Ohio Legislative Service Commission

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Fiscal Note & Local Impact Statement

Bill: Am. H.B. 135 of the 130th G.A.

Date: June 11, 2013

Status: In House Economic Development and Regulatory Reform

Sponsor: Reps. Pelanda and Cera

Local Impact Statement Procedure Required: Yes

Contents: Authorizes a nonrefundable tax credit against various taxes for the rehabilitation of a vacant industrial site

State Fiscal Highlights

STATE FUND	FY 2014	FY 2015	FUTURE YEARS
General Revenue Fund			
Revenues	Potential loss	Potential loss	Potential loss
Expenditures	- 0 -	- 0 -	- 0 -
Business Assistance Fund (Fund 4510)			
Revenues	Potential gain	Potential gain	Potential gain
Expenditures	Potential increase	Potential increase	Potential increase

Note: The state fiscal year is July 1 through June 30. For example, FY 2014 is July 1, 2013 – June 30, 2014.

- The bill creates a nonrefundable tax credit against the income tax, financial institutions tax, severance tax, and domestic and foreign insurance taxes for the rehabilitation of a vacant industrial site.
- Except for the severance tax, the nonrefundable tax credit will reduce GRF revenue from the other taxes listed above. Any tax credits against the severance tax will reduce certain non-GRF funds, including the Geological Mapping Fund, the Unreclaimed Lands Fund, the Oil and Gas Well Fund, the Coal Mining Administration Fund, the Reclamation Forfeiture Fund, and the Surface Mining Administrative Fund.
- The bill allows the Development Services Agency to impose a fee of up to $2,500 with an application for the tax credit. Any fee required to be paid is assumed to be deposited in the Business Assistance Fund (Fund 4510).

Local Fiscal Highlights

LOCAL GOVERNMENT	FY 2013	FY 2014	FUTURE YEARS
Counties, municipalities, townships and libraries (LGF and PLF)			
Revenues	- 0 -	Potential loss	Potential loss
Expenditures	- 0 -	- 0 -	- 0 -

Note: For most local governments, the fiscal year is the calendar year. The school district fiscal year is July 1 through June 30.

- Reductions in GRF tax revenue from the tax credits will decrease distributions to the Local Government Fund (LGF) and Public Library Fund (PLF). Under current law, a share of GRF tax revenue is distributed to the LGF and PLF.

Detailed Fiscal Analysis

The bill authorizes a nonrefundable tax credit against the income tax, financial institutions tax, severance tax, and domestic and foreign insurance taxes for the rehabilitation of a vacant industrial site that has been designated an industrial recovery site. An owner or developer that makes "qualified investments" in a "vacant" facility designated as an industrial recovery site is required to apply to the Director of Development Services to obtain a tax credit certificate. "Qualified investment" means expenditures for the remodeling, repair, alteration, demolition, or redevelopment of a vacant industrial site for the purpose of putting the site to a better or more efficient use. A "vacant" facility is a building or a complex of buildings that have been used, or constructed for use, in production, manufacturing, fabrication, assembly, processing, refining, finishing, or warehousing of tangible personal property. The facility must have been placed into service and been at least 50% occupied at least 15 years before the application for designation as an industrial recovery site by a county or municipal corporation. Also, at least 75% of the facility must not have been used to carry on production, manufacturing, assembly, processing, refining, finishing, or warehousing of tangible personal property for the five years immediately preceding the application.

The Director of Development Services is to designate manufacturing facilities meeting certain qualifications as industrial recovery sites. The application is to include a detailed plan for the development and use of the industrial site and state the amount of investments. Under the bill, the Director may require owners and developers to include with the application a uniform fee of up to $2,500. As the bill does not provide for the fund to receive these fees, LSC assumes that any fee required by the Director will be deposited in the Business Assistance Fund (Fund 4510).

The amount of the tax credit certificate would depend on the amount of the qualified investment and the date the vacant facility on the industrial recovery site was placed into service. If the facility was placed into service between 15 and 30 years before the date of the application, the credit equals 15% of the qualified investment. If the facility was placed into service 30 to 40 years before the date of the application, the credit equals 20% of the qualified investment. If the facility was placed into service more than 40 years before the date of the application, the credit equals 25% of the qualified investment. If the amount of the tax credit certificate exceeds the tax otherwise due from the certificate owner, the remaining credit may be carried forward to subsequent tax years or tax periods. The bill does not prescribe a cap either on the tax credit available to each owner or developer or the total amount of tax credits that could be awarded overall. The bill provides a five-year sunset date for the tax credit program and requires the Director to submit an annual report that includes information on the status of the rehabilitation of each industrial recovery site.

Fiscal impact

LSC has not found a publicly available statewide inventory of vacant industrial sites that may meet the qualification described in the bill and the level of investments required for their rehabilitation. However, the National Association of Industrial and Office Properties, in testimony on June 3, 2013, stated that about 2,101 industrial buildings statewide are completely vacant, and another 3,108 are at least 25% vacant.[1]

The proposed industrial recovery tax credit will reduce revenue from the income tax, financial institutions tax, severance tax, and domestic and foreign insurance taxes; however, the potential size of the revenue decline is undetermined and could be sizable. Annual revenue losses may grow due to credit carryforwards adding to tax credits awarded in future years. The credits, which have to be approved in advance, would be dependent on recommendations by local governments, the number and the age of designated facilities deemed suitable for reuse by investors, the level of qualified investments, and approval of tax credit applications by the Development Services Agency***, all of which cannot be determined at this time.***

Except for the severance tax, revenue from the remaining taxes is deposited fully into the General Revenue Fund (GRF). Under permanent law, a portion of GRF tax receipts is subsequently transferred to the Local Government Fund (LGF) and the Public Library Fund (PLF). Am. Sub. H.B. 153, the operating budget act for FY 2012 and FY 2013, fixed the LGF and PLF transfer amounts at predetermined levels, so that changes in receipts from GRF taxes during the biennium affect the GRF only. In FY 2014 and subsequent years, transfers to the LGF and PLF will resume based on percentages to be determined by the ratios of transfers to each fund in FY 2013 to total FY 2013 GRF

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[1] Though the testimony provided a map of the geographic locations of the industrial sites, it does not provide a breakdown of the age of the buildings or the potential level of investments that may be needed to bring them back into use.

tax revenues. Receipts from the severance tax on specified natural resources are distributed, in varying amounts, to non-GRF funds, including the Geological Mapping Fund, the Unreclaimed Lands Fund, the Oil and Gas Well Fund, the Coal Mining Administration Fund, the Reclamation Forfeiture Fund, and the Surface Mining Administrative Fund.

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