

The Impact of Tax Increment Financing Reform on School District Funding



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Tax Commissioner

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Table of Contents

	<u>Page</u>
Introduction	1
Project TIF Agreements	1
TIF Incentive Districts	2
Service Payments	2
TIF Reform	2
Identifying Compensation Agreements	4
Data Collection & Calculations	5
Summary of Reporting and Calculation Requirements	6
Impact of TIF Reform on Formula Aid	7
Guarantee Districts	7
Example 1, Estimating the Impact of a Compensation Agreement on Formula District State Education Aid	8
Example 2, Estimating the Impact of a “Make Up the Difference” Payment on Formula District State Education Aid	10
Example 3, Estimating the Impact of a Compensation Agreement on Guarantee District State Education Aid	12
Conclusion	13
Appendix A – Criteria for Exempted Compensation Agreements	A-1
Appendix B – Worksheet for Estimating the Impact of a Compensation Agreement on State Education Aid for a Formula District	A-2
Appendix C – Worksheet for Estimating the Impact of a Compensation Agreement on State Education Aid for a Guarantee District	A-3

The analysis and interpretations contained in this document are those of the author. They do not represent the official views of the Ohio Department of Taxation.

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The Impact of Tax Increment Financing Reform on School District Funding

This paper is intended to help school district treasurers and taxpayers when debating the merits of TIF incentive districts and other economic development agreements. First, this paper attempts to help identify agreements impacted by recent reforms. Secondly, reporting requirements are described in relation to education funding. In conclusion, examples of the impact of TIF incentive districts and other compensation agreements on formula aid are provided. Examples are provided for a typical formula district with a PILOT, a formula district where the PILOT attempts to make-up for lost revenue, and a guarantee district.

Introduction

Tax increment financing (TIF) districts are economic incentive tools for local governments which allow future taxes generated from increases in value due to reappraisals and from new development to fund related infrastructure and public improvements. A TIF agreement grants a property tax exemption to incremental increases in the valuation of designated parcels. Value and tax liability increase as property is improved; the difference between property values before and after improvement is the exempt increment.

Owners of exempt property generally provide service payments equal to taxes which otherwise would have been due on the exempted improvements. Service payments fund infrastructure and public improvements. As a result, TIF districts create a flow of revenue to the local government that granted the tax exemption. The local government then applies the service payment to the agreed upon improvements.

TIF districts reduce school district tax revenue and impact state education aid. School district approval is required for the creation of some TIF districts and school districts are typically compensated to offset reduced tax revenues. Such compensation, prior to enactment of HB 66 in 2005, was not considered local revenue when calculating state education aid (more precisely, the values underlying such compensation were not counted as part of the district's local revenue-raising capacity). The 2006-07 biennium budget and subsequent budget corrections bill, House Bills 66 and 530, altered the school funding base-cost formula to partially account for compensation payments to school districts. The adjusted computation for the local contribution to school funding, the local charge-off, is now a more accurate reflection of school district local revenue-raising capacity.

Project TIFs

The most common type of TIF in Ohio is a project, or parcel, TIF. TIF agreements are declarations that private improvements to real property are for a public purpose and related increases in value are tax exempt. For project TIFs, there is a further restriction, namely that the public infrastructure improvements must directly benefit the exempted parcels. Municipalities meeting certain economic criteria may also exempt increases in residential value in a project TIF. Project TIF agreements fund infrastructure improvements which directly benefit the exempted improvement. Infrastructure improvements include public roads and highways, water and sewer lines, environmental remediation, and demolition. Land acquisition in aid of industry, commerce, distribution, or research also qualifies as infrastructure improvement. Project TIFs are created by municipalities, townships, and counties as authorized by Ohio Revised Code sections 5709.40(B), 5709.73(B), and 5709.78(A). Polaris Fashion Place in Columbus is an example of a project TIF where service payments were utilized to improve highway interchanges, road extensions,

and public utility improvements. Any TIF exemption created **before December 14, 2001** is a project TIF and compensation arising from project TIFs is **not** included when calculating state education aid. Compensation resulting from project TIFs will not be included in school funding calculations.

