Fiscal Note & Local Impact Statement

124 th General Assembly of Ohio

Ohio Legislative Service Commission
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BILL: **Am. Sub. H.B. 6** DATE: **November 6, 2001**

STATUS: **As Passed by the House** SPONSOR: **Rep. Hollister**

LOCAL IMPACT STATEMENT REQUIRED: **Yes**

CONTENTS: **Establishes the Capital Access Loan Program, creates corporate franchise and personal income tax credits for brownfield remediation and job retention, exempts new companies from the net worth calculation of the corporate franchise tax, establishes the Rural Development Initiative Fund, extends the Rural Industrial Park Loan Program, permits political subdivisions to employ tax increment financing (TIFs) throughout a designated incentive district, revises TANF funds for Appalachia, and permits counties and subdivisions to enter into agreements crediting revenue due to the subdivision against amounts owed to the county.**

State Fiscal Highlights

STATE FUND	FY 2002	FY 2003	FUTURE YEARS
General Revenue Fund			
Revenues	- 0-	$19.8 to $24.2 million loss	$22.0 to $24.2 million loss
Expenditures	Potential Increase or Decrease	Potential Increase or Decrease	Potential Increase or Decrease
Facilities Establishment Fund			
Revenues	- 0 -	- 0 -	- 0 -
Expenditures	Increase up to $8.0 million	Increase up to $8.0 million	Increase up to $8.0 million
Rural Development Initiative Fund (Fund 5S8)			
Revenues	- 0 -	- 0 -	- 0 -
Expenditures	Increase up to $5.0 million	Increase up to $5.0 million	Increase up to $5.0 million
Capital Access Loan Program Fund (Fund 5S9)			
Revenues	- 0 -	- 0 -	- 0 -
Expenditures	Increase between $0.3 and $2.6 million, but up to $3 million	Increase between $0.4 and $2.6 million, but up to $3 million	Increase between $0.4 and $2.6 million, but up to $3 million

Note: The state fiscal year is July 1 through June 30. For example, FY 2002 is July 1, 2001 – June 30, 2002.

- Moneys in the Capital Access Loan Program Fund and the Rural Development Initiative Fund originate in the Facilities Establishment Fund.
- Interest earned on the CAP program reserve account may be used as revenue to pay for operating costs. Interest earned on the program account will be returned to the Capital Access Loan Program Fund for additional loans.
- Appropriation authority of $3 million has been given to the Capital Access Loan Program (Fund 5S9) for funds transferred from the Facilities Establishment Fund.
- The Rural Development Initiative provides grants to eligible applicants in Appalachian counties and in rural counties designated as distressed who receive funds under the Rural Industrial Park Loan Program.
- The bill proposes to enable counties, townships, and municipal corporations to establish a new form of TIF (Tax Increment Financing), known as an "incentive district." This type of TIF allows local governments more flexibility in the kinds of public improvements TIFs can finance. LSC believes this flexibility will be attractive to local governments and the number of TIFs granted will increase.
- The State General Revenue Fund, which finances the 10% rollback on real property taxes and the Foundation Aid for Ohio schools, is affected by TIFs. A TIF reduces the amount of property taxes due, thus reducing the amount of the rollback provided by the state. On the other hand, it may increase the Foundation Aid payments made to school districts.
- The brownfield tax credit, the job retention tax credit and the net worth tax exemption for companies will decrease franchise tax and personal income tax revenues. The General Revenue Fund receives 95.2 percent of the franchise tax and 89.5 percent of the personal income tax.

- No additional appropriation authority, above the $15 million appropriated in Am. Sub. H.B. 94 is given to the Appalachian Technology Workforce Development program within the Department of Job and Family Services.

