
- Some states, like Ohio, only tax certain types of personal property
  - Ohio phased out its personal property tax in 2008, but a tax on personal property still exists for public utilities
- Other states, like Pennsylvania, do not have any personal property tax

Why It Matters:
Real Property vs Personal Property

- Value of real property and personal property is determined differently
- The taxes on real property and personal property are administered differently
- Different incentives apply (or do not apply) to real versus personal property

Key Principle #2: Property Tax Classification

- For property tax purposes, classification is based on the state's tax code.
  - Not federal tax law
  - Not other laws in the state (e.g., construction laws)
  - Not laws in other states
- Key in most states – how fixtures are treated.

Why It Matters: Property Tax Classification

- Differences can be drastic, especially for industrial property
  - Under Ohio law, “business fixtures” are classified as personal property
- Impacts:
  - Type of tax (if any)
  - Valuation
  - PILOT discussions
  - Compliance requirements

Key Principle #3:
Real Property Value Generally Based Upon Market Value

- Market Value = what a willing buyer would pay a willing seller
- Assessors typically utilize three approaches to value
  - Cost Approach
  - Market (Sales Comparison) Approach
  - Income Approach
- Note: Cost does not equal value
- Special-purpose properties
- Assessments may be regularly contested

Why It Matters: Real Property Valuation

- PILOT negotiations
- Estimating real estate taxes and value of the incentives
- Estimating TIF revenue streams
- Accounting for potential valuation challenges
- Compliance (in some circumstances and jurisdictions)

Key Principle #4:
Personal Property Value Generally Based Upon Cost and State-Mandated Schedules

- Initial Valuation
- Class lives
- Depreciation schedules
- Difficult to challenge value because taxpayer must overcome presumptions

Why It Matters: Valuation of Personal Property

- PILOT negotiations
- Estimating personal property taxes and value of the incentives
- Estimating TIF revenue streams
- Accounting for property replacement
- Compliance

Key Principle #5: Tax Lien Dates

- Value and status is determined as of lien date – a snapshot in time
  - Construction-in-progress <u>sometimes</u> is assessed
  - Personal property not yet used in business may or may not be taxed
  - Exempt, taxable or agricultural status is often determined as of lien date

Why It Matters: Lien Dates

- On/off switch
- PILOT negotiations
- Estimating TIF revenue streams
- Compliance

Key Principle #6: Taxes to Schools May Be Treated Differently

- School districts typically the largest property tax revenue recipient
- In different states, incentives apply differently to school's portion
- In some states, a school district's funding from the state is decreased based upon revenue it receives

Why It Matters: Taxes to Schools

- PILOT negotiations
- Potentially a separate negotiation of incentives (or lack thereof)
- Opportunities to identify win-win scenarios based upon school funding formulas

Key Principle #7:
Other Payments Can Be Layered to Mitigate Assessment Risk

- Risks with TIF service payments
  - Construction/casualty
  - Value
- Other payments can be layered to mitigate risk
- Other strategies available – breakout this afternoon

Why It Matters: Other Payment Considerations

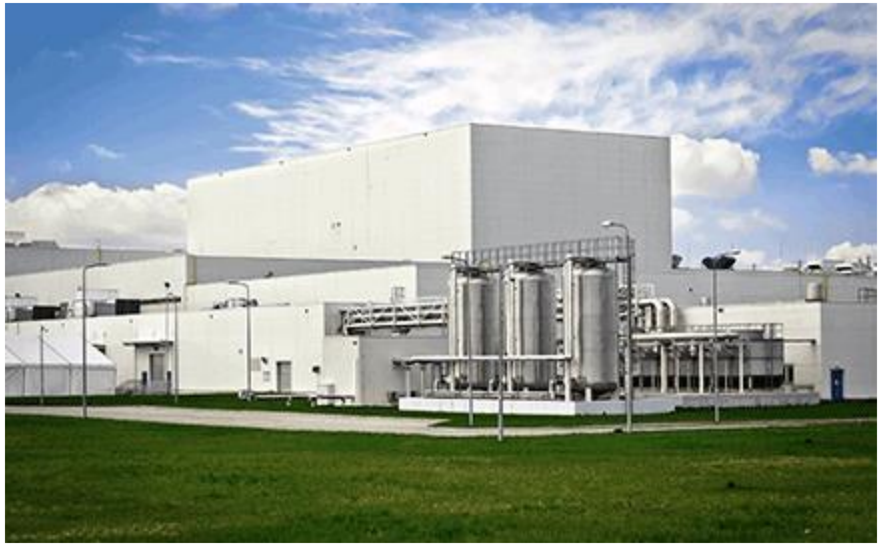
- TIF bonds sometimes issued before start of construction
- Delays happen
- Real property value based upon assessor's view/opinion of market

Mini-Case Study #1 – PILOT Negotiation

- Manufacturing project with total cap-ex of $100M
- State has no tangible personal property tax
- School district's state funding reduced by $2 for every $3 of property tax received
- Effective tax rate = 2%, 70% attributable to school district

Mini-Case Study #1 – Negotiated Deal

- 100% property tax abatement for 10 years
- Annual $300K PILOT to school district ($3M over 10-year period)
- Letter from EDO to company: property tax abatement worth a net of $17 M
- What mistakes were made by the business?



Mini-Case Study #1 – Mistake Analysis

- Real property cap-ex only $20M
- Likely market value only $15M
- Annual property tax estimate w/o abatement = $300K ($15M x .02)
- School district net annual value w/o abatement = $70,000 ($15M x .02 x .7 x .333)
- Actual value of deal = $0
  - But will be reported as $17M “tax break” that “takes money from the schools”
  - And school district is 4x better than if property is fully taxed

Mini-Case Study #2 – Real and Personal Property TIF Structure

- Industrial project with $50M real property cap-ex and $100M personal property cap-ex
- 100% TIF including schools
- Building to be completed in February 2026 and facility will be operational in May 2026
- January 1 tax lien date, with property taxes collected 13 months later
- Effective tax rate of 2%
- Community issues bonds based upon expectation of $3M in TIF revenue to be received in February 2027

Mini-Case Study #2 – Mistake Analysis

- Building value on January 1, 2026 likely to be $30M-$40M
  - Not yet fully complete
  - Discount in value for completion risk
- Personal property not subject to tax until January 1, 2027 tax lien date
- Community did not provide for other payments to be layered
- Actual TIF revenue to be received in February 2027 is only $600k - $800k

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