



**Testimony on House Bill 153, before the Senate Finance Committee
Presented by Jim Leftwich, Director of the Ohio Department of Development, and
Kristi Tanner, Assistant Director of the Ohio Department of Development**

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Chairman Widener, Ranking Member Skindell, and members of the Senate Finance Committee, my name is Jim Leftwich, and I am the Director of the Ohio Department of Development, and with me is Kristi Tanner, the Assistant Director of the Ohio Department of Development. We want to thank you for the opportunity to present testimony on the Ohio Department of Development's fiscal year 2012 and fiscal year 2013 Operating Budget.

Ohio Needs a New Approach to Economic Development

With the loss of more than 400,000 jobs since 2006, Ohio must reform the way it approaches economic development if we are to effectively compete against states and countries for jobs and businesses. To retain Ohio's existing businesses, we must bring new, innovative ideas to create an environment for success. Ohio's fundamental development structure has not changed in more than 30 years and it requires a transformation to a more nimble, responsive organization, better aligned with intense economic development competition.

The budget we have before us today – Governor Kasich's Jobs Budget – reflects the necessity of this reform. House Bill 153 delivers a balanced budget that returns Ohio to fiscal stability without raising taxes, while preserving the two-year \$800 million income tax cut. Through a series of major reforms, House Bill 153 seeks to restore our economic competitiveness, create jobs, and deliver 21st Century government services. As Governor Kasich said, "budgets are not goals in themselves but merely tools for achieving goals, and the goal of this budget is job creation." In order to reach this end goal and, moreover, to transform Ohio's economy, the Ohio Department of Development has a three step plan for economic development reform.

Three Steps to Economic Development Reform

- 1) **Create JobsOhio** – Step one is to replace Ohio's government-based economic development efforts with a pioneering new private sector approach, modeled after business, which allows the State to become more proactive, competitive, and better respond to emerging and promising opportunities. House Bill 1 allowed us to take the first key steps in this reform. JobsOhio will be run in a "performance counts" manner where leadership and staff will be directly accountable for their success or failure. Success in retaining and attracting jobs and businesses to Ohio will be rewarded, and ineffectiveness will be penalized. Prior to becoming the Director of the Ohio Department of Development, I was the President and CEO of the Dayton Development Coalition. The Coalition is a regional organization that operates in a manner similar to that envisioned for JobsOhio. I have seen first-hand how the approach works to deliver jobs and I am encouraged about Ohio's future as a result of the JobsOhio initiative.
- 2) **Provide Sustainable Funding for Economic Development in Ohio** – The second step in reform is to provide sustainable funding for economic development in Ohio. Currently, there is no single, dedicated, long-term source of revenue to support economic development activities in the state. At this time, some of the most effective job creation and retention tools available rely upon state general revenue funding, putting economic development and job creation at risk during exactly those periods of economic downturn when these investments are needed most.

House Bill 153 solves this problem by allowing the state to transfer Ohio's wholesale liquor enterprise to JobsOhio for a term of 25 years in exchange for at least \$1.2 billion, including a \$500 million payment to the State's General Revenue Fund and approximately \$700 million

to pay off current liquor profit bondholders. The price will take into consideration JobsOhio's public purpose and accountability to job creation. The state will maintain its current regulatory and enforcement roles. The Division of Liquor Control, in the Department of Commerce, will continue to issue liquor permits and licenses. In short, there will be little, if any, noticeable change for the public, distributors, wholesalers, and the liquor agency owners. What will change though is the state's ability to respond to difficult economic conditions quickly, flexibly, and effectively with a dedicated, independent, and sustainable source of revenue.

- 3) **Equip JobsOhio with the best talent and tools** –The final step to reform is to equip JobsOhio with the best talent and tools, balanced by appropriate accountability measures and reporting requirements. The JobsOhio team will have the experience and skill to identify potential projects, understand the needs of customers, structure deals innovatively, and take risks appropriately.

I would now like to turn it over to Kristi to discuss in more detail highlights of our budget.

Working at the Speed of Business

While we work to implement the provisions of House Bill 1, we must not lose sight of our responsibilities and focus on economic and community development in the immediate term. Currently, there are more than 220 new projects in the Strategic Business Investment Division alone, each requiring careful management and collectively representing 24,261 new and 25,869 retained jobs with nearly \$7.6 billion in new capital investments should they choose to invest in Ohio. A timely response to our customers is a top priority.