Local Fiscal Highlights

LOCAL GOVERNMENT	FY 2002	FY 2003	FUTURE YEARS
Counties and Other Local Governments			
Revenues	Potential increase of $500,000 to eligible Appalachian counties	Potential increase of $500,000 to eligible Appalachian counties; Voluntary give up potential revenue gain in lieu of service payments	Potential increase of $500,000 to eligible Appalachian counties; Potential Loss of $850,000 or more beginning in FY 2004
Expenditures	- 0 -	- 0 -	- 0 -
School Districts			
Revenues	- 0 -	Possible gain or loss	Possible gain or loss
Expenditures	- 0 -	- 0 -	- 0 -

Note: For most local governments, the fiscal year is the calendar year. The school district fiscal year is July 1 through June 30.

- The Capital Access Loan Program and the Rural Development Initiative Fund have no direct fiscal effect on political subdivisions.

- The bill proposes to enable counties, townships, and municipal corporations to establish a new form of Tax Increment Financing (TIF), known as an "incentive district." A TIF essentially earmarks tax revenue for specific public improvements. This type of TIF allows local governments more flexibility in the kinds of public improvements TIFs can finance. Under certain circumstances it also allows housing renovations to benefit from TIFs. LSC believes this flexibility will be attractive to local governments and the number of TIFs granted will increase.

- Individual school districts could gain or lose revenue as a result of a TIF. In general, school districts will lose a percentage of tax revenue they would have gained from the increase in valuation due to improvements made to the property. However, school districts will continue to receive taxes from the existing property valuation, plus tax revenue from the percentage of non-exempt improvements made to the parcel. (In some cases, agreements are made in which school districts receive payments from the property owners in lieu of the taxes.)

- As a result of a lower total taxable property valuation, a TIF may increase the Foundation Aid payments made to a school district from the State.

- Schools districts that are below the guarantee will receive more in basic aid due to a TIF if the improvements would have occurred without the TIF.

- The brownfield tax credit, the job retention tax credit and the net worth tax exemption for companies will decrease franchise tax and personal income tax revenues to local governments when the freeze in distributions to local government funds is no longer in effect (in FY 2004 and thereafter). The Local Government Fund (LGF) receives 4.2 percent of the state franchise tax and the personal income tax; the Local Government Revenue Assistance Fund (LGRAF) 0.6 per cent of the state franchise tax and the personal income tax; and the Library and Local Government Revenue Assistance Fund receives 5.7 percent of the personal income tax.

- The bill proposes to permit counties to enter into agreements with political subdivisions that authorize the county to receive payments of certain revenue in the county treasury that are due to the political subdivision as a credit against amounts otherwise owed to the county. This provision is permissive, and would have no net fiscal effect –only timing effects.

- The bill includes a provision that makes each of the twenty-nine Appalachian counties eligible to apply for initial grant or grants not to exceed a cumulative amount of $500,000 per county. Grants are awarded upon approval of each county's submitted plan for the intended use of the funds.

Detailed Fiscal Analysis

Rural Development Initiative

The Rural Development Initiative Fund (Fund 5S8) belongs to the Facilities Establishment Group Fund. The program will make grants to eligible applicants in Appalachian counties and in rural counties designated as distressed. Preference will be given to applicants in Appalachian counties designated as distressed by the Appalachian Regional Commission. The sunset date of the fund is June 30, 2007. Grants are only given to applicants who also qualify and receive funding under the Rural Industrial Park Loan Program within Development. Release of these funds is subject to Controlling Board approval.

In the bill, the Rural Development Initiative Fund receives appropriations of $5 million in each fiscal year for the purposes of the program. The funds are transferred by the Office of Budget and Management (OBM) upon the request of the Director of Development on an as needed basis. This ensures that maximum interest earnings are retained within the Facilities Establishment Fund (Fund 037). The administrative costs of implementing the program are not available from Development at this time.

Capital Access Loan Program

Administrative Costs

The Department of Development estimates that .33 FTE (full-time equivalent position) will be needed to administer the Capital Access Loan Program during FY 2002 and 1.5 FTEs will be needed during FY 2003. The salary costs associated with .3 FTEs is $18,000 and for 1.5 FTEs is $80,000. Fringe benefits of 30% result in additional costs of $5,400 and $24,000, respectively. Therefore, personnel costs will total $23,400 for FY 2002 and $104,000 for FY 2003.