TIF Incentive Districts

TIF incentive districts are ‘area-wide’ agreements which exempt increases in all classes of property. TIF incentive districts are authorized by counties, municipalities, and townships under Ohio Revised Code Sections 5709.40 (C), 5709.73 (C), or 5709.78 (B). Areas less than three hundred acres and enclosed by continuous boundary which demonstrate at least one criteria of economic distress are eligible to become TIF incentive districts. TIF incentive districts have been available to local governments since **December 13, 2001**; therefore, any TIF created prior to this date is not an incentive district TIF and is not addressed in recent reforms. Improvements funded via incentive districts directly or indirectly are supposed to benefit the exempted property. Like project TIFs, incentive district TIFs may fund infrastructure improvements.

Service Payments

The aim of recent TIF reforms is to capture the value of service payments to school districts when calculating state education aid. Service payments may be value-based payments known as payments-in-lieu of taxes (PILOTs) or may be in the form of “other compensation,” as explained below. Service payments are value-based PILOTs if the payment is calculated and charged in the same manner as a tax. A PILOT is generally made by a taxpayer in an amount equal to the real property tax which would have been due if the property were taxable. All payments for qualifying compensation agreements, whether paid through local governments or directly to school districts, must be identified and reported to the Department of Development.

In addition to PILOT agreements, property owners may provide the school district with “other compensation.” Any non-value based compensation including cash, loans, services, property, or gifts is considered other compensation and will be added to value in charge-off calculations as appropriate. Municipal income tax sharing is an example of compensation. Other compensation will be converted to value by dividing the dollar value of other compensation payments by the previous year’s effective real property tax rate for nonresidential and agricultural property, and then the resulting value will be added to the compensated value underlying PILOTs.

For example, the city of Loveland provides Loveland CSD with “other compensation.” The city provides the school district with seventy-five percent of the actual cost of a school resource officer and waives all building and zoning fees applicable to the school district. Under current law, the Loveland CSD treasurer will report the subsidized portion of the cost of the resource officer and any foregone fees associated with permits or zoning applications to the Department of Development. The Department of Taxation will then divide the reported amount by the previous year’s effective tax rate to convert the “other compensation” to an equivalent taxable value.

TIF Reform

TIF incentive districts and other compensation agreements were the focus of recent reform by the General Assembly in the 2006-2007 biennium budget. The Tax Commissioner is now required to include the value underlying payments generated by

qualifying TIF incentive districts exemptions, and values underlying compensation amounts associated with other incentive exemptions when certifying property values for use in calculating formula aid. The value of qualified compensation payments is known as the charge-off addback and will be added to taxable value when calculating education funding.

In calendar year 2006, only compensation payments received in relation to TIF incentive districts were reported and included in charge-off calculations. In calendar year 2007 and beyond, compensation due to other incentive exemptions authorized after January 1, 2006 will be reported to the Department of Development. In addition to TIF incentive districts, Ohio Revised Code section 3317.021 requires treasurers to report the qualified exempt value of Urban Renewal Areas, Community Urban Redevelopment Corporations, Enterprise Zones, Brownfield Sites, and railroad property exemptions.

Please refer to exhibit one for assistance identifying qualifying compensation agreements. As mentioned, payments due to project TIFs will not be included in the charge-off addback. Proper identification of compensation agreements is important to ensure that only qualifying compensation is included.

