



**TESTIMONY
TO THE
HOUSE FINANCE SUBCOMMITTEE
ON AGRICULTURE, DEVELOPMENT AND NATURAL RESOURCES
BY
CHADWICK SMITH
EXECUTIVE DIRECTOR
OHIO AIR QUALITY DEVELOPMENT AUTHORITY**

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Chairman Thompson and members of the Subcommittee:

I am Chadwick Smith, executive director of the Ohio Air Quality Development Authority, and I appreciate the opportunity to discuss the proposed agency budget.

Although small, the Ohio Air Quality Development Authority operates several significant programs. The oldest, Project Development and Finance, comprises OAQDA's responsibility to issue bonds to assist both private and public entities in financing investments in a variety of technologies and activities that contribute to cleaner air in Ohio. In response to the mandates of the Clean Air Act Amendments of 1990, we added the Clean Air Resource Center, a program designed to help small businesses across the state meet those mandates. Finally, through our Energy Strategy Development program, we oversee the advanced energy portion of the state's job stimulus bill, HB 554 in the 127th General Assembly. I'd like to fill in a little more detail on these programs.

Project Development and Finance. Project finance and development encompasses the traditional activity of the OAQDA. Through the issuance of air quality project revenue bonds, we assist in both the financing and refinancing of numerous projects. These bonds can be issued either as federally taxable or federally tax-exempt debt instruments. As project revenue bonds, they do not pledge the faith and credit of the State of Ohio. Rather the credit analysis and the liability for repayment fall upon the projects themselves. Projects using this financial instrument are eligible for a package of tax based incentives. If they qualify under federal rules, projects can benefit from federally tax exempt debt and pay lower interest rates. In addition, the portions of projects financed through OAQDA are exempt from taxation and assessments at the state level. Historically, these exemptions have applied to property, sales and use taxes. Finally, the Ohio Revised Code provides significant flexibility in how this debt is structured, ranging from traditional bond packages to something more akin to a business loan to a variety of lease structures. This instrument is available to private sector, government and not-for-profit entities.

To date in the current biennium, OAQDA has issued bonds totaling \$310 million to assist in the financing or refinancing of air quality projects. As of December 31, 2014, we are administering the management of more than \$3.3 billion in outstanding debt. This program is supported by revenue from OAQDA administrative fees, charged when a bond is issued. Those fees, a one time charge, are intended to support OAQDA's work managing the administration of those bonds over their lives, which can be as long as 40 years. No General Revenue Funds are used.

Our projects range from helping a family owned dry cleaner purchase new equipment to energy efficiency projects at state institutions to pollution control equipment at electric utility plants. In addition to benefits that accrue to the individual projects, OAQDA's bonds save electric rate payers in Ohio a significant amount of money. Most of our outstanding debt, due to the size of utility projects, is related to electricity generation. In fact, currently approximately \$2.3 billion of the \$3.3 billion outstanding amount was issued at federally tax exempt rates for the benefit of Ohio's electric utilities. The cost of pollution control equipment had traditionally been passed through directly to rate payers.

Now the market fluctuates constantly but let's assume the difference between taxable rates and tax exempt rates is one percentage point. The result is that OAQDA financing keeps approximately \$23 million per year out of the rate base and our bonds can extend for 20 or 30 years. Going forward this will continue to have significant impact for rate payers as we move to a more open electric market.

OAQDA has also been administering the allocation of federal Qualified Energy Conservation Bonds and been able to assist Kent State, Owens State, as well as counties and cities around the state achieve significant energy savings that will pay off for years to come. This past fall the Authority was able to help finance an energy efficiency project with Eastern Gateway Community College in the amount of \$1.8 million. The rate that the college was able to achieve utilizing our financing model was around 2.6% and the efficiency measures will save them \$132,000 per year.

Clean Air Resource Center. A few minutes ago, I mentioned that the Clean Air Act Amendments of 1990 recognized the challenges faced by small businesses. Those amendments mandated that each state implement a program designed to meet those challenges. The program has two key elements: technical assistance and an ombudsman function. In Ohio, the technical assistance component is housed at the Ohio Environmental Protection Agency in the Office of Compliance Assistance and Pollution Prevention. The ombudsman function is housed at OAQDA and operates under the name of the Clean Air Resource Center.

Rather than fulfill the traditional reactive role of an ombudsman waiting for complaints to come in and then resolve them, we have worked closely with our OEPA counterparts and reach out to literally thousands of Ohio small businesses each year. We provide another gateway to technical assistance and address the most daunting challenge for small business: figuring out how to pay for any necessary investment. By carefully examining how our bond issues are structured, we have developed a process that allows us to help in the financing of projects much smaller than those typically served by a "bond program." In fact, we have been able to help a project as small as \$13,900. To be frank, although we continue to provide outreach to the small business community and have touched several thousand small businesses regularly, the combination of the timing of regulations and the weakness of the economy have severely curtailed small business borrowing for investments like these over the last few years. The Authority has been working with small business organizations and the OEPA to help revise the program to better assist these businesses meet the federal mandates. OAQDA has revised the program to include a principal payment on the loan after equipment is installed and operational. We are just beginning to see signs of recovery and a renewed interest in the program. The funds that support this program are a small part of the revenues generated through the issuance by OEPA of Title V air permits; the amount is transferred to OAQDA annually. This support is mandated by the Clean Air Act Amendments of 1990 and is part of Ohio's federally approved State Implementation Plan. In addition, a small business assistance fund is supported from these fees as well. Again, no General Revenue Funds are used.

Energy Strategy Development. The OAQDA has the responsibility of overseeing the advanced energy portion of the state's job stimulus program since 2009. Under this program we have been able to help finance projects for Ohio companies ranging from waste management, to solar, wind,

advanced battery technology and fuel cells. We currently administer nine remaining projects under this program. Four of these loans were certified for collections to the Attorney General's office for failing to meet their contractual obligations.

Conclusion

Mr. Chairman and members of the Subcommittee, Ohio is one of the heaviest consumers of energy in the nation. We continue to rely heavily on the availability of reliable, affordable electricity. Our economy is built upon it and that fact will not change in the future. We have made significant progress in making our air cleaner here in Ohio but there is still a long journey ahead of us.

From its founding in 1971, the Ohio Air Quality Development Authority has helped Ohio meet that challenge. We intend to continue to do so in the future by marshalling efficient use of state resources and proactive use of market mechanisms. This budget will support us in that effort.

I will be happy to answer your questions.

Thank you.