Additional expenses incurred are $4,500 for travel and $10,000 for printing. Summing these amounts, the total cost of administering this program within the department is $37,900 for FY 2002 and $118,500 for FY 2003. It is important to note that the administrative cost to the Facilities Establishment Fund could be lower, given that a provision of the legislation allows the Director of Development to use any interest earned on the program reserve account to cover administrative costs incurred by the department. This release of money from the program reserve account, held at the local financial institution, can occur up to twice a year.

Operating Costs

According to a 1999 Survey by the US Department of Treasury,[1] the average size of a loan granted under capital access loan programs across the nation is $59,151. California leads the states by granting loans averaging $150,526, and Vermont grants the lowest loans averaging $18,223. In 1998, 3,663 new capital access loans were granted across the United States, with 19 states and 2 municipalities participating in this type of program. Based on the number of states and municipalities participating, an average of 167 capital access loans were granted during 1998. This number serves as the basis for calculations in this fiscal analysis.

The legislation requires the Department of Development to disburse 10% of the principal amount of each capital access loan for deposit in the

program reserve account. Based on the average number of participating states, the highest cost to the department, based on the upper bound average cumulative loan amount (of California), is $2,513,784. The lower bound is $304,324.

Total Costs

The total cost for the operation of the Capital Access Loan Program, including both administration ($118,500) and operating costs ($304,324 – 2,513,784), ranges from $422,824 to $2,632,284. The actual cost for this program would depend on the number and size of loans granted.

Fund Appropriations

Funds for this program are drawn from the Facilities Establishment Fund. The Facilities Establishment Fund consists of proceeds from the issuance of obligations as specified under section 166.08 of the Revised Code; moneys received by the state from sources specified in section 166.09 of the Revised Code; service charges imposed under sections 166.06 and 166.07 of the Revised Code; any grants, gifts, or contributions of moneys received by the Director of Development to be used for loans made under section 166.07 of the Revised Code or for the payment of the allowable costs of project facilities; and all other moneys appropriated or transferred to the fund. The total amount of money deposited into the Capital Access Loan Program Fund from the Facilities Establishment Fund cannot exceed $3 million during any fiscal year. The program is due to sunset on June 30, 2007.

It is noteworthy to mention that no additional funds will be provided to the Facilities Establishment Fund (Fund 037) for this program, however the Capital Access Loan Program (Fund 5S9) received appropriation authority of $3 million in each fiscal year. Funds will be transferred on an as needed basis upon the request of the Director of Development subject to Controlling Board approval. This could reduce funds available for other expenditures from the Facilities Establishment Fund.

Background Information

Capital Access Programs exist in 19 states and 2 municipalities, including New York City and Akron, Ohio. Total lending since 1986 exceeds $1.2 billion, with the cumulative average loan size is $59,151, according to the 1999 US Treasury Report, "Capital Access Programs: A Summary of Nationwide Performance." Nationally, cumulative CAP loan losses total $37.7 million, or 3.1% of all loan volume; net of these losses, remaining CAP loan loss reserves amount to 51.9 million, equal to 4.3% of cumulative volume.

- CAP loan programs have been structured to reach groups of borrowers not as well served by other programs;
- CAPs reach minority-owned businesses and low- and moderate-income communities;
- CAP lending retains and creates a significant number of jobs; while these numbers are generally self-reported by the state and not independently reviewed, numbers suggest that 84,248 jobs have been created or retained as a result of CAPs; and
- CAPs reach types of businesses, such as building contractors and wholesale trade companies, that are not typically reached by other small business lending programs.