*Exhibit One
Identifying Compensation Agreements*

Type of Agreement	Granting Authority	Ohio Revised Code Authorization	Authorization of Compensation Agreement Date	Description
Project or Parcel TIF	Municipality	5709.40 (B)	Includes all TIFs approved prior to December 14, 2001 and Project TIFs approved thereafter.	Local government has declared private improvements to one or more parcels to serve a public purpose and service payments fund public infrastructure needs.
	Township	5709.73 (B)		
	County	5709.78 (A)		
Urban Renewal	Municipality	Chapter 725	After 1/1/06	Improvements aimed at the elimination or prevention of slums or blight.
Community Redevelopment Corporations	Municipality	Chapter 1728	After 1/1/06	Community urban redevelopment corporation undertakes a project in a major disaster area or to improve economic welfare.
Community Reinvestment Areas	Municipality	3735.65 to .70	After 1/1/06	Local real property tax incentives for residents and businesses for residential, commercial, and/ or industrial projects involving remodeling or new construction.
Enterprise Zone	Municipality	5709.62	After 1/1/06	Real & personal property tax incentives for businesses to locate or expand in Ohio. Businesses agree to retain or create jobs; occupy a facility in an Enterprise Zone; and invest in new real or personal property.
	County	5709.63	After 1/1/06	
	Municipality	5709.632	After 1/1/06	
Railroad Property	County, Municipality, or Township	5709.84	After 1/1/06	Exempt property is used in qualified railroad operations.
Brownfield Site	Municipality	5709.88	After 1/1/06	Brownfields are abandoned or under-used industrial or commercial property where development is complicated by hazardous substances.
Incentive or 'Area-Wide'	Municipality	5709.40 (c)	After 12/13/01	Area less than 300 acres exhibiting economic distress and service payments fund public infrastructure anywhere in the district.
	Township	5709.73 (c)	After 12/13/01	
	County	5709.78 (B)	After 12/13/01	

Data Collection & Calculations

The Departments of Development, Taxation, and Education will participate in the data collection process to certify the proper qualified compensated values. School district treasurers will report all compensation received in the previous tax year for qualifying agreements to the Department of Development by March 1st of each year. Data on both traditional PILOTs and other compensation will be collected. It is important that school district treasurers clearly identify all compensation payments to ensure that compensation for project TIFs and other excepted agreements are not included in the charge-off addback.

Certain TIF incentive district compensation will be exempted from the charge-off addback. The most significant addback exception is for agreements created prior to January 1, 2006 where the granting authority entered into contract with another party before January 1, 2006. This exception applies to projects for which meaningful planning began before 2006; it is anticipated that this exception will cover the majority of agreements that existed when H.B 66 was enacted. Compensation from exemptions meeting the requirements of this and the other grandfathered exceptions will be reported to the Department of Development and identified by county auditors on the DTE-15 T. Therefore, it is in the best interest of the school district to provide the requested information about the source of any compensation payments. Appendix A contains a full list of criteria for grandfathered exemptions and lesser used exceptions.

County auditors will submit the DTE-15 T form to the Department of Taxation by May 1st of each year. The DTE-15 T requires auditors to report the compensated value underlying PILOTs. County auditors will report all incentive districts with exempt value for the tax year. Furthermore, auditors will identify any TIF incentive districts meeting the previously discussed exceptions.

The Department of Development will certify all compensation received by school districts to the Department of Taxation. The Department of Taxation will match data on the DTE-15 T with compensation reported by the Department of Development. The Department of Taxation will add indicators to ensure PILOTs are not double counted and that compensation due to excepted incentive districts is not included in the charge-off addback. The charge-off addback will equal the calculated value equivalent of other compensation plus the value underlying PILOT payments that are calculated like taxes, for both TIF incentive districts and for other qualifying tax exemptions. Calculations to determine the compensated portion of exempted value are shown in later examples.

Exhibit Two
Summary of Reporting and Calculation Requirements

The Ohio Department of Development requests school treasurers report compensation due to the following:

- Incentive district tax increment financing agreements
- Project/ parcel tax increment financing agreements
- Brownfield site agreements effective after January 1, 2006
- Community reinvestment areas effective after January 1, 2006
- Community redevelopment corporations effective after January 1, 2006
- Ohio Enterprise Zones effective after January 1, 2006
- Railroad property exemptions effective after January 1, 2006
- Urban renewal areas effective after January 1, 2006

Compensation due to the following *will be included** in the charge-off addback for state education aid calculations:

- Incentive district tax increment financing agreements for which meaningful planning began after January 1, 2006
- Brownfield site agreements effective after January 1, 2006
- Community reinvestment areas effective after January 1, 2006
- Community redevelopment corporations effective after January 1, 2006
- Ohio Enterprise Zones effective after January 1, 2006
- Railroad property exemptions effective after January 1, 2006
- Urban renewal areas effective after January 1, 2006

