Ohio Economic Development Incentive Study

May 4, 2009

Ohio | Department of Development

Ted Strickland, Governor
Lee Fisher, Lt. Governor

Mark Barbash, Interim Director

Ohio | Department of Development

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Lee Fisher, Lt. Governor

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Dear Members of the Ohio General Assembly:

Today we face economic shifts that demand we reconsider how we attract and retain businesses in the State of Ohio. Our world is characterized by global competition, breakdowns in financial markets, and uncertainty in commodity markets such as energy and steel. These changes demand three things from government: flexibility, speed, and value.

Even in this economic downturn, we are building a brighter future for Ohioans with these three measures in mind. Our state has been awarded the Governor's Cup every year since 2006, an award given to the state that leads the nation in new and expanded facilities. In addition, Ohio is delivering on these measures through an innovative tax reform package. The elimination of the tangible personal property tax, 21 percent reduction in the personal income tax, phase out of the Corporate Franchise Tax for most taxpayers, and the implementation of the Commercial Activities Tax put Ohio back in the game for the most competitive projects.

However, tax reform is not enough. Under the leadership of Lt. Governor Lee Fisher, the Ohio Department of Development launched two major initiatives in 2007: the creation of a comprehensive Economic Development Strategic Plan to provide prosperity and opportunity for all Ohioans, and a review of Ohio's economic development financial incentives to ensure they aligned with the Strategic Plan. The Strategic Plan was released in September 2008 and we are today releasing the Incentive Study.

This report concludes that the ability of our incentive programs to deliver on these demands is mixed. Some of our programs are delivering responsive and flexible options for businesses, and other programs require more fine tuning to ensure that we are creating a business climate that promotes short- and long-term growth. This report lays out a framework for improving upon our record of excellence. We are proposing increased flexibility across our programs, which goes hand-in-hand with greater accountability. This report provides recommendations that will improve our accountability and transparency.

This report concentrates specifically on those programs and incentives that directly impact Ohio's ability to win competitive economic development projects. The Department and our Administration have offered separate proposals that will move our state forward in areas such as neighborhood revitalization, transportation infrastructure, the development of a film and media production industry in Ohio, workforce and technology development, and the availability of capital for businesses.

I would like to thank the team of external advisors and other individuals and groups that provided feedback on our work. While this report and its recommendations reflect the conclusions of the Ohio Department of Development, we benefited greatly from the thoughts and input of many others.

Sincerely,

Mark Barbash
Interim Director

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Executive Summary

Section 701.10 of Ohio House Bill Number 119, approved by the House on May 1, 2007 and the Senate on June 13, 2007, authorized the Director of the Ohio Department of Development:

> *"... to convene a task force composed of experts from the economic development community, local governments, and consultants involved in the site selection and negotiation process to study the economic development incentives that are available to local governments, regional groups, and the state."*

Pursuant to this legislation, Steven Schoeny, Director of the Department's Strategic Business Investment Division, was charged with conducting a study of Ohio's economic development incentives. To assist the Division in the performance of the study and to ensure wide and diverse input, the Ohio Economic Development Incentive Study Advisory Task Force was convened.

The study was coordinated and integrated with the work of the Department's Strategic Planning Advisory Team (Strategy Team) responsible for assisting in the preparation of Development's Strategic Plan. In his role as Ohio Department of Development Director and the leader of Ohio's development efforts, Lt. Governor Lee Fisher also charged the Division with creating recommendations that ensure Ohio's economic development incentives align with the state strategy currently under the Department, which are:

- To be competitive with other states
- To ensure responsiveness to business and stakeholder needs
- To administer efficiently with rapid turnaround times and predictable decision-making results
- To administer transparently with defined performance measures that support accountability
- To be cost-effective, serve the public interest, and protect the public dollar

Principal findings of the study:

1) **Ohio's combination of existing incentives and tax structure is competitive with the taxes and incentives available in other states.**

   The study concluded that Ohio's combination of existing tax incentives and Ohio's reformed tax structure is competitive with the taxes and incentives available in other states. Results show that tax reform improved Ohio's competitiveness by 10 percent to 20 percent, as compared with the tax structure prior to tax reform. Further, the analysis indicates that Ohio either enjoys a competitive advantage or has a cost structure equivalent to other states benchmarked in this study.

