Fisher College of Business | The Ohio State University

Transforming Ohio's Professional Service Atmosphere in Rural Communities Through Abatement

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INTENT

This research is designed to showcase the need for professional services in rural areas of Ohio as well as provide a solution to satisfy these needs by establishing a business incubator program within those areas.

INTRODUCTION

There are townships throughout the State of Ohio that are underserved by key professional services. From lawyers to physicians, citizens in these rural communities are unable to satisfy their needs within the immediate area. This reality typically stems from the inability of small municipalities to recruit talented young professionals to establish their practices within a rural village or township.

Milan Township, a government entity with a population of 3,606 (1,004 within the incorporated village) (1) is one such community. However, they are taking an active role in correcting this trend. The Milan Township Board of Trustees are currently repurposing a previously vacant government office space to become a one tenant business incubator. This program hopes to foster an entrepreneurial spirit in the community while also assisting the Village's area of commerce in achieving full capacity. The current structure of the program is for potential tenants to participate in a two-part application process which includes a building utilization plan. Selection will be made by an advisory board consisting of various local government representatives and community professionals. Factors such as the viability of the business plan, targeted community needs, and potential for long-term success will assist the board in choosing the future tenant. Tenants will be enrolled in this incubator program for a three-year period. The scaling of abatement provided to the tenant hopes to alleviate much of the financial burden present during establishment and is as follows:

Significantly reduced Rent:

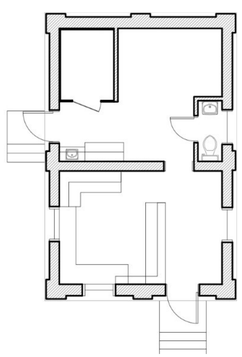
- Year 1: Tenants will pay $0 per month (similar space costs $750/month).
- Year 2: Rent cost will transition to $250 per month.
- Year 3: Rent cost will become $500 per month.

Significantly reduced cost of Electric, Water, and Sewer Utilities:

- Year 1: A $1000 utility credit is provided to the tenant.
- Year 2: A $500 utility credit is provided to the tenant.
- Year 3: Full cost of utilities will be paid by the tenant.

The historic police station, built in 1886, has an estimated renovation cost of $45,000 (1). The Dorn Community Foundation has provided $10,000 towards the renovation, following their belief that the project is a worthwhile community venture. Milan Township Trustee Gerald Nickoli also views the project's scope as being bigger than just one community: "We believe many townships across Ohio can implement a similar program to support and encourage new businesses while filling vacant spaces within their own communities" (2).

Figure 2: Pre-existing conditions of Milan Police Station



METHODS

County Profile Analysis

To gain a sense of Ohio's macro-economic developments, data was gathered from county profile reports provided by the Ohio Developmental Services Agency (3). Key variables included the county's estimated population, percentage of land developed, as well as the number of financial, professional, and business services.

Township Official Opinion Data

Narrowing focus to a more micro-economic viewpoint of the state's professional service needs, a survey was sent out to members of the Ohio Township Association (4). Appetite for an economic development effort similar to the one implemented in Milan was gauged through questions regarding professional service needs in the official's community. Further questions about the entities general fund balance were used to test the entity's ability to support a program of this kind.

Discounted Cash Flow Analysis

A discounted cash flow model was created using the atmosphere present in the village of Milan. Example data was obtained from a professional service that operates out of the village (5). The village's income tax rate was used to determine the tax-basis benefit of the program. The discount rate used was the percent return earned in 2019 by Star Ohio, the typical investment vehicle of government entities. Figure one below outlines the assumptions made in the model.

Figure 1: Discounted Cash Flow Model

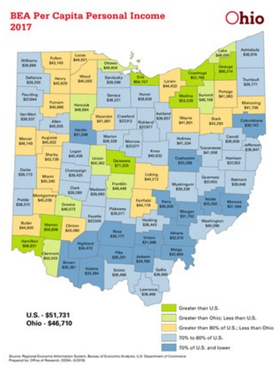
Village Income Tax	1%
Example Net Income	109466.43
2019 Star Ohio Return	2.36%

Years	1	2	3	4	5	6	7	8	9	Years 10 - 30
Net Income*	60,206.54	65,679.86	71,153.18	76,626.50	82,099.82	87,573.14	93,046.47	98,519.79	103,993.11	109,466.43
Village Tax Revenue	602.07	656.80	711.53	766.27	821.00	875.73	930.46	985.20	1,039.93	1,094.66
Abatement	(7,000.00)	-	7,000.00							

Implementation

Initial presentation of concept to the Milan Township Trustees occurred on May 2nd, 2018 (6). After receiving approval to continue program development, work was conducted with the Township Trustees to outline the program's mission as well as the structure, application process, and various other aspects. The pre-existing conditions of the building were drawn and the most efficient layout was deliberated. Figure two shows the buildings original layout with the leftward section being the village's administrative office and the rightward section being the police chief's office. Being from 1886, the police chief's office even contains the original barred jail cell.

