Ohio Legislative Service Commission

Jean J. Botomogno

Fiscal Note & Local Impact Statement

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

Date: September 5, 2013

Status: As Passed by the House

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 of several tens of millions of dollars	Potential loss of several tens of millions of dollars
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.
- The tax credit will reduce GRF revenue from the taxes listed above, other than the severance tax. 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 revenue loss from the bill is uncertain, but could be potentially sizable, depending on the number of applications for the tax credit, the size of qualified investments, and credits awarded by the Development Services Agency.
- 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 of several millions of dollars	Potential loss of several millions of dollars
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, the LGF and PLF receive 3.32% of GRF tax revenue.

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, before April 1 each year 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 that may be 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). In FY 2014 and subsequent years, the GRF would retain 96.68% of GRF tax revenues, and transfers to the LGF and PLF are to be 1.66% of GRF tax receipts to each fund. Receipts from the severance tax on specified natural resources are distributed, in varying amounts, to non-GRF funds, including the Geological

---

[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.

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.

Annual Value of Private Nonresidential Construction Put in Place in Ohio

The U.S. Census Bureau collects information on construction work on total new structures or improvements to existing structures for private and public sectors. Based on that survey, the value of private nonresidential construction work put in place in Ohio was $7.7 billion, on average, between 2003 and 2012, a period which includes both pre-recession and post-recession years. Data from the U.S. Bureau of Economic Analysis suggest that, of the total investment in private nonresidential structures, between 2004 and 2011, about 16% of the amount was spent on manufacturing and warehouse facilities. Using those two figures, an estimated $1.2 billion in private investment may be expended annually for industrial manufacturing and warehouse facilities. Applying the minimum and maximum credit percentages of 15% and 25% to the previous estimate yields, respectively, about $180 million and $300 million per year, before limitations prescribed in the bill as described earlier in this fiscal note. Therefore, the annual fiscal loss to the state is likely to be substantially less than $180 million to $300 million, but nonetheless could be sizable. Due to the carryforward feature in H.B. 135, the annual fiscal impact of tax credit claims may increase in subsequent years.

HB0135HP.docx / dp