



Revenue and Budget

### Testimony on HB 123 before Senate Ways and Means Committee

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Good morning, Chairman Blessing, Vice-Chair Roegner and Ranking Member Williams. I am Dr. Guillermo Bervejillo, State Policy Fellow at Policy Matters Ohio, a non-partisan, not-for-profit research organization with a mission to create a more prosperous, inclusive, equitable and sustainable Ohio.

Today I am testifying against House Bill 123 because if passed, this bill will incentivize careless investment practices while limiting the ability of local school boards to have a say in decisions that affect school revenue. At the end of the day, this bill prioritizes hypothetical outside investors over the flesh and blood children of Ohio.

Under current law, Community Reinvestment Areas (CRA) can only be established where there is a proven need for investment. The director of the Ohio Department of Development approves agreements and can step in and mediate in situations where communities may be entering into destructive bidding wars. Today, there are mechanisms for state and local oversight that promote responsible and committed business practices. These rules were created by the administration of Republican Gov. George Voinovich in partnership with economic development professionals, local elected officials, state lawmakers, and the business community.

House Bill 123 hollows out the oversight mechanisms for the existing CRA program, decreasing transparency and reducing the responsibilities of investors to the communities they are supposed to benefit. The bill reduces the quality of data held in annual CRA reports, eliminating key information about the amount of forgone tax revenue and resulting employment change, while making it harder for school boards to gain access to that data. This will reduce the availability of data that is critical to making careful informed economic decisions. The bill also removes the Department of Development from the approval process, increasing the likelihood that economic decisions are being made without the larger picture of Ohio's development in mind.

Mr. Chairman, I think we can all agree that we want Ohio's critical development decisions to be made in an informed and responsible manner. However, House Bill 123 encourages risky, cut-and-paste CRA agreements that dilute economic and legal responsibility. This bill removes the requirement that CRA agreements include clauses related to key economic development indicators and enforcement procedures.<sup>1</sup> It also prescribes a model CRA exemption agreement that, in the

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<sup>1</sup> Sec. 3735.671. (B)

context of reduced oversight, will encourage investors to cut corners and take short cuts. Moreover, by reducing the severity of the consequences associated with a failed project, this bill welcomes higher risk investments. The bill narrows the window during which an investor that discontinues operations is banned from receiving new tax incentives from five years to two years. Meaning that if this bill is passed, investors will have less incentive to maintain Ohio jobs.

House Bill 123 allows investors, whose job it is to maximize profits, to reduce their costs by ignoring the wider impact of failed investments. A failed investment costs the community in the form of under-utilized infrastructure and the broader negative shockwaves that follow job-loss. Under this bill, investors will have less incentive to incur costs that would mitigate these risks. In other words, this bill encourages riskier, hit-and-run investment that has little long-term connection to Ohio.

House Bill 123 also allows municipalities to abate a higher level of taxes without consulting school district officials. When this bill was presented to this committee, Representative Fraizer was asked about what he would say to those who oppose the increase in the threshold percentage that triggers the requirement of school board approval. His only answer was to say that he was seeking to align the specifics of the CRA program with those of the TIF program. This answer completely sidesteps the central point: that is, the role of the school district – the primary beneficiary of property taxes – in the decision to abate property taxes.

The increase of the approval threshold reduces the number of officials who must be convinced of the soundness of an abated project. This makes it easier for outside investors to pressure and, in the worst cases, bully local city council people or county commissioners to approve a CRA project. Investors no longer must deal with the perspective of the Director of Development, they will not face the scrutiny of Ohio's professional educators, and they will silence the voices of Ohio's parents. If an investor believes they will benefit the community and should be privileged with this tax exemption, then let them make their case before the school board. Is that so hard to do?

After all, it is the school districts that are asked to bear the brunt of the costs of House Bill 123. Tax abatements drain resources from Ohio's school districts and schoolchildren, and this bill may deepen the damage. HB 123 raises the threshold at which municipalities must share income tax revenues gained from very large, tax-abated commercial and industrial projects. This means that school districts, which are subsidizing these property tax abated projects in the first place, will be left out of a sizable portion of the gains associated with successful CRA projects.

This bill puts the interests of risky hypothetical investors above those of the very real children in Ohio's school districts. The bill reduces the availability of crucial economic information. It allows investors to forego costs associated with risk reduction and due diligence necessary for a longer-term commitment. It asks schools to bear the brunt of tax abatements and yet it reduces both their contributions to the decision-making process and the benefits they may reap from larger projects. And the bill asks already overburdened local governments to cover the administrative costs.

For all these reasons, House Bill 123 does not deserve your support. House Bill 123 attracts the wrong kind of investors to our communities. What we want are careful investors with real

commitments to Ohio's cities and towns who are not afraid to make their case to Ohio's school districts. Moreover, school districts need the transparency and the data to make informed sincere decisions about the CRA applicants that seek their approval. At Policy Matters, we welcome discussion of incentive structures that foster equitable and sustainable development across Ohio. But let's do it well, let's do it carefully. Thank you very much for the opportunity to testify.