CAPs allow a bank to pool its risk, which further enables it to make loans to small business owners that would otherwise be too risky on an individual basis. According to the US Treasury report, "Capital Access Programs: A Summary of Nationwide Performance," CAPs do not appear to crowd out loans otherwise made by the private sector because in choosing a CAP loan, borrowers signal their inability to secure a comparable loan elsewhere in the market; they make capital available to excluded entrepreneurs. Another feature of the program is its incorporation of decision-making directly by the parties involved. Furthermore, when the state matches a borrower's and a bank's contribution, as in Ohio's case of 10%, its contribution is backing the bank to make a loan that is 10 times larger than the state's investment (10% premium x 10 = 100% loan amount).

Appalachian Technology and Workforce Development

Am. Sub. H.B. 94 of the 124th General Assembly appropriated up to $15 million of appropriation item 600-689, TANF Block Grant, to be given to the county departments of Job and Family Services in the twenty-nine Appalachian counties upon passage of H.B. 6. The funds were to be used for workforce development and supportive services, economic development, technology expansion, technical assistance and training, youth job training, organizational development for workforce development partners, improvement of existing technology centers, job creation and retention, the purchase of technology, technology upgrades and technology infrastructure upgrades.

This bill amends the current budget bill and makes each of the Appalachian counties eligible to apply for initial grant or grants, the cumulative amount which cannot exceed $500,000 per county. Additionally, funds can be used for micro-enterprise development and other entrepreneurship activities; the funds will no longer be used for economic development, organizational development for workforce development partners, or technology infrastructure upgrades. The funds may also be used to leverage other state and local funds for eligible activities. Each county must now establish a committee to submit a plan for the intended use of these funds. Only the Governor's Office of Appalachia will now develop guidelines for submission and approval of plans, review the plan, and submit each approved plan to the Department of Job and Family Services. These moneys are not intended to fund services beyond September 30, 2003.

Evaluation of Development's Programs

No later than January 30, 2007, the Director of Development is required to prepare and deliver a report on the Development's programs, including the Brownfield Tax Credit, the Job Retention Tax Credit, Tax Increment Financing, Net worth tax exemption, the Rural Development

Initiative Fund, the Appalachian Technology and Workforce Development Program, and the Capital Access Loan Program. The evaluation will cover the time period from the inception of the programs through December 31, 2006 and will include a cumulative summary of data from annual reports of each of the aforementioned programs that analyzes the effectiveness of the programs. The Director must also provide recommendations on any necessary modification, continuations, or cancellations of programs. The administrative costs associated with the report are not available from Development at this time.

Tax Increment Financing

Tax increment financing (TIF) is an economic development financing technique under Ohio law that enables local governments to apply the increased tax revenue resulting from improvements or new development on an existing property toward payment for public improvements relating to that property. Simply put, it captures the projected property tax revenue stream and invests those moneys into improvements related to the project. Normally about 70% of those property tax payments would have been to the school district.

To create a TIF, the governmental authority (1) designates a parcel as exempt from taxation on the increased valuation due to improvements for a specified period of time, not to exceed 30 years, (2) generally requires the owner of the parcel to make service payments in the amount (or a percentage of the amount) of the exempted taxes, and (3) applies those service payments toward financing public improvements that benefit the parcel. A TIF allows local governmental officials to retain control over the revitalization program of a redevelopment area. Typical projects include, but are not limited to, water lines, sanitary sewers, public roads and highways, environmental remediation, and acquisition, demolition and site improvement costs[2]. At the end of the financing period, the owner of the land will begin to pay property taxes on the total valuation (post improvements).

Unless the board of education of the school district in which the land is located otherwise approves, the TIF exemption is limited to 75% of the taxes that would otherwise be owed for a period of ten years. TIFs do not impose any new taxes nor do they impose special assessments on the project area. School districts continue to receive the same amount of property tax revenues that they would if improvements were not being made to a parcel of land, plus the revenue generated from the non-exempt portion of the new development. In most cases school districts do not receive the revenue that would be owed to them for the portion of the exempt property[3]. For example, if a TIF was created for a new development which exempted 75% of the increased valuation due to the improvements, the school district and the other local government would receive the taxes that were due on the existing property before the development plus 25% of the taxes that would be charged due on the improvements on the parcel.