We are also very mindful of the enormous responsibility that comes with being good stewards of taxpayer funds. In January, we investigated the outstanding commitments for these projects and learned that there was not a standard in place to determine the state's return on investment for the commitment of incentives. We immediately created a tool to assess the state's return on investment based on the company's proposed new payroll in Ohio – a tool that now serves as our standard to help guide decisions on responsible incentive awards.

The Department is also focused on performance and accountability. Using "clawbacks," a term to describe the repayment of incentives by companies that don't keep their job creation promises, the Department has initiated a process to seek reimbursement on more than \$1.6 million worth of economic development incentives. This practice will continue both within the Ohio Department of Development and also in JobsOhio.

Budget Highlights

There are some significant differences in our fiscal year 2012 and 2013 requests along with a few programmatic requests in House Bill 153 that I'd like to review with you now. While the fiscal year 2012 budget looks very similar to the current fiscal year 2011 budget, the fiscal year 2013 has a significant number of zeros in the General Revenue Fund line items. There is a simple explanation for this. Fiscal year 2012 is a year of transition and therefore looks similar to the current fiscal year. By fiscal year 2013 though, we anticipate a full transition to JobsOhio. Programs that move to JobsOhio will be funded from future liquor profits and not require General Revenue Funds, however, programs that remain with the state may require General Revenue Funds. The rationalization study to determine which Development programs will remain is well underway. We will return to the General Assembly later this year with a report and a detailed budget for those functions.

With that being said, there are two exceptions to this approach. First, there are fiscal year 2013 General Revenue Fund appropriation requests for debt service. Debt service requests assure our bondholders and the bond rating agencies that the State of Ohio stands firmly behind its commitments. The second exception, a result of the timing, is the proposed transfer of the Coal Development Office. This transfer represented a relatively modest amount of General Revenue Funds for the operations of the Office.

Additional budget highlights include:

- **Coal Development Office** – Coal is a key segment of Ohio's economy, employing thousands of people in its production, transportation, and end-use electricity generation. House Bill 153 recognizes the importance of coal as an economic development resource by transferring the Coal Development Office from the Ohio Air Quality Development Authority to the Ohio Department of Development. The Coal Development Office projects include technologies that: improve combustion efficiencies, reduce sulfur and nitrogen oxide emissions, and research new uses for coal as a feedstock for other fuels. Having the Office within the Ohio Department of Development will sharpen our focus on the growth of Ohio's economy through the use of our existing resources while simultaneously leading to greater efficiencies

in developing a diversified energy portfolio. Administrative costs for the Office are budgeted at approximately \$261,000 for each fiscal year of the biennium. Debt service is budgeted at \$9.4 million for each fiscal year. Any unused subsidy appropriations from the Ohio Air Quality Development Authority in fiscal year 2011 will be carried forward into our fiscal year 2012 budget.