2) **Opportunities to further reduce Ohio's incentive benefit offerings as a result of tax reform and still remain competitive are limited.**

   Despite Ohio's improved competitive position, opportunities for Ohio to further reduce its incentive offerings are not supported by the analysis for the following reasons:

   - Ohio can always be "outbid" by any other state determined to do so using discretionary grant funds, often referred to as "closing funds." Ohio budgets fewer "closing funds" in total dollars and dollars per employed person in the state than many of the other states in the analysis. Because of Ohio's relative paucity of "closing funds," a state that desires to attract a development project at any cost can use its closing funds to outbid Ohio for a project – even though Ohio's overall tax and incentive offerings, excluding closing funds, may be more competitive than that of the other state.

- Some Ohio incentives were eliminated by tax reform (e.g., Personal Property Tax Abatement and Machinery & Equipment Tax Credit).
- The Ohio Department of Development has already reduced Job Creation Tax Credit (JCTC) benefit levels post-tax reform.

3) Ohio can further improve its competitiveness through highly targeted modification of incentive regulations and streamlining of its incentive management processes.

The study documents that Ohio can further enhance its competitiveness by improving its reputation as a state that provides exceptional service to companies considering locating or expanding in Ohio. This can be achieved through simplification of incentive regulations, selective consolidation of some programs, and streamlining of incentive management practices. Doing so would enhance the quality of the Ohio Department of Development's interactions with companies and potential investors, and earn Ohio a reputation of being able to "operate at the speed of business."

4) Ohio can significantly improve the "transparency" of its incentive transactions and decision-making processes without adversely impacting its competitiveness.

The study indicates that Ohio can improve the transparency and increase accountability of its incentive programs through standardization and simplification of its incentive regulations, performance measurements, and reporting processes, as well as through targeted investments in its information technology infrastructure. Such measures are entirely complementary with improving the state's competitiveness and the quality of service it offers businesses.

Specific detailed measures are recommended in the study to enact improvements to Ohio's incentive offering and incentive management processes consistent with the principal findings described above.

Department of Development Recommendation	Programs	Purpose	Status
Job Creation and Retention Tax Credits			
Broaden the eligibility for the JRTC, but institute a cap on the amount of credits issued by Ohio Department of Development to ensure that we continue to live within our means.	Job Retention Tax Credit	Allow flexibility to provide retention incentives for high-value projects outside of the automotive industry	Requires legislative action
Change the unit of measure for the JCTC and JRTC credits from individuals working 35 hours per week or more to payroll growth and full-time-equivalent employees.	Job Creation Tax Credit and Job Retention Tax Credit	Provide flexibility for employers in modern industries, support flexible work environments, improve accuracy of reporting, and provide common sense reporting	Requires legislative action
Simplify annual reporting requirements by companies participating in the JCTC and JRTC programs.	Job Creation Tax Credit and Job Retention Tax Credit	Improve reporting accuracy and transparency, and make Ohio's incentives more competitive	Requires legislative action
Limit the term of the job maintenance requirement and clawback liability to seven years or the term of the credit plus three years, whichever is greater for both JRTC and JCTC.	Job Creation Tax Credit	Make Ohio's incentives competitive with other states	Requires legislative action
Increase the wage threshold for JCTC and JRTC eligibility to 175 percent of federal minimum wage, with an exception for projects in counties where the county per capita income is less than 175 percent of the federal minimum wage.	Job Creation Tax Credit and Job Retention Tax Credit	Ensure that incentives are used to foster good jobs in Ohio	Requires legislative action
Standardize the relocation provisions across all Ohio incentive programs, including the JCTC program, to the maximum extent possible, by adopting an early-warning system.	Job Creation Tax Credit and Job Retention Tax Credit	Provide more transparency	Requires legislative action
Eliminate the local match requirement.	Job Creation Tax Credit and Job Retention Tax Credit	Eliminate unnecessary incentivizing of companies	Requires change in administrative rules
Local Property Tax Incentives			
Extend the Enterprise Zone program in its current form for an additional 12 months to allow time for the development of reforms to the entire system. Then allow the Enterprise Zone program to sunset and consolidate all property tax abatements into a single program.	Enterprise Zone	Provide continuity for efforts to provide broader reform	Requires legislative action

