



JUNE 17, 2009

TO: HOUSE WAYS & MEANS COMMITTEE
FROM: LOCAL GOVERNMENT AND SCHOOL OFFICIALS
SUBJECT: INTERESTED PARTY TESTIMONY FOR HB 218

Chairman Letson, Representative Huffman, and Members of the Committee:

On behalf of the Buckeye Association of School Administrators (BASA), County Commissioners Association of Ohio (CCAO), Ohio Association of School Business Officials (OASBO), Ohio School Boards Association (OSBA), and the Ohio Township Association (OTA), we would first like to extend our gratitude to the bill sponsor and to the Chairman for including us in the many stakeholder meetings regarding proposals to change state tax policy for alternative energy sources. We appreciate your willingness to hear our views and concerns about possible changes and also to discuss other options with us. We believe the dialogue has served to inform the legislative process and to help policy leaders (and stakeholders) understand the implications of such change.

On behalf of our members, the local governments and school districts across the state, we are writing to share those concerns as interested parties to the bill.

Just since the last stakeholders meeting on this issue, we have all learned that the state faces up to a \$3.2 billion dollar budget gap for the coming biennium. With that news, we realize that local governments will be faced with a correlating reduction in Local Government Fund revenues, nearing a twenty percent decline in just one year, and education funding will become much more difficult. We ask that this committee use caution in considering any legislation that will impact local and state revenues and Ohio's tax structure.

We understand the importance of fostering alternative energy options in Ohio and the nation. We believe that strong steps have already been taken over the years to implement public policy that will promote investment in these types of energy generation resources and to ensure Ohio consumers will pay competitive prices for electricity.

Perhaps the very first step was the deregulation of electricity through Senate Bill 3 (123rd G.A.). Ohio made significant restructuring changes in utility tangible personal property taxes paid by generation providers because of the pressures of competition. Local government entities and school districts experienced a substantial loss in their local tax base as part of this important policy decision.

In SB 3, the listing rate for which utility tangible personal property was taxed dropped from 88% to 24% where it remains today. Certainly this was a dramatic decline in revenue for local governments and schools, but we accepted this as a necessary means to allowing competitors for generation of all sorts to enter the market in Ohio.

In HB 66 (126th G.A.) the major tax reform that was undertaken included the elimination of the Corporate Franchise Tax which will benefit alternative energy companies, but maintained the 24% listing rate for utility tangible tax as part of that tax reform package. This sweeping reform measure was intended to make Ohio's business tax structure competitive, but also to maintain necessary revenues to keep the State's services viable. Local government services and public education were also impacted by the provisions in HB 66 with further reductions in the local business tax base. We continue to work with the legislature to find solutions for the effects of those losses.

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HB 218 Interested Party Letter
Local Government & School Concerns

More recently there was a major move for Ohio in the adoption of the alternative energy portfolio standard through Senate Bill 221 (127th G.A.) which requires that by 2025, 25 percent of electricity sold in Ohio must be generated from alternative energy sources, such as clean coal, nuclear energy, fuel cells and cogeneration. Half of this standard (12.5 percent) must be met with renewable sources, including a 0.5 percent solar set aside. Also, half of the advanced energy and renewable energy must be located in Ohio.

Included within SB 221 were benchmarks for energy efficiency and renewable energy standards that must be met or penalties will be levied. This significant effort, coupled with a considerable portfolio requirement, represents the third most aggressive standard in the country, according to the U.S. Department of Energy.

After the passage of SB 221, local governments began to hear from wind developers about the challenges the industry was facing in meeting various zoning and "siting" regulations that could differ from township to township and county to county. Local government groups worked together with industry stakeholders to devise a strategy to encourage statewide development of wind energy.

CCAO and the OTA supported inclusion of language in HB 562 (127th G.A.) which proposed a statewide siting standard for wind systems. The language generally allows for utility grade wind systems of 5MW or greater to use the Power Siting Board for siting approval, rather than dealing with multiple local governments. Local jurisdictions maintain siting for systems of less than 5MW.

This was an important sacrifice for local governments as zoning authority is perhaps one of their most important responsibilities for which they have been entrusted. As far as we know, Ohio is unique in having such a "one-stop shop" process. Nonetheless, local governments chose to join the state in partnering with the wind industry to encourage their development.

All of this progress notwithstanding, the wind and solar industry has come forward to suggest that they be granted additional preferences by way of a tax break on local utility tangible personal property tax. This request comes despite the fact that the wind and solar industry have provided no assurances that the power generated would even be sold in Ohio or that there would be long term positive economic impact for the state sufficient to justify the tax subsidy that they are demanding. No data has been presented to show the expected return on the investment requested of the state and local governments and schools, even for the short term impact of facility construction. Furthermore, we are concerned about special tax preferences for one industry which may be then sought by others, thereby further eroding our revenue base.

We believe the provisions in SB 221 makes alternative energy sources will become viable in Ohio, yet we continue our discussions to ensure that Ohio is competitive. Therefore, we urge you to be sure that all aspects of this issue have been thoroughly explored before agreeing to a change in Ohio's tax system. Furthermore, given the dire revenue crisis facing local governments, schools and the State, this is not the time to easily forgo potential revenue.

On behalf of local governments and schools, we appreciate the opportunity to offer our perspective. We plan to continue meeting with members of the committee to discuss these thoughts in further detail. Once again, thank you for your consideration of our views.