



TESTIMONY
TO THE
SENATE FINANCE SUBCOMMITTEE
ON GENERAL GOVERNMENT AND AGENCY REVIEW
BY
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Chairman Jordan 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. The Authority board has 5 public members that are appointed by the Governor and two members that service ex-officio, the Director of the OPEA and Department of Health. We maintain a small staff of 5 FTE and our budget consists mainly of funding for our operations.

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 the Energy Strategy Development program, we service the remaining loans from the advanced energy portion of the state's job stimulus bill, which will end in the next biennium. I'd like to fill in a little more detail on these programs.

Project Development and Finance. Project development and finance 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 \$518 million to assist in the financing or refinancing of air quality projects. As of December 31, 2016, we are administering the management of close to \$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 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.

OAQDA has also been administering the allocation of federal Qualified Energy Conservation Bonds and been able to assist universities, counties and cities around the state achieve significant energy savings that will pay off for years to come. For example, the Authority was able to help finance an energy efficiency project with Hocking Valley Community Hospital in the amount of \$1.9 million. The interest rate that the hospital was able to achieve utilizing our financing model was around 2.3% and the efficiency measures and operational improvements will save them over \$150,000 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 work 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. We continue to provide outreach to the small business community and have touched several thousand small businesses regularly and have seen an increase in activity in 2016. 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 recently revised the program to include a principal payment on the loan after equipment is installed and operational. 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.

An example of a project for the CARC program is Liberty Castings in Delaware. The company specializes in high alloy iron casting. We helped them finance \$200,000 for emission reduction equipment for their induction steel-shell furnaces. The equipment collects smoke, dust and other airborne emissions during all phases of the furnace's operation. It allowed the company to reduce their

emissions, enhance worker safety, improve the air quality for the surrounding community and ultimately the creation of 40 new jobs.

Another recent example of a small business is Kilar Fabrication in Trumbull County. The company is a manufacturer of flatbed tow trucks. With our assistance, Kilar was able to purchase and install a new paint booth. The paint booth replaced older equipment and resulted in faster higher quality paint process/reduced emissions both which improved their productivity, customer service, improved air quality and also hiring new staff.

Energy Strategy Development. The OAQDA has had the responsibility of overseeing the advanced energy portion of the state's job stimulus program since 2009. We currently service four remaining loans and they are expected to be closed within the next year and the program closed at the end of CY 2018.

Impact of the Reductions in the House Budget. Chairman Jordan and members of the subcommittee, I wanted to take a few moments to discuss the impacts of the reductions to our budget in the House. In our current budget, we split our payroll 40/30/30 between line items 5700, 4Z90 and 5EG0. In the proposed budget we consolidated those expenses into the two line items 5700 and 4Z90 for a 50/50 split. Our two line items, 5700 and 4Z90 which I mentioned were increased this year due to that consolidation, were both reduced by the House for a combined total of \$129,813 each year of the biennium. These line items are critical for payroll and expenses for our operations. Our overall total budget request for FY 18 largely stayed the same as FY17, but for a 4.9% increase that accounts for the increased costs of health care which are forecasted to go up 13% for FY 17.

A reduction of \$129,813 each year, would represent a 25% reduction in our payroll, while we know health care insurance costs are continuing to rise. Again, we have five employees, and all are necessary to operate the agency.

This is not to say we don't understand the need for savings and prudent financial management. Over 3 years ago the OAQDA board took a deep dive into the operations and conducted a study with the goal of adopting best practices and cost cutting measures. The result of those efforts were an operational savings of over \$150,000/year. We remain committed to those measures and operating the agency under best business practices. However, the proposed reductions in the House version will have a detrimental impact on our current operations as mentioned above.

Conclusion

OAQDA's work spans the state, in the past two years, we have financed projects in 32 different House districts and 21 different Senate districts. As mentioned earlier, this ranges from small businesses such as body shops and dry cleaners, to large recycling facilities, auto manufacturing plants, energy efficiency projects at hospitals, schools and electric utility generation all without utilizing any GRF. As mentioned earlier, our agency is self-sustaining. These projects help clean the air and reduce the financing cost to borrowers so that they can comply with environmental regulations, continue to grow and create jobs.

Mr. Chairman and members of the Subcommittee, 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.

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.