Figure 3: Comparison of Per Capita



RESULTS

Analysis

The macro-economic analysis of Ohio depicted a stable economy that has pockets of reduction. Since 2012, 12.5% of counties in Ohio have seen either no growth or a reduction in the number of financial, professional, and business services offered. 25% of counties in Ohio have seen null or negative growth in only the number of financial services offered. 17% experienced the same reduction in only the number of professional and business services offered. Beyond the development, or lack there of, that counties have seen in regards to financial, professional, and business service establishment, 37 of the 88 counties have been deemed as distressed by the Ohio Development Services Agency (7). This term is associated with low per capita income paired with high unemployment (8). Figure three depicts the county by county per capita income in comparison to nationwide values.

Township Opinion Data

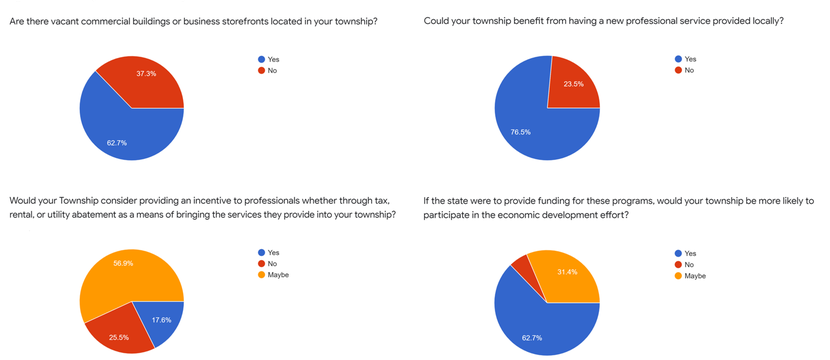
The survey yielded responses from 51 township officials. This population represented 43 townships spread across 28 counties. As a gauge for appetite, 76.5% of township officials believed that their township could benefit from a new professional service. 72.5% of respondents reported a specific professional service need in their township. Legal (49%), Tax (41.2%), Financial (39.2%), Architectural (39.2%), and Health (52.9%) services were in the highest demand. The first question in Figure four outlines the availability of retail space for a program of this type to take place. Roughly 3/5 of township's had such availability. The lower set of questions in figure four outlines the paradigm shift in support for the program if it were to be funded by the state.

Cash Flow Analysis

Outcomes	Year	NPV
Transitions out of Village	0	1,567.00
Failed Business	2	2,996.00
Success	10	7,074.00
Cornerstone Business	30	20,217.00

To represent the reality that businesses fail, various outcomes were given in this net present value calculation ranging from failing upon completion to a 30 year business. In all possible outcomes, the NPV is positive. A factor not considered but present in Milan Township's project is the renovation costs for a building. Those costs can be reduced via grants or private donations. The impact on tax basis is to show a base benefit of the project. An impact that cannot be quantified is the ripple affect a rooted small town business can have on a community. Our example professional service company reported $171,500 in expenses. Whether it is paying the salary of an associate, eating lunch at the local diner, or sponsoring a little league team, a firm's contributions to the community is more profound than the present value of tax revenue.

Figure 4: Township Official Summary



CONCLUSIONS

It can be seen that the incubator program has promise to spur economic development and foster an entrepreneurial spirit in small-towns across the State of Ohio. The appetite for, at the very least, more information is present from the Ohio Township Association and its members. The physical implementation of the program in Milan will serve as an both an example of its structure and a showcase for what one can accomplish. As seen in the tax revenue NPV calculation, a venture of this type would also serve as an effective use of taxpayer dollars. This benefit is only surface level as the purpose behind economic development is not for an increased tax base but to strengthen the local economy. As data behind the first tenant in Milan is collected, further analysis can be conducted regarding community impact.

Future Work

Renovations are underway on the physical site in Milan. The pre-existing conditions of the police station have been removed, leaving the building's shell. Contracted renovations will begin after a decision is returned regarding a grant request for $7,500. Awareness of the incubator program will continue to grow through conversations with state legislatures and township officials. Current work is being done with Senator Theresa Gavarone to outline the process of creating a statewide grant for a venture of this type.

ACKNOWLEDGEMENTS

I would like to thank the Milan Township Trustees for believing in the vision I had for the former police station and everything they have done to help it become a reality. My appreciation also goes out to the Milan Village Council for providing utility abatement as well as the Erie County Economic Development Corporation for their guidance on entrepreneur development. Further gratitude is extended to State Representatives D.J. Swearingen and Craig Riedel as well as State Senator Theresa Gavarone for their constructive feedback regarding the project.

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