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**Senate Bill 276**

Sponsor Testimony

Ohio House Civil Justice Committee

Tuesday, November 10, 2020

Chair Hambley, Vice-Chair Patton, Ranking Member Brown and members of the House Civil Justice Committee, thank you for the opportunity to provide sponsor testimony on S.B. 276. This legislation is known as the Revised Ohio LLC Act, and will provide a necessary update to Ohio Limited Liability Company law, in order to meet the needs of the modern world and our modern economy.

To provide some background on this legislation, Ohio's original Limited Liability Company Act, which remains largely unchanged, was first enacted in 1994. For some perspective, 1994 was the same year that NAFTA first went into effect, Netscape Navigator was *the* up-and-coming web browser, and an online bookstore called Amazon was founded. Clearly, the world has changed.

In that vein, Limited Liability Companies were once the new kid on the block in 1994, but today they are the most prominent and fastest growing business structure in Ohio. Today there are nearly 900,000 active Ohio LLCs, compared to 240,000 active Ohio corporations. And, compared to the roughly 7,000 new Ohio corporations being formed this year, the number of new Ohio LLCs is projected to reach nearly 65,000. LLCs are now a critical component of Ohio's economy. It is time we modernize our laws governing this business structure so that they can continue to flourish, improve our economy, and create jobs.

The Revised Ohio LLC Act comes to us today after extensive work by various sections of the Ohio State Bar Association, in coordination with the Ohio Secretary of State's Office. The Ohio State Bar Association's Corporate Law Committee, in particular, dedicated over two years of hard work towards this modernization project. Because of the tremendous amount of vetting this bill has already undergone, the legislation passed the Ohio Senate Judiciary Committee and the Ohio Senate unanimously. There was also no opponent testimony during the committee process.

There was one change to the bill made during the Senate committee process, which corrected a few technical errors made during the drafting process, clarifying that the penalty for filing a false record under the bill is the first degree misdemeanor offense of falsification instead of perjury (a third degree felony), removing a potential fee increase for filing service of process with the Secretary of State's office, and correcting several errant cross-references.

With that, I will now defer to Senator Manning, who will provide some details regarding the changes made in this bill to existing LLC law.

Thank you Senator Roegner, Chair Hambley, Vice-Chair Patton, and Ranking Member Brown. I would like to emphasize three distinct improvements that are made to Ohio law in the Revised Ohio LLC Act.

First, this legislation will decrease inefficiency by increasing clarity in Chapter 1705 of the Revised Code. A host of linguistic and structural issues in the current statute have caused confusion and uncertainty for LLCs all throughout Ohio. For instance, right now Ohio law permits shareholder lawsuits against manager-owned LLCs, but does not clearly specify whether the same is true for member-owned LLCs. This uncertainty leads to unnecessary spending on litigation—spending that could have been put towards growing the business, creating jobs, and strengthening Ohio's economy.

Second, this bill provides business owners, investors in LLCs, and aspiring entrepreneurs with more flexibility when deciding how to organize their LLCs. A person's authority to bind the LLC will be determined by the operating agreement, decisions taken by members in accord with that agreement, or, if the owners of the LLC don't otherwise designate, the Act's default rules. This bill affords business owners and aspiring entrepreneurs maximum flexibility to form LLCs that are personally tailored to fit their business's needs.

Third, the Revised Ohio LLC Act will allow business owners to create innovative Series Limited Liability Companies (or "Series LLCs"). A Series LLC provides business owners the ability to achieve the benefits of forming multiple LLCs while avoiding unnecessary administrative burdens. Ohio law currently permits a business owner to separately protect different assets by establishing unique LLCs for each individual asset. This bill reflects that reality, but simplifies the filing and paperwork for both the Ohio Secretary of State's Office and the individual business owner by allowing the business owner to instead file once, as a Series LLC. By eliminating the inefficiency of multiple filings, this streamlined process saves time and money for all parties involved—public and private. Series LLCs are currently only permitted by a minority of states. This structure will put Ohio at the forefront of this growing trend.

These are but a few examples of the improvements this bill will make to Ohio's LLC laws. In future hearings you will hear testimony from representatives of the Ohio State Bar Association on some of the finer details of the bill. What we would like to emphasize is that the Revised Ohio LLC Act is finely-crafted legislation that will update Ohio's LLC laws to fit the needs of our 21<sup>st</sup> century economy. In doing so, it will improve the efficiency of Ohio LLCs and make Ohio even more attractive to would-be entrepreneurs. Thank you for the opportunity to testify on S.B. 276. We are happy to answer any questions you may have.