Department of Development Recommendation	Programs	Purpose	Status
Following the enactment of the 2010 – 2011 Biennial Budget, initiate a special bipartisan working group (selected by the Administration and the General Assembly) to develop a detailed proposal to reform local property tax incentives.	Enterprise Zone, Community Reinvestment Area, Tax Increment Financing	Improve transparency, effectiveness, and speed of local property tax incentives	To be initiated in spring and summer of 2009
Minority Business Loans			
Eligibility for loans should be extended to any minority-owned company certified by a federal or Ohio public agency to eliminate the need for multiple certifications to obtain financing.	Minority Business Direct Loan Program	Improve ease of access and effectiveness	Legislative action required
The state's reserve deposit should be increased from 10 to 20 percent of the principal balance of loans after the third loan originated by a lender under the CAP Access program.	Capital Access program	Improved competitiveness of the program and greater use by banking firms.	Legislative action required
The Ohio Department of Development's loan programs and the programs administered by the Department of Administrative Services, particularly the Minority Business Enterprise (MBE) and Encouraging Diversity, Growth, and Equity (EDGE) programs, should be closely coordinated to ensure that all eligible companies are aware of the Ohio Department of Development's minority-focused programs.	Minority Direct Business Loan and Capital Access programs	Improve transparency and access	On-going
To the greatest extent possible, the back office functions of the minority-focused loan programs and the 166 Direct Loan program should be combined. Any efficiencies gained should be used to free resources to allow increased outreach and marketing of the minority business loan programs.	Minority Direct Business Loan program	Increased efficiency and improved access to all programs	On-going
Workforce Development			
Ohio should clarify the roles of its various work force development organizations.	All workforce development programs	Improved efficiency and transparency	On-going
Ohio's workforce development system should establish organizational development priorities.	All workforce development programs	Improved efficiency and competitiveness	On-going
Administrative contracting and grant administration practices improvements implemented by the Workforce and Talent Division should be closely monitored to ensure that these improvements resolve business complaints.	All workforce development programs	Improved speed and efficiency	On-going
Recruitment and deployment of Regional Workforce Development Directors should be completed as soon as possible.	All workforce development programs	Improved speed, efficiency, and transparency	Completed

Department of Development Recommendation	Programs	Purpose	Status
Regional Workforce Development Directors should be co-located in regional partnership agencies.	All workforce development programs	Improved speed, efficiency, and transparency	Under consideration
Process Improvements			
All economic development incentives provided by the state should be standardized and where possible simplified; formulas should be developed to establish economic development incentive benefit levels.	All business development incentives	Improved efficiency, effectiveness, speed, and transparency	On-going, may require legislation
Empower Ohio Department of Development staff and a limited number of appropriately trained and certified economic development practitioners within regional economic development organizations to tentatively commit the state to provide incentives to businesses meeting the standardized eligibility criteria and at the benefit levels provided under the standardized formula subject to final approval by the Ohio Department of Development and the required state approval body.	Job Creation Tax Credit and business development grant programs	Improved efficiency, transparency, and speed	Under development
A common set of high-level performance measures should be established and gathered for all projects across all programs in a consistent manner.	All business development incentives	Improved efficiency and transparency	Under development
Company and project cross-reference codes, data definitions, reporting periods, and input procedures should be standardized across all projects and programs.	All business development incentives	Improved efficiency and transparency	On-going
The Ohio Department of Development should dedicate more resources to data system maintenance, quality assurance, and operator training.	All business development incentives	Improved efficiency and transparency	On-going
The Ohio Department of Development should develop a process to aggregate performance data across all projects and programs and publish an accurate, comprehensive annual performance report on a fiscal year basis.	All business development incentives	Improved efficiency and transparency	Under development
Standardize how requests for incentive assistance by businesses should be routed; clarify the roles of Governor's Representatives, Ohio Department of Development Regional Economic Development Directors, and Workforce Development Directors and Ohio Department of Development Business Representatives within the agreed-upon "routing" structure.	All business development incentives	Improved efficiency, transparency, and speed	On-going
The Ohio Department of Development should task its regional representatives and partnership organizations with launching a vigorous statewide initiative to identify and address the needs of Ohio and its existing businesses.	Ohio Department of Development operations	Improved efficiency and transparency	Under development