The impact of a TIF on the GRF depends largely on whether or not the improvements would have been made or mostly made without a TIF. If the improvements would have been made without a TIF, the TIF reduces the total taxable value of property in a school district by exempting a portion of the improvements, this in turn, would increase the state expenditures in state basic aid to education. Further, there would be a decrease in the 10% property tax rollback program, as exempted properties do not claim this exemption. However, if the improvement would not be made without the TIF, then the TIF will lead to an overall increase in the total taxable value of property in a school district. This would lead to lower school foundation aid payments, but higher rollback payments to the affected school district.

The bill continues to allow TIFs to be granted for individual parcels. However, it adds a requirement that the ordinance must designate the specific public improvement(s) and explain how the public improvement(s) will directly benefit the TIF parcel. It also adds some additional requirements for the subdivisions when they submitte their annual report in March of each year. Currently, only a progress report of each project that remains exempt is required. Under the bill the March report must also include a summary of the receipts from service payments, a summary of expenditures of money from the funds the service payments are deposited into, a description of the public infrastructure improvements and housing renovations financed with such expenditures, and a quantitative summary of changes the in employment and private investment resulting from each project.

The bill would also enable municipalities, townships, and counties to create TIFs for *incentive districts*. An incentive district is defined as an area of land that is no more than 300 continuous acres and has one or more of the following characteristics:

- Fifty-one percent of the residents have incomes less than 80% of the median income of residents of the political subdivision in which the district is located.
- The average rate of unemployment in the district is 150% or more of the unemployment rate of the state.
- Twenty percent of the residents live at or below the poverty line.
- The district is a "blighted area."
- The district is in a "situational distress area" as designated by the Director of the Ohio Department of Development.
- The engineer for the political subdivision had certified the public infrastructure serving the district to be below the standards of the economic development plan of the subdivision.
- The district is comprised entirely of unimproved land located in a "distressed area."

The incentive district may include one or many parcels, but all parcels must be identified in the ordinance that creates the incentive district. Under certain circumstances it also allows housing renovations to benefit from TIFs. This is one of the major differences between the incentive district TIFs and other TIFs.

A percentage of the increases in the taxable value of real property due to improvements made to parcels located in the incentive districts are exempt from taxation. Instead, service payments are required in lieu of the property taxes. The service payments are to be used to finance public improvements that *benefit or serve* the district, rather than public improvements that *directly benefit* the parcels in the district. This is another

major difference between the incentive district TIFs and other TIFs.

The fiscal effect of an incentive district TIF depends on whether or not the development would have taken place without the incentive district TIF designation. Suppose 200 acres of land consisting of 10 parcels is located in a blighted area and has a combined total market value of $300,000. The assessed (taxable) value of the parcels is $105,000 (or 35% of the market value). The area is being considered as a site for new developments that will cost a total of $20 million. Without the exemption, the total property taxes on the 10 parcels and the improvements would be $420,000. With the exemption at the 75% maximum allowable, $109,000 is paid in taxes, while $310,000 is paid as service payments. The property owner would pay the same amount with or without the TIF; the difference is who receives they payments. Table 1, below, walks through this example.

Table 1: Analysis of Hypothetical TIF

	No Exemption	With 75% Exemption
True Value of Parcel	$300,000	$300,000
Assessed Value of Parcel	$105,000	$105,000
True Value of Improvements	$20,000,000	$20,000,000
Assessed Value of Improvements	$7,000,000	$1,750,000
Average Tax Rate on Commercial Property[4]	59.13	59.13
Property Taxes on Parcel	**$6,209**	**$6,209**
School Districts	$4,346	$4,346
Other Taxing Districts	$1,863	$1,863
Property Taxes on Improvements	**$413,910**	**$103,478**
School Districts	$289,737	$72,434
Other Taxing Districts	$124,173	$31,043
Total Property Taxes	**$420,119**	**$109,686**
School Districts	$294,083	$76,780
Other Taxing Districts	$126,036	$32,906
Service Payments to Local Governments		**$310,433**
Total Taxes and Payments Made by Property Owner	**$420,119**	**$420,119**

