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Ohio Legislative Service Commission

Office of Research and Drafting

Legislative Budget Office

S.B. 276
135th General Assembly

Fiscal Note & Local Impact Statement

Click here for S.B. 276's Bill Analysis

Version: As Introduced

Primary Sponsors: Sens. Cirino and Chavez

Local Impact Statement Procedure Required: Yes

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Highlights

Fund	FY 2025	FY 2026	Future Years
State General Revenue Fund			
Revenues	$0	$0	Loss up to $86.9 million
Tax Incentives Operating Fund (Fund 5JR0)			
Revenues	Possible gain	Possible gain	Possible gain
Expenditures	Possible increase	Possible increase	Possible increase
Local Government and Public Library funds (counties, municipalities, townships, and public libraries)			
Revenues	$0	$0	Loss up to $3.1 million

Note: The fiscal year for the state, school districts, and certain other local governments runs from July 1 through June 30 and is designated by the calendar year in which it ends. For other local governments, the fiscal year is identical to the calendar year.

- Credits for investments in rural business growth funds would reduce tax revenues from domestic and foreign insurance companies by up to $90 million. One-fourth of the amount of credits could be claimed in each of the third, fourth, fifth, and sixth tax years following investment. The nonrefundable credits may be carried forward up to four years.
- GRF tax revenue losses could start as early as FY 2028 if the bill is enacted and implemented quickly, or in FY 2029 if the first investments are not made until calendar year 2025, and could continue until FY 2035 or FY 2036 with the tax loss carryforward.

- Fees of $5,000 initially and $20,000 annually are due from each rural business growth fund, deposited in the Tax Incentives Operating Fund (Fund 5JR0) used by the Department of Development.
- Revenue losses from insurance company taxes, credited to the GRF, will reduce distributions to the Local Government Fund (Fund 7069) and the Public Library Fund (Fund 7065), each of which receives 1.7% of GRF tax revenue.
- Rural business growth fund investments that create too few jobs may result in reimbursements owed to the state, which would be credited to the GRF.

Detailed Analysis

The bill would create the third round of funding for the rural business growth program, to be administered by the Department of Development. Eligible credits under the program could be claimed by insurance companies that make the qualifying investments, starting in the third tax year after the initial investment, with one-fourth of credits eligible to be claimed in each of the third, fourth, fifth, and sixth tax years. Program three would allow up to $90 million of credit-eligible contributions on $150 million of eligible investments. Investments would be made through rural business growth funds in rural business companies. The investments could take the form of equity or debt. Persons other than insurance companies may also invest; at least 10% of the amount of a rural business growth fund's qualifying investment amount must be from persons with a controlling interest in the fund, including officers, directors, or employees of such persons.

Previous rural business growth programs

Program one was enacted by S.B. 8 of the 132nd General Assembly, which allowed up to $45 million of credit-eligible capital contributions for up to $75 million of eligible investments, starting after March 23, 2018, and certified before September 30, 2021. Program two, also for up to $45 million of credit-eligible contributions and $75 million of eligible investments, was enacted as part of H.B. 110 of the 134th General Assembly, the main operating budget of that General Assembly, starting September 30, 2021. Both program one and program two, now closed to additional applications, were fully subscribed, an indication that the bill's third round of funding might also be approved for the full amount offered.

Program rules

Each business eligible for investment in program three would have fewer than 299 employees. This limit is increased from programs one and two, which allowed investments in businesses with fewer than 250 employees. Various other restrictions on eligible businesses are specified in the bill, including limits pertaining to profitability, public ownership, and the industry in which the business operates.[1]

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[1] To be eligible, a business must not have had more than $15 million in net income for the prior year. It may not be publicly traded, and may not be any of the following kinds of businesses: (1) a country club, (2) a racetrack or other gambling facility, (3) a store that principally sells alcoholic beverages for off-premise consumption, (4) a massage parlor, (5) a hot tub facility, (6) a suntan facility, (7) a business engaged in the development or holding of intangibles for sale, (8) a golf course, or (9) a business that derives 15% or more of its net income from rental or sale of real property (with exceptions).

