



**AMERICANS FOR
PROSPERITY**
OHIO

SENATE WAYS & MEANS COMMITTEE
Opponent Testimony on HB 469
Wednesday, December 5, 2018

Chairman Eklund & Committee Members,

On behalf of the tens of thousands of Americans for Prosperity activists and citizen leaders in Ohio, I wish to thank you for convening this hearing on HB 469, which would authorize a new tax credit for various development projects in the state. Americans for Prosperity – Ohio, is one of 36 state chapters nationwide aiming to recruit, educate, and mobilize citizens in support of the policies of a free and open society at the local, state, and federal level. Our grassroots volunteers advocate for limited government public policies that enable people to work hard, provide for their families, and achieve the American dream. On behalf of those citizen activists, I write today to express AFP's strong opposition to HB 469.

As I previously stated, Americans for Prosperity seeks to advance public policies that empower people to realize their potential while reducing the government's ability to create barriers that would limit that potential. Part of this mission is identifying and opposing policies that allow the government to pick winners and losers at the taxpayers' expense. Unfortunately, HB 469 represents the worst of this kind of corporate welfare, which is why I am conveying our opposition, and respectfully requesting that the committee not pass this bill before the end of the year.

Specifically, this bill authorizes a new tax credit of as much as 10 percent of the development cost of what it calls "transformational mixed-use developments." To qualify for the tax credit, a project needs to have a planned development cost of \$50 million or more, include a building at least 15 stories high, or otherwise include 350,000 square feet of space, and more than one use. According to an analysis by the Legislative Service Commission, the project could be some combination of office space, residential units, hotels, retailing, structured parking, or have a recreational use.

Assessing a project's qualifications for the tax credit is the state Development Services Agency, whose director will have final say over any given applicant. In addition to the aforementioned criteria, a project must demonstrate that state and local tax collections will increase by more than the credit amount within five years of the project's completion. The tax credit, the

thinking goes, then creates capital for the project, since a developer typically sells it to help with initial financing.

As prescribed by the bill, the investor that receives the tax credit must be an insurance company which can then subtract its credit from the taxes owed to the state. But as with all economic development schemes, the government here is making a lot of dubious assumptions about costs and who will ultimately bear them. Given the high probability that taxpayers will, in some way or another, be called upon to carry some of the financial burden, the state should seriously reconsider if this is the most prudent way to attract businesses to our communities.

But you don't have to just take my word for it. The Buckeye Institute finds tax credits, generally, to be adversely harmful to a state's budget and overall economic growth. "When alternative job creation policies are considered," they say, "it becomes clear that the inconsistencies and costs of such special interest tax credits makes them a poor policy choice, and all the supposed gains appear paltry in the face of smarter alternatives."

Additionally, Policy Matters Ohio, which also opposes HB 469, argues correctly that the state already has too many tax credits and exemptions that, on their own, already represent \$9 billion in annually forgone state revenue. The cost estimates for this bill remain unknown—despite assurances that it will "pay for itself"—since it's impossible to predict how many projects might qualify.

That said, the costs may even be greater than initially assumed: the version of HB 469 before the Committee today actually has lower eligibility requirements than the original version did, making even more potential projects qualified for tax breaks. We at AFP, along with other groups opposed to the proposal, also have concerns that this bill has been tailor-made with one special project in mind, Stark Enterprise's nuCLEus development in downtown Cleveland. If so, this would be a stark example of targeted corporate welfare that benefits special interests.

When the government hands out favors to politically connected businesses or industries, it undermines competition and gives politicians and businesspeople an incentive to engage in corruption and kickbacks. What's worse, these handouts don't work when it comes to efficiently and effectively spurring economic growth. Research suggests that states that give more in corporate welfare tend to experience measurably lower levels of economic freedom.

The costs of corporate welfare are directly carried by the taxpayers who finance these various incentive schemes. In fact, according to Mercatus Center research on economic development and other government incentives, Ohio could actually reduce its state corporate income tax rate by nearly 11 percent if it eliminated all corporate incentives. Consider how that might attract the businesses you're trying to bring here.

Regardless, in the ideal free market system, businesses and individuals are rewarded for the value their goods and services create without a government dictating any of the terms. HB 469 is a textbook example of the wrong way to go about economic development, at least from the

perspective of good stewardship of taxpayer money. AFP strongly opposes this legislation and I urge this Committee to do the same. Thank you, Mr. Chairman, for considering this perspective today, and for your thorough deliberation regarding HB 469.

Sincerely,

A handwritten signature in black ink, appearing to be 'MD' followed by a long horizontal line.

Micah Derry
State Director
Americans for Prosperity-OH

Americans for Prosperity (AFP) exists to recruit, educate, and mobilize citizens in support of the policies and goals of a free society at the local, state, and federal level, helping every American live their dream – especially the least fortunate. AFP has more than 3.2 million activists across the nation, a local infrastructure that includes 36 state chapters, and has received financial support from more than 100,000 Americans in all 50 states. For more information, visit www.AmericansForProsperity.org