If the development would have occurred anyway, *regardless of the TIF*, there is a tax revenue loss of $310,433 – a $217,303 loss to school districts and $72,434 to other taxing districts. The $310,433 that is lost tax revenue is collected by the local taxing districts in the form of service payments. However, it is likely that the school district will receive funding through the State Basic Aid Formula in the amount of $120,750 due to the lower property valuation because of the TIF. Thus, the true loss to the school is reduced to $96,553.

Assuming the development would have *not* taken place without the TIF, any additional tax is a gain for school districts and local governments. In the above example, school districts would gain $72,434 in tax revenue from the non-exempt portion of the increase, while local governments receive $31,043 in tax revenue and $310,433 in service payments.

The second fiscal impact of a TIF is the impact on the budget of the municipalities, townships, and counties. The use of a TIF essentially earmarks property tax revenue for a specific public improvement project. A public improvement project financed by a TIF somewhat bypasses the general revenue fund of the local government. Moreover, if the TIF does not bring in the amount of service payments anticipated, the local government may end up paying for part of the project out of its general fund. However, if a TIF is set up to finance a certain public improvement and the public improvement turns out to be less expensive then originally estimated or the TIF brings in more revenue than anticipated, the TIF could end sooner then the agreed upon time. Finally, it is also important to note that TIFs do not exempt tangible personal property located on the parcel. With a statewide average tax rate of 73.21 mills, the tax on tangible personal property has the potential to generate additional revenue for school districts and local governments. The amount of tangible personal property taxes will vary with the type of development.

The National Association of Counties tracks information regarding the use of TIF techniques.[5] Thirty-four states give counties the authority to implement TIFs. Of counties that responded to their survey, 25% have used TIFs as a tool in their economic development efforts, up from 19% in 1998. According to the Department of Development's Office of Tax Incentives, 201 active TIFs have been submitted within the state of Ohio. The average percentage of exemption for the TIF is 92.6% over an average period of 22.7 years. LSC believes the number of TIFs will increase based on the provision in this bill.

Tax Credits

Am. Sub. H.B. 6 includes a net worth tax exemption for new corporations and two tax credits against the corporate franchise tax and the personal income tax. State revenues from these two taxes are distributed to the General Revenue Fund (GRF) and local government funds in various proportions.[6] Am. Sub. H.B. 94, the current biennium budget, enacted a freeze on distributions to the local government funds. Therefore, in the current biennium, estimated revenue loss from the tax provisions in Am. Sub. H.B. 6 will affect only GRF. All of these tax provisions sunset June 30, 2007. However, due to the carry forward provisions in the jobs retention tax credit and the brownfield tax credit, GRF will be affected at least until FY 2012.

Table 2: Summary of GRF Revenue Loss from Am. Sub. H.B. 6 Tax Provisions (in millions).

	FY 2002	FY 2003	FY 2004	FY 2005
Net Worth Exemption	$0.0	$14.7	$16.9	$18.1
Job Retention Credit	$0.0	$4.4 to $8.8	$4.2 to $8.4	$4.2 to $8.4
Brownfield Tax Credit	$0.0	$0.7	$2.5	$4.2