**Appendix A lists the less often applicable exception criteria found in Ohio Revised Code 3317.021. (A)(6)(c) to (i).*

Impact of TIF Reform on Formula Aid

Education in Ohio is funded through a combination of local effort and state aid which is distributed through the Ohio School Foundation Program. Below is a simplified formula used to calculate required local funding, known as the charge-off:

$$\text{Recognized Value} * 23 \text{ Mills} = \text{Local Charge off}$$

The state share of base level funding, formula aid is the difference between the total base level of funding and the local charge-off. As shown in Table One, qualified compensated value (the charge-off addback) for qualifying incentive districts and other specified tax exemptions is added to recognized value. The charge-off addback leads to a reduction in the state share of base level funding. The calculation for qualified compensated value for TIF incentive districts, enterprise zones, or other qualifying exemptions is as follows:

$$\text{Value Based Compensation} + \text{Other Compensation Value} - \text{Excepted Compensation} = \text{Qualified Compensated Value}$$

Table One

Simplified Example of a School Formula Program with Qualified Exempt Value

	School District
(a) Basic Per Pupil Formula Amount	\$5,403
(b) Number of Students	1,000
(c) Total Base Level Funding (a*b)	\$5,403,000
(d) Recognized Property Value	\$50,000,000
(e) Qualified Compensated Value	\$25,000,000
(f) Local Charge-Off ((taxable property value + qualified compensated value) * 23 mills)	\$1,725,000
(g) State Share of Base Level Funding (Formula Aid) (c-f)	\$3,678,000

Guarantee Districts

Many Ohio school districts are guarantee districts and do not receive the formula aid as calculated in Table One. Guarantee districts receive transitional aid if their total SF-3 aid (including gap aid) for a given year is less than in the previous year. Through transitional aid, guarantee districts receive the same amount of state funding as in the previous year regardless of changes in the local charge-off due to compensation agreements.

Examples

The following examples illustrate the impact of TIF incentive district compensation payments on both formula and guarantee districts. Example one demonstrates the impact of a PILOT on a typical formula district. Example two is a formula district where the PILOT payment was structured to make-up the difference between increased state aid and decreased tax revenue. Example three is a guarantee district. Note that while these examples are shown for TIF incentive district payments, they would work in exactly the same fashion for compensation payments under other qualifying tax exemption programs, such as enterprise zone exemptions or community reinvestment area (CRA) exemptions. Please refer to the appropriate worksheet in Appendix B to calculate the estimated impact of incentive district compensation or other qualifying tax exemption compensation on your district.

Example 1 – Estimating the Impact of a Compensation Agreement on Formula District State Education Aid		
A.	TIF exempted true market value	\$142,857,143
B.	TIF exempted assessed value = 35% * A	\$50,000,000
C.	School district Class II operating millage rate (assume exempted property is Class II)	30
D.	Foregone school district property taxes = -B * C * 0.001	(\$1,500,000)
E.	Charge-off millage	23
F.	Additional state aid paid to school district if no additions to charge-off value (if district not on guarantee) = B * E * 0.001	\$1,150,000
G.	PILOTs and other compensation paid to school district	\$1,000,000
H.	Net school district impact of TIF exemption if no additions to charge-off value = D + F + G	\$650,000
I.	Portion of school district foregone property taxes replaced by PILOTs (and other compensation) plus additional state aid if no addition to charge-off value = (-D + H) / -D	143.30%
Computation of additions to charge-off value		
J.	Ratio of PILOT (and other compensation) to total tax loss = G / D	0.67
K.	Compensated portion of exempted value = J * B	\$33,333,333
L.	Charge-off millage	23
M.	Addition to charge-off value (charge-off addback) = K	\$33,333,333
N.	Impact of charge-off addback on school district aid (assuming that the district is not a guarantee district) = -M * L * 0.001	(\$766,667)
O.	Net additional state aid to school district due to TIF exemption, after charge-off addback = F + N	\$383,333
P.	Net revenue to school district = O + G	\$1,383,333
Q.	Portion of school district foregone property taxes replaced by PILOTs (or other compensation) plus additional state aid = P / -D	92.20%

Municipality A created a TIF incentive district encompassing class II property with a true market value \$142,857,143; the exempted assessed value of the property is \$50 million. School District A is a formula district with thirty mills of operating millage, resulting in \$1.5 million in foregone property taxes due to the TIF incentive district. Twenty-three mills of the district's 30 mills is charge-off millage. In exchange for a 100 percent property tax exemption, property owners in the TIF incentive district provide the school district with a one million dollar PILOT.