The Department of Development would not be required to issue tax credit certificates in program three if (1) less than 25% of eligible investment authority is not invested within one year of the date (the "closing date") when all funds have been collected by the rural business growth fund, (2) less than 50% of eligible investment authority is not invested within two years of the closing date, or (3) less than 100% of eligible investment authority is not invested within three years of the closing date. The bill sets a limit of $7.5 million on investments by a fund in any one business firm.

In addition, the Department need not issue program three tax credit certificates if investments by county, based on locations of principal business operations, do not conform to requirements. Not less than 50% of a fund's program three investments must be in Appalachian counties, called the tier four rural area in the bill. Tier four is new to the rural business growth program, and not part of rounds one and two. Not less than 75% must be in tiers two, three, or four, with tier three counties having populations of 75,000 or fewer, and tier two counties having larger populations but not more than 150,000. Investment in tier one counties, with populations larger than 150,000 but less than 200,000, would be limited to 25% of a fund's eligible investment authority.

Population in the bill means the most recent of either the decennial census or the annual population estimate of the U.S. Census Bureau. Based on July 1, 2023 Census Bureau figures, of 32 Appalachian counties, 24 are in tier three counties, five are in tier two, none are in tier one, and three have populations larger than 200,000, the tier one upper limit in all three funding rounds. The three Appalachian counties above this previous population limit on eligibility for rural business growth program investments are Mahoning, Clermont, and Trumbull.

Fees

An application fee of $5,000 and annual fees of $20,000 are due from each rural business growth fund, to be deposited in the Tax Incentives Operating Fund (Fund 5JR0) used by the Department of Development. These fees would defray the Department's costs to administer the program.

State reimbursement

After the sixth anniversary of its closing date, a fund generally may apply for decertification. The annual fee is no longer required once a fund is decertified. If the decertification is approved, the bill requires calculation of a state reimbursement amount, based on the amount of credit-eligible contributions compared with the number of full-time equivalent (FTE) jobs created. For a given credit-eligible contribution amount, more FTEs imply a smaller state reimbursement. If no jobs are created, the state reimbursement owed would be the full amount of credit-eligible contributions. State reimbursements paid would be credited to the GRF.

For investments in tier one or tier two counties, a fund owes reimbursement to the state if credit-eligible capital contributions exceed the product of $30,000 times the number of FTEs. For tiers three and four, reimbursement is owed if credit-eligible capital contributions exceed the product of $60,000 times the number of FTEs. This larger amount for tier three, the smallest counties, implies that only half as many jobs need to be created as in rounds one and two, when the per-job amount for tier three and the other tiers was $30,000, in order to avoid owing a state reimbursement. The bill is silent on the valuation to be applied to FTEs in the counties that are in both tiers two and four: Columbiana, Ashtabula, Tuscarawas, Muskingum, and Ross. No

reimbursement would be due from a fund if the number of FTEs, valued at $30,000 or $60,000, respectively, exceeds the credit-eligible capital contribution. The Director of Development would have discretion to waive all or part of the state reimbursement that would otherwise be owed, based on jobs retained that would have been lost without the rural business growth program investments.

Possible indirect effects

To the extent that the bill promotes local development that would otherwise not have occurred, it may contribute to growth of employment, incomes, property values, and local tax revenues. The magnitude of any such indirect effects appears uncertain.

Timing of revenue losses

If the bill were enacted promptly and initial investments were made in calendar year (CY) 2024, credits might be claimed by insurance companies as early as tax year 2027, reducing GRF revenues in FY 2028. More likely the delay from the bill's 90-day effective date and the time required to start the program's third round would defer initial investments until CY 2025 and initial reductions in GRF revenue until FY 2029. Because credits would be claimed in equal amounts in the third, fourth, fifth, and sixth tax years, and because the bill provides for up to four-year carryforward of credits not claimed initially, GRF reductions could extend to FY 2035 or FY 2036.

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