- **Ohio Third Frontier** –The Technology and Innovation Division, which includes the OhioThird Frontier program, supports economic development through the research, development, and commercialization of advanced technology products. In 2010, Ohio voters approved State Issue 1 which continued funding for research and development purposes by authorizing the state to issue an additional \$700 million in bonds over four years to continue and improve our thriving and innovative OhioThird Frontier programs. State Issue 1 provided for a more compressed timeline for release of the bonds which is designed to increase the program capacity. As a result, the OhioThird Frontier budget has increased from \$76 million in fiscal year 2011 to \$225 million in fiscal year 2012 and \$175 million in fiscal year 2013. As of December 30, 2010 the OhioThird Frontier program has been responsible for the creation of 68,855 total direct and indirect jobs. At least 11,402 of those jobs are direct jobs.
- **Community Development Division** –The Department administers a variety of state and federally-funded programs designed to build stronger, healthier communities throughout the state and to support families in need. Many of those programs are housed within the Community Development Division and are funded primarily through federal block grants, revenue received from utilities, and recordation fees. The Division serves low-to-moderate income households through a range of programs from emergency home repairs to home weatherization improvements to home heating assistance to downtown streetscape and facade improvements and much more. With the exception of two relatively modest increases in federal appropriations, the Division’s fiscal year 2012 and fiscal year 2013 budget will be unchanged from its fiscal year 2011 budget.
- **The Refundable Job Retention Tax Credit** – As you are well aware, we are at war with other states to create and retain jobs here in Ohio. Just as with American Greetings, it is often the case that companies have better options outside of our borders and, consequently, it is our duty to do what we can to retain those jobs and the payroll they represent. However, our existing toolbox doesn’t always provide the necessary tools to retain these companies. House Bill 153 expands the Refundable Job Retention Tax Credit from \$8 million to a total of \$25 million over the biennium, allowing for an additional \$17 million to be annually awarded in extreme job retention cases, such as American Greetings. The credit will be available in extenuating circumstances where other incentives are insufficient or inflexible and where the businesses are retaining a minimum of 500 employees with an annual payroll of at least \$20 million OR businesses with an annual payroll of at least \$35 million. By allowing this credit to be used only when a business remains in its current political subdivision, we will also be providing sustainable, long-term growth for local communities. As with other tax credits, this too must pass through the Ohio Tax Credit Authority.
- **Ohio Incumbent Worker Training Program** – House Bill 153 proposes an Ohio Incumbent Worker Training Program. A robust, motivated, well-educated, and highly trained workforce that understands the value of life-long learning as a way to constantly upgrade skills and stay current on technology is critical for the retention and attraction of all businesses in Ohio. Yet, Ohio’s current workforce does not match up with this basic definition of an exceptional workforce and threatens to undermine our recovery and future job growth. The Ohio Incumbent Worker Training Program aims to address this issue head on by providing needed funds to Ohio’s key business sectors and their workforces. The program will allow an eligible employer, or eligible employee with approval from their employer, to directly apply to the state for a job training voucher valuing up to \$6,000 per worker per year. The employer or employee will be required to pay at least 33 percent of the total skill-upgrade training costs to earn the voucher. The program has been initially appropriated \$20 million in fiscal year 2012 and \$30 million in fiscal year 2013 from the casino licensing fee fund.
- **Removal of the Prevailing Wage Requirement** – House Bill 153 provides the option for businesses and communities to apply cost-saving measures as they relate to economic development incentive awards. Presently, prevailing wage is required when receiving state economic development incentives for the construction and improvements made to buildings and for the installation of machinery and equipment. Prevailing wage requirements on businesses and communities can increase the total project and management costs as well as impose burdensome compliance and documentation requirements. By removing these requirements, the financial burden to businesses and communities will be reduced; site selectors and companies around the world will know that Ohio is open for business; and ultimately, we will be more competitive.

- **Enterprise Zone Extension** –The Enterprise Zone program, overseen by the Department, offers an exemption of real property taxes of up to 100 percent over a period of 15 years as a tool for communities to encourage and incentivize new capital investment and job creation. Enterprise Zones are a vital piece of the retention and attraction equation. Communities across Ohio, though, will be faced with the challenge of what to do with the existing 409 Enterprise Zones as we near the current sunset date of October 15, 2011. The impending sunset not only will restrict communities from executing new agreements with developers and businesses, but it also will hamper their ability to offer new exemptions for expiring agreements. House Bill 153 proposes the extension of the Enterprise Zone program for one year to grant communities suitable time for planning and preparation.
- **Ohio Historic Preservation Tax Credit Program** –Through our Urban Development Division, the Ohio Historic Preservation Tax Credit Program provides a tax credit to owners of historic buildings to complete rehabilitation projects. Since 2007, the Department has approved 108 historic rehabilitation projects in 25 different Ohio jurisdictions. Despite having exhausted available credits, there are still 31 “ready-to-go” project applications in the program queue. These 31 projects represent \$278 million in projected project investments. Recognizing this opportunity, the House reauthorized the Ohio Historic Preservation Tax Credit Program in House Bill 153 by providing an annual tax credit allocation of \$25 million. House Bill 153 was also amended to permit the credits to be taken against the foreign and domestic insurance tax – allowing insurance companies to participate in the investments. This is one programmatic update, in addition to several others, that the Department has identified to improve an already successful program. With \$240 million in previous tax credits authorized by the legislature, the program, to date, has generated a return on investment of more than 7 to 1 and accounted for nearly 5,500 permanent jobs and 2,984 construction jobs.

Conclusion

Thank you, Chairman Widener and members of the Committee. We would be happy to answer any questions you may have at this time.

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