Ohio Legislative Service Commission

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Fiscal Note & Local Impact Statement

Bill: S.B. 149 of the 130th G.A.

Date: November 12, 2013

Status: As Introduced

Sponsor: Sen. Beagle

Local Impact Statement Procedure Required: No

Contents: To authorize tax credits for contributions of money to economic and infrastructure development projects undertaken by local governments and nonprofit corporations

State Fiscal Highlights

STATE FUND	FY 2014	FY 2015	FUTURE YEARS
General Revenue Fund			
Revenues	- 0 -	Loss of approximately $4.8 million	Loss of approximately $4.8 million
Expenditures	- 0 -	- 0 -	- 0 -
Other State Funds – Development Services Agency			
Revenues	- 0 -	Potential gain	Potential gain
Expenditures	- 0 -	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 would reduce tax receipts from the state personal income tax (PIT), commercial activity tax (CAT), financial institutions tax (FIT), insurance premiums taxes, or public utility taxes, from tax credits for contributions of money to economic and infrastructure development projects undertaken by local governments and nonprofit corporations.
- Beginning in FY 2015, the GRF would bear 96.68% of any revenue loss under the taxes mentioned above. The $5 million annual credit cap would limit the GRF revenue loss to about $4.83 million per year. Any reduction to total GRF tax receipts would also reduce the amount distributed to the Local Government Fund (LGF) and the Public Library Fund (PLF). Each fund would bear 1.66% of such revenue loss.
- The bill may increase Development Services Agency (DSA)'s administrative costs for project application and approval processes for awarding the tax credits. However, the bill permits DSA to charge an application fee of up to 10% of the estimated tax credits determined for such project, thus offsetting its administrative costs. The bill does not specify which fund will receive the fees.

Local Fiscal Highlights

LOCAL GOVERNMENT	FY 2014	FY 2015	FUTURE YEARS
Counties, municipalities, townships, and other local governments			
Revenues	- 0 -	Loss of approximately $83,000	Loss of approximately $83,000
Expenditures	- 0 -	- 0 -	- 0 -
Libraries			
Revenues	- 0 -	Loss of approximately $83,000	Loss of approximately $83,000
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.

- Any reduction to total GRF tax receipts would also reduce the amount distributed to the Local Government Fund (LGF) and the Public Library Fund (PLF). Each fund would bear 1.66% of such revenue loss. The $5 million annual credit cap would limit the LGF and PLF total revenue loss to about $166,000 per year.

Detailed Fiscal Analysis

Nonrefundable tax credit related to economic development projects

The bill allows businesses that contribute money to a "catalytic project"[1] undertaken by a local government or nonprofit community development corporation to claim nonrefundable tax credit against the state personal income tax (PIT), commercial activity tax (CAT), financial institutions tax (FIT), insurance premiums taxes, or public utility taxes. The bill specifies that the credit equals 60% of a business' contribution to a project primarily benefiting one or more counties each of which has a population of less than 125,000 according to the most recent decennial census, and 50% of a contribution to a project primarily benefiting an urban area. The bill provides that a local government that is in fiscal emergency as determined by the Auditor of State does not qualify to propose a catalytic project. The bill also provides that a nonprofit community development corporation must meet certain criteria to qualify to propose a catalytic project.

In order for a business to receive a tax credit, a local government or nonprofit community development corporation may apply for a tax credit on behalf of such business that proposes to make a catalytic project contribution of at least $5,000 by submitting a proposal to the Development Services Agency (DSA). The proposal must include certain information as required by the bill. The bill specifies that the amount of

[1] The bill defines a "catalytic project" as an economic development project or activity undertaken by a local government or nonprofit community development corporation that will induce sustainable private investment in one or more local units of government. Catalytic project includes construction of buildings, infrastructure improvements, central business district redevelopment, land reutilization, production of housing, and microenterprise development.

tax credit per project must not exceed $500,000. Also a business may receive a tax credit for an approved contribution of up to $500,000. In addition, the DSA must not approve any catalytic project contribution before the first day of January of the calendar year immediately following the effective date of this bill or after the thirty-first day of December of the fifth calendar year following the effective date.

The bill specifies that the aggregate of all tax credits issued in a calendar year is limited to $5 million. Any residual credit amount for the preceding calendar year may be carried forward and awarded in the next year. The aggregate of all tax credits issued before the first day of July in any calendar year for contributions funding urban catalytic projects must not exceed $3.5 million of the $5 million annual estimated credit, plus 70 percent of any residual credit amount for the preceding calendar year.

The bill would reduce by an unknown amount revenue from state PIT, CAT, FIT, insurance premiums taxes, or public utility taxes. The amount of revenue loss in each taxable year would directly depend on the number of approved catalytic projects, contributions to those projects, and the size of taxpayers' liabilities. However, the maximum loss of state tax revenue would be limited to $5 million per year. Approximately 96.68 % or $4.83 million of such loss would be borne by the GRF. The remaining 3.32% or $166,000 per year will be borne by the LGF and PLF, or $83,000 for each fund. Decreases to the LGF would reduce allocations to local government entities, while reductions to the PLF would decrease allocations to libraries.

Administrative costs to the Development Services Agency

The bill requires DSA to administer the tax credit. Initially, the bill's provisions may increase DSA's administrative costs as the agency establishes the catalytic project application and approval processes for awarding the tax credits. However, the bill also permits DSA to charge an application fee of up to 10% of the estimated tax credits determined for the businesses contributing to the catalytic project. So, once the program is operational, ongoing operating expenses will presumably be covered by this fee. The bill does not specify which fund will receive the fees.

In addition, DSA has other duties under the bill, including (1) certifying nonprofit community development corporations that wish to apply for catalytic projects, (2) performing an annual cost-benefit analysis of each approved catalytic project and the tax credit program as a whole, and (3) establishing criteria for revoking tax credits. These duties may result in additional administrative costs to DSA, but the expenditures will likely depend on how the provisions are implemented by the agency, and the costs may be offset, entirely or in part, by the fee allowable under the bill.

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