Department of Development Recommendation	Programs	Purpose	Status
Co-locate Governor's Representatives, Ohio Department of Development Regional Economic Development Directors, and Regional Workforce Coordinators in the offices of the primary regional economic development agencies in each region of the state.	All business development incentives	Improved efficiency and transparency	Under consideration
Minimize multiple rounds of meetings and trips to Columbus by businesses and their advisors and local development officials by leveraging information technology to enable video and teleconferencing between the Ohio Department of Development offices and each of the primary regional partner locations.	All business development incentives	Improved efficiency and transparency	On-going
Standardize the terms and conditions in the Ohio Department of Development incentive application forms and project agreements across programs to the greatest extent possible.	All business development incentives	Improved efficiency and transparency	On-going
Avoid the need to create "new programs" by modifying eligibility requirements of existing programs and creating and implementing an "Assistance Scorecard" or "Calculator," enabling preference to be given to new priorities as they arise without requiring the need to create whole new programs.	All business development incentives	Improved efficiency and transparency	On-going
Collaborate with the Ohio Department of Taxation and the Ohio EPA to determine whether and, if so, how turnaround time on checks for outstanding delinquent tax obligations and environmental legal actions can be reduced.	All business development incentives	Improved efficiency and transparency	On-going
Engage the State Controlling Board in a collaborative discussion to identify opportunities to streamline State Controlling Board incentive review processes while ensuring appropriate legislative oversight and to clarify the authority of the Ohio Department of Development to negotiate modifications of project terms subsequent to State Controlling Board approval.	Business development grants and loans	Improve efficiency and speed	New initiative
The Ohio Department of Development management should formally commit to an internal information system and process improvement plan.	All business development incentives	Improved efficiency and transparency	On-going

Background and Purpose of the Report

Section 701.10 of Ohio House Bill Number 119, approved by the House on May 1, 2007 and the Senate on June 13, 2007, authorized the Director of the Ohio Department of Development:

> *"… to convene a task force composed of experts from the economic development community, local governments, and consultants involved in the site selection and negotiation process to study the economic development incentives that are available to local governments, regional groups, and the state."*

Pursuant to this legislation, Steven Schoeny, Director of the Department's Strategic Business Investment Division, was charged with conducting a study of Ohio's economic development incentives. To assist the Division in the performance of the study and to ensure wide and diverse input, the Ohio Economic Development Incentive Study Advisory Task Force was convened.

The study was coordinated and integrated with the work of the Department's Strategic Planning Advisory Team (Strategy Team) responsible for assisting in the preparation of Development's Strategic Plan. In his role as Ohio Department of Development Director and the leader of Ohio's development efforts, Lt. Governor Lee Fisher also charged the Division with creating recommendations that ensure Ohio's economic development incentives align with the state strategy currently under the Department, which are:

- To be competitive with other states
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- To administer transparently with defined performance measures that support accountability
- To be cost-effective, serve the public interest, and protect the public dollar

Further, the Lt. Governor instructed the Division to devote as much or more attention on the effectiveness of Ohio's incentives in retaining existing companies (as opposed to solely attracting new ones).

The recommendations in this report are the recommendations of the Department of Development based on a variety of feedback, especially feedback from members of our Task Force. We thank the Task Force members for their insights, ideas, and time throughout this process.

Table 1: Ohio Economic Development Incentive Study Advisory Task Force Membership

Name	Title	Organization
Jennifer Simon	CEO / President, Economic Development Council / Athens Area Chamber of Commerce	Athens County
Andy Kuchta	Economic Development Director	Clermont County
Eric Phillips	Executive Director of Economic Development	Union County – Marysville Economic Development Partnership
Patrick Kelly	Director, Economic Development	First Energy
Wendy Patton/Michael Deemer	Executive Assistant to the Governor for Economic Development	Governor's Office
Matt McCollister	Vice President, Economic Development	Greater Columbus Chamber
David Zak	Vice President, Economic Development	Greater Springfield
Steve Schoeny	Director, Strategic Business Investment Division	Ohio Department of Development
Lisa Patt-McDaniel	Director, Workforce and Talent Division	Ohio Department of Development
Nadeane Howard	Assistant Director, Strategic Business Investment Division	Ohio Department of Development
Robert Stempfer	Deputy Chief Legal Counsel	Ohio Department of Development
Jeff Harris	Manager, Office of Tax Incentives	Ohio Department of Development
Tracy Allen	Manager, Office of Financial Incentives	Ohio Department of Development
Fred Church	Deputy Tax Commissioner	Ohio Department of Taxation
J.C. Wallace	Executive Director	Ohio Economic Development Association
Zach Schiller	Research Director	Policy Matters Ohio
Steve Weitzner	President	Silverlode Consulting
Michael Hinnenkamp	Administrator	Springfield Township
Gary Conley	President	TechSolve

Description of the Analysis

The Ohio Department of Development's Strategic Business Investment Division (Division) retained TechSolve to manage the evaluation of the state's incentives and assist in preparation of the final report. Gary Conley, the President of TechSolve, served as the company's project manager. Mr. Conley has 40 years of economic development experience, including serving as the Economic Development Director for the City of Cleveland, Executive Director of the CityWide Development Corporation of Dayton, and President of the Economic Development Corporation of Los Angeles County, California. Mr. Conley is also a former President of the National Council of Urban Economic Development, now the International Economic Development Council, the nation's foremost association of economic development practitioners.