The Net Worth Tax Exemption for New Companies

Am. Sub. H.B. 6 creates an exemption from the net worth computation of the corporate franchise tax for newly formed companies. Estimates of revenue loss from this exemption are based on reported corporation tax liability by tax base and by industrial sector from the Department of Taxation Annual Report for 2000 and an estimate of new business formation in Ohio from data from the Census Bureau, Statistics of U.S. Businesses.[7] The estimated number of new firms was calculated as a three-year average of new business establishments between 1996 and 1998 in Ohio. This number of new firms was pro-rated by the percentage of firms that report net worth tax liability in the Department of Taxation Annual Report. Then, the resulting number of new firms per year per industry was multiplied by the average net worth tax liability per industry reported for tax year 1999. LSC estimates that each year about 20 percent of the new firms would report a net worth tax liability.[8] Also, LSC assumed a rate of decay (or business death) of 80 percent in the year following the first year of filing a tax return and an additional 50 percent in the third year. Using this approach, the net worth tax exemption for newly formed corporations will reduce revenue by $14.8 million in FY 2003, $17.7 million in FY 2004 and $19.2 million in FY 2005.[9] GRF revenue loss will be $11.3 million in FY 2003, $16.9 million in FY 2004 and $18.3 million in FY 2005. LGF/LGRAF revenue loss would be $0.8 million in FY 2004 and $0.9 million in FY 2005.

This estimate does not take into account any income tax paid by a new firm. Income tax payments by new firms may likely be small as most new firms are not profitable in their earliest stages of existence. State revenue loss will be sensitive to the creation of new large firms or the relocation in state of existing large firms, and the rate of new firms' "death". Therefore, state revenue loss *may* be higher than estimated.

The Job Retention Tax Credit

A non-refundable job retention tax credit would be available to eligible companies making capital investments exceeding $200 million over a three-year period at a specific project site. In order to qualify, eligible companies must employ at least 1,000 individuals at the project site. The bill defines a "project site" as an "integrated complex, as specified by the Tax Credit Authority, within 5 miles radius where a taxpayer in this state is primarily operating as a manufacturer as defined in section 5739.011 of the Revised Code." According to the Ohio Office of Strategic Research,[10] 8 companies (all utilities) had investments greater than $200 million and 15 companies had investments over $100 million in CY 2000. In CY 1999, 5 companies invested over $200 million and 12 companies invested over $100 million. In the three-year span between 1998 and 2000, thirteen companies (10 utilities and 3 manufacturing) invested over $200 million.[11]

The job retention tax credit will apply for capital investments (buildings, equipment and machinery) made after January 1, 2002. Therefore, a company may potentially claim the jobs retention tax credit in FY 2003 against the corporate franchise tax or the personal income tax, if all necessary investments are made in tax year 2002. The tax credit can be carried forward for three years after the year for which the credit is granted. Forecasting statewide capital investments at specific corporate facilities or locations is unattainable. LSC assumes that a small number of manufacturing companies will be eligible annually for this job retention credit (may be two or three businesses annually) and that the majority of claims will be against the corporate franchise tax. The annual total number of eligible employees would be highly variable due to the wide range in employment in the manufacturing industry. The maximum job retention tax credit is 75 percent of the Ohio income tax withheld from the employees of the eligible business occupying full-time employment positions at the project site. Average weekly earnings in the manufacturing sector were $827 in CY 1999, for an annual withholding of approximately $1,560.[12]Assuming the maximum credit of 75 percent of payroll, if 5,000 workers were eligible for this credit, the cost of this credit would be $5.8 million. If 10,000 employees were eligible, the cost of the credit would be $11.7 million. However, this tax credit is nonrefundable. Assuming that only 75 percent of the tax credits will be claimed, state revenue loss would then be between $4.4 million and $8.8 million. GRF revenue loss (at 95.2 percent of state revenue) per year would be between $4.2 million

and $8.4 million. LGF/LGRAF revenue loss (at 4.8 percent of state revenue) would be between $0.2 million and $0.4 million annually.

LSC is unable to determine the actual number of companies, the level of capital investments on eligible project sites nor the total number of employees that would potentially qualify on an annual basis for this job retention tax credit. Potential annual revenue loss from this tax credit will vary depending on the factors listed above.[13]However, LSC believes that on an annual basis, the cost of the jobs retention tax credit may be toward the lower end of the range established above or $4.4 million.