Additional formula aid paid to the school district under prior law, is the product of the exempted value and 23 mills, \$1.15 million. School District A would realize a \$650,000 revenue increase, the difference between foregone revenue and the sum of the PILOT and increased formula aid. The recent TIF reform will prevent such outcomes, where school districts approve TIF agreements and actually experience increases in total state and local

revenue, because PILOTs (or other compensation) plus increased formula aid more than offset lost tax revenue.

Under current law, the PILOT is converted to value and added to taxable value. The PILOT compensates the school district for 67 percent of the total tax loss, (obtained by dividing the PILOT by foregone school district property taxes). Of the exempted value, \$33.3 million is the compensated portion (67% of the exempted TIF value). The compensated portion of the exempt value is added to District A's taxable value in charge-off calculations.

The charge-off addback results in a formula aid reduction of \$766,667, the product of charge-off millage and \$33.3 million (the qualified compensated value). Net additional formula aid calculated with the charge-off addback is \$383,333. Net additional revenue to the school district is \$1.38 million, the sum of increased formula aid and the PILOT payment. In the example of School District A, 92.2 percent of foregone property tax revenue is replaced by the PILOT and increased formula aid.

The implications of the charge-off addback are different for districts at the 20-mill floor. In districts with only 20 charge-off mills, formula aid and compensation payments will equal 100 percent of foregone tax revenue. Less than 100 percent of foregone revenue will be provided should the district levy over 23 mills.

Example 2- Estimating the Impact of a “Make-Up the Difference” Payment on Formula District State Education Aid		
A.	TIF exempted true market value	\$142,857,143
B.	TIF exempted assessed value = 35% * A	\$50,000,000
C.	School district Class II operating millage rate (assume exempted property is Class II)	30
D.	Foregone school district property taxes = -B * C * 0.001	(\$1,500,000)
E.	Charge-off millage	23
F.	Additional state aid paid to school district if no additions to charge-off value (assuming that the district is not a guarantee district) = B * E * 0.001	\$1,150,000
G.	PILOTs or other compensation paid to school district = D - F	\$350,000
H.	Net school district impact of TIF exemption if no additions to charge-off value = D + F + G	\$0
I.	Portion of school district foregone property taxes replaced by PILOTs (or other compensation) plus additional state aid if no addition to charge-off value = (-D + H) / -D	100.00%
Computation of additions to charge-off value		
J.	Ratio of compensation to total tax loss = G / D	0.23
K.	Compensated portion of exempted value = J * B	\$11,666,667
L.	Charge-off millage	23
M.	Addition to charge-off value (charge-off addback) = K	\$11,666,667
N.	Impact of charge-off addback on school district aid (assuming that the district is not a guarantee district) = -M * L * 0.001	(\$268,333)
O.	Net additional state aid to school district due to TIF exemption, after charge-off addback = F + N	\$881,667
P.	Net revenue to school district = O + G	\$1,231,667
Q.	Portion of school district foregone property taxes replaced by PILOTs (or other compensation) plus additional formula aid = P / -D	82.10%

In the past, TIF incentive district compensation could make up the difference between foregone tax revenue and additional formula aid due to decreased taxable values. In example two, the PILOT is equal to the foregone tax revenue on millage above the 23 mill charge-off. Under prior law, if District A foregoes \$1.5 million in tax revenue the district would receive an increase in formula aid equal to the product of exempt property value (\$50,000,000) and the 23 mill charge-off, \$1.15 million. The net impact of a TIF incentive district on School District A would be the difference between foregone tax revenue and increased formula aid, or \$350,000. Under prior law, the property owner could thus hold the school district harmless with a compensation payment of \$350,000.

Current law requires compensated value (the charge-off addback) be included in formula aid calculations. The ratio of compensation to total tax loss is 23 percent. The charge-off addback is therefore 23 percent of the \$50 million exempt value, or \$11.7 million.