The Division selected the following incentives for detailed evaluation:

- **Loan Programs:** Ohio Enterprise Bond Fund, 166 Direct Loan Fund, Minority Direct Loan Fund, and Capital Access Program
- **Job Creation and Job Retention Tax Credit Programs**
- **Site Improvement Programs:** Job Ready Sites Program
- **Discretionary Grants/Closing Funds:** 629 Program, Rapid Outreach Program, and Economic Development Contingency Account
- **Workforce Development Programs:** Ohio Investment in Training Program, Workforce Guarantee Program
- **Local Tax Abatement and Increment Programs:** Community Reinvestment Program, Enterprise Zone Program, the Impacted Cities Program, and Tax Increment Financing

Planning for the Division's evaluation and report began in August 2007. As work on the evaluation was underway, an evaluation of the Job Ready Sites Program was undertaken in anticipation of issuing a request for proposals in January 2008. Changes indicated by the Job Ready Sites Program evaluation were incorporated into the program design in November and December of 2007. Accordingly, the Job Ready Sites Program has been excluded from this report.

The methodology used to evaluate the remaining incentives is described below.

Compilation and Review of Previous State Studies Pertaining to Economic Development Incentives

A number of informative studies have been conducted over the past decade which provide insight into Ohio's economic development incentives. These studies were compiled and reviewed as a first step in this evaluation of Ohio's economic development incentives. A few of the most relevant works are presented in Table 2 (below).

Table 2: Previous State Studies Reviewed

Report Title	Prepared By	Date
An Assessment of the Costs, Benefits, and Overall Impacts of the State of Ohio's Economic Development Programs	The Urban Center, Maxine Goodman Levin College of Urban Affairs, Cleveland State University	May 1999
Ohio's Competitive Advantage: Manufacturing Productivity	The Urban Center, Maxine Goodman Levin College of Urban Affairs, Cleveland State University, Edward W. Hill	2001
2002 Business Tax Incentives in Ohio	Ohio Department of Taxation, Tax Analysis Division	January 2002
Zone Out: Distribution and Benefits in Ohio's Enterprise Zone Program	Policy Matters Ohio, Mark Cassell, Kent State University	October 2003
Benchmarking Ohio's Economic Competitiveness	Ohio Chamber of Commerce	January 2005
Industry-Based Competitive Strategies for Ohio: Managing Three Portfolios	Deloitte Fantus, Cleveland State University	May 2005
Jobs Worthy of Ohioans: The Strickland/Fisher Strategy for Job Creation in Ohio	Strickland/Fisher Campaign	2006
Positioning the State of Ohio for Economic Growth: Strategically Aligning Ohio's Research and Technology Portfolio	Battelle's Technology Partnership Practice	May 2006
Exempt from Scrutiny: Tax Breaks in Ohio	Policy Matters Ohio, Zach Schiller	February 2007
The 2007 State New Economy Index: Benchmarking Economic Transformation in the States	The Information Technology and Innovation Foundation, Robert Atkinson and Daniel Correa	February 2007

Compilation of Ohio Department of Development Internal Staff Papers on State Incentive Programs

During the transition from the Taft and Strickland administrations, the Ohio Department of Development staff developed papers recommending changes in economic development incentive programs. These were compiled and evaluated. Further, the Ohio Department of Development managers were assigned responsibility to develop analysis of their respective programs and submit specific recommendations for each of the following programs areas:

- Local Tax Abatement & Increment Programs
- Site Improvement Programs
- Job & Investment Tax Credit Programs
- Loan Funds
- Discretionary Grant Programs
- Workforce Development Programs

Review of Ohio Department of Development and Ohio Department of Taxation Program Reports (2004-2007)

The Ohio Department of Development's Office of Policy, Research, and Strategic Planning publishes a variety of annual performance reports for many Ohio Department of Development programs and selected local tax abatement programs. Likewise, the Ohio Department of Taxation annually publishes a number of statistical tables that provide information on the valuation of property exempted from local property taxes as a result of tax abatement and tax increment financing programs. These reports and statistical evaluations were reviewed as part of this report.

Review of Ohio Department of Development's Data Management Processes and Information Processing Capability

TechSolve conducted detailed interviews of various Ohio Department of Development staff involved in collecting performance information from clients and stakeholders, inputting information into the Department's information system (Pivotal), managing and maintaining data integrity, and producing reports. TechSolve audited both the input and output of selected