The Brownfield Tax Credit

This nonrefundable credit against the personal income tax and the corporate franchise tax is available for companies that incur expenditures after November 8, 2000 in developing "brownfields" and receive an eligibility certificate issued by a county, township, municipal corporation, port authority or conservancy district. Eligible expenditures are costs for land acquisition, demolition, site preparation, infrastructure improvements, and remediation. The amount of the credit for a taxpayer who has undertaken and completed remediation of a "brownfield" site shall not exceed the lesser of $1 million or ten percent of the eligible costs incurred outside of an eligible area; or the lesser of $2 million or twenty percent of the eligible costs for "brownfield" remediation that occurred in an "eligible area". The language in the bill caps the total amount of credit granted at $5.0 million in FY 2002 and $10.0 million in subsequent years. A taxpayer cannot claim more than twenty per cent of the total credit granted in each of five consecutive years. LSC assumes that 75 percent of the credit will be claimed and that the full cost of the credit will be applied against FY 2003 revenue. Thus, the cost of the credit will be $0.7 million in FY 2003, $2.6 million in FY 2004 and $4.4 million in FY 2005. The majority of the claims will be against the state corporate franchise tax. GRF revenue loss will be $0.7 million in FY 2003, $2.5 million in FY 2004, and $4.2 million in FY 2005. Local government revenue loss will be $0.1 million in FY 2004 and $0.2 in FY 2005 (this estimate assumes that the freeze on distribution to local government funds is lifted in FY 2004 and FY 2005)

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[1] *Capital Access Loan Program: A Summary of Nationwide Performance.* U.S. Treasury Report, October 1999.

[2] H.B. 6 proposes to add "the enhancement of public waterways through improvements that allow for greater public access" to the list of typical projects in the definition of "public infrastructure improvements" as used for TIFs.

[3] In some cases, agreements are made in which school districts receive payments in lieu of the taxes on the exempt portion, as well.

[4] The tax rate used is the 1998 statewide average "effective" tax rate for commercial and industrial real property.

[5] *Tax Increment Financing: An Alternative Economic Development Financing Technique.* National Association of Counties, January 2000.

[6] State corporate franchise tax is distributed to the General Revenue Fund (GRF at 95.2 percent), Local Government Fund (LGF, at 4.2 percent) and Local Government Revenue Assistance Fund (LGRAF, at 0.6 percent). State personal income tax is distributed to GRF at 89.5 percent, LGF at 4.2 percent, LGRAF at 0.6 percent, and Library and Local Government Support Fund (LLGSF) at 5.7 percent. GRF revenue loss estimates for FY 2004 and FY 2005 assume that distributions to local government funds are restored.

[7] Statistics of U.S. Businesses provides dynamic data including the number of establishments from births, deaths, business expansions and contractions for all states and all major industries.

[8] For tax year 1999, about 28 percent of all firms reported a net worth tax liability. LSC is unable to obtain actual franchise tax return data to establish the number or the percentage of new firms per industrial sector that file the net worth tax. LSC expects that most new firms would report a minimum tax liability. For new firms filing the net worth tax, their average liability is expected to be lower than the average net worth tax liability of established firms.

[9] Corporation franchise tax reported net worth tax liability in tax year 1999 was $142.8 million.

[10] Ohio Department of Development.

[11] The three manufacturing companies were GM Corporation, Delphi Automotive and ZF Batavia. These corporations had various numbers of employees at their facilities. For example, GM had up to 8,250 employees at its Lordstown facilities, and Delphi Automotive had up to 9,000 employees at its Warren facilities.

[12] Average Weekly Earning from the Ohio Labor Market Information of the Ohio Department of Jobs and Family Services. Annual income tax withholdings calculated from the Monthly Withholding Tables from the Ohio Department of Taxation. Average Weekly Earnings may be higher in some parts of the state.

[13] As a comparison, the job creation credit is expected to cost $26.0 million in FY 2002 and $30 million in FY 2003