The impact of the charge-off addback is a \$268,333 reduction in formula aid, the product of the charge-off millage and the \$11.7 million addback. The charge-off addback reduces additional formula aid to \$881,667. Overall, only a portion of foregone revenue above 23 mills can be recovered. The school district receives \$1.23 million, 82 percent of foregone revenue, through the additional formula aid and the PILOT payment.

Example 3 - Estimating the Impact of a Compensation Agreement on Guarantee District State Education Aid		
A.	Exempted TIF true market value	14,285,714
B.	Exempted assessed value = 35% * A	5,000,000
C.	School district Class II operating millage rate (assume exempted property is Class II)	30
D.	Foregone school district property taxes = -B * C * 0.001	(150,000)
E.	PILOTS (and other compensation) paid to school district	100,000
F.	Net school district impact of TIF exemption if no addition to charge-off value = D + E	(50,000)
Computation of compensated exempt value		
G.	Ratio of compensation to total tax loss = -E / D	0.67
H.	Compensated portion of exempted value (Charge-off addback) = G * B	3,333,333
I.	Portion of school district foregone property taxes replaced by PILOTS (and other compensation) = (-D+F) / -D	67%

Transitional Aid Calculations

J.	Prior Year Total State Foundation Aid	\$10,448,519	
	Current Year Transitional Aid Calculations:	Pre-HB 66, No Charge-off Addback	Under Current Law with Charge-off Addback
K.	Total base level of funding (SF-3 Line 5A)	7,564,200	7,564,200
L.	Taxable Property Value	154,500,000	154,500,000
M.	Charge-off addback = H	Not Applicable	3,333,333
N.	Charge-off Millage	23	23
O.	Local Charge-off = (L + M) * N * 0.001	3,553,500	3,630,167
P.	Charge-off supplement = K - O	4,010,700	3,934,033
Q.	Total state basic aid (SF-3 Line 13)	5,962,708.26	5,962,708.26
R.	Reappraisal guarantee (SF-3 Line 18)	67,000.00	67,000.00
S.	Foundation Aid = P + Q + R	10,040,408	9,659,875
T.	Transitional Aid = J - S	408,110	788,644
U.	Total State Foundation Aid = T + S	10,448,519	10,448,519

Example Three is simplified example of the charge-off addback impact on a guarantee district. Guarantee districts receive an amount equal to or greater than the previous year's total state foundation aid (including gap aid) through state transition aid. School District B is a guarantee district with \$50 million in exempted value due to an incentive district TIF and 30 mills of operating millage. As with Example One, District B receives a one million dollar PILOT payment and no tax revenue from the incentive district. It is assumed that the TIF exemption does not take District B off the guarantee. The compensated portion, the charge-off addback, of exempted TIF value is \$33.3 million (67% of exempted TIF value).

Because District B is a guarantee district, there is no change in total state foundation aid due to the charge-off addback. The district's charge-off supplement (gap aid) and therefore foundation aid will decrease due to the charge-off addback. Transitional aid is

then provided to make up the difference between the prior year's total state foundation aid and the current year's foundation aid. Assuming the district remains on the guarantee, TIF incentive district impact is equal to the one million dollar PILOT.

Conclusion

This paper provides a general explanation of the impact of recent reforms to TIF incentive districts and certain other economic development tax exemptions, along with some hypothetical examples of how the charge-off addback will work. The descriptions of the new charge-off additions and their impact on state aid are intended to assist school district treasurers when reporting to the Ohio Department of Development. It is expected that reporting compensation to the Department of Development will become easier for school district treasurers after the initial identification of compensation agreements related to the specified property tax exemption programs. The examples provided aim to clearly illustrate the impact of compensation agreements on state formula aid in differing circumstances.

Please contact Meghan Sullivan at meghan_sullivan@tax.state.oh.us with any questions regarding this document.

Appendix A

School district compensation value attributable to an incentive district exemption is not included in the charge-off addback if the incentive district meets one of the following criteria:

- a. The incentive district was created by legislation adopted prior to January 1, 2006 and the granting authority entered into a contract or agreement to develop a project before January 1, 2006. It is anticipated that this exception will include the majority of incentive districts.
- b. The incentive district was created by a municipality using the procedures in RC 5709.40(D) (1). This is a “non-school” TIF in which the ordinance declaring improvements to be for a public purpose, or creating an incentive district, requires full school district compensation be provided and the authorizing municipality does not need to notify the school district. This option is most commonly used in central Ohio.
- c. The incentive district was created by legislation adopted prior to January 1, 2006 and service payments have been pledged to finance mixed-use riverfront development in a county with population exceeding 600,000 according to the most recent decennial census. Applies only to Cuyahoga, Franklin, or Hamilton counties according to the 2000 Census.
- d. The incentive district was created by legislation adopted prior to January 1, 2006 and service payments have been pledged to finance a transportation capacity project approved by TRAC under RC Chapter 5512.
- e. Prior to January 1, 2006 service payments were pledged toward the required local share match necessary to receive federal funding for designated transportation improvements.
- f. The ‘economic benefit’ exclusion applies if filed for prior to January 1, 2006. The only qualifying TIFs under this provision were nine incentive districts created by the City of Cincinnati in December 2005.
- g. The ‘financial impairment exclusion’ applies to qualified districts filing before April 1, 2006. Only Liberty Township in Butler County applied under this provision, for seven incentive districts.

*** Please note that incentive districts meeting the above criteria are to be reported by school district treasurers to the Department of Development. Such districts will be identified by county auditors on the DTE-15 and will not be included when calculating compensated exempt value.**

Appendix B

Estimating the Impact of a Compensation Agreement on State Education Aid for a Formula District

A.	Exempted TIF true market value	
B.	Exempted assessed value = 35% * A	
C.	School district Class II operating millage rate (assume exempted property is Class II)	
D.	Foregone school district property taxes = $-B * C * 0.001$	
E.	Charge-off millage	
F.	Additional state aid paid to school district if no additions to charge-off value (if district not on guarantee) = $B * E * 0.001$	
G.	PILOTS (and other compensation) paid to school district	
H.	Net school district impact of TIF exemption if no additions to charge-off value = $D + F + G$	
I.	Portion of school district foregone property taxes replaced by PILOTS (or other compensation) plus additional state aid if no addition to charge-off value = $(-D + H) / -D$	
Computation of additions to charge-off value		
J.	Ratio of PILOT and other compensation to total tax loss = G / D	
K.	Compensated portion of exempted value = $J * B$	
L.	Charge-off millage	
M.	Addition to charge-off value (charge-off addback) = K	
N.	Impact of charge-off addback on school district aid (assuming that the district is not a guarantee district) = $-M * L * 0.001$	
O.	Net additional state aid to school district due to TIF exemption after charge-off addback = $F + N$	
P.	Net revenue to school district = $O + G$	
Q.	Portion of school district foregone property taxes replaced by PILOTS (and other compensation) plus additional state aid = $P / -D$	

Appendix C.

Estimating the Impact of a Compensation Agreement on State Education Aid for a Guarantee District		
A.	Exempted TIF true market value	
B.	Exempted assessed value = 35% * A	
C.	School district Class II operating millage rate (assume exempted property is Class II)	
D.	Foregone school district property taxes = -B * C * 0.001	
E.	PILOTS (and other compensation) paid to school district	
F.	Net school district impact of TIF exemption if no additions to charge-off value = D + E	
Computation of compensated exempt value		
G.	Ratio of compensation to total tax loss = -E / D	
H.	Compensated portion of exempted value (Charge-off addback) = G * B	
I.	Portion of school district foregone property taxes replaced by PILOTS (and other compensation) = (-D + F) / -D	
Transitional Aid Calculations		
J.	Prior Year Total State Foundation Aid	
Current Year Transitional Aid Calculations:		
K.	Total base level of funding (SF-3 Line 5A)	
L.	Taxable Property Value	
M.	Charge-off addback = H	
N.	Charge-off Millage	
O.	Local Charge-off = (L + M) * N * 0.001	
P.	Charge-off supplement = K - O	
Q.	Total state basic aid (SF-3 Line 13)	
R.	Reappraisal guarantee (SF-3 Line 18)	
S.	Foundation Aid = P + Q + R	
T.	Transitional Aid = J - S	
U.	Total State Foundation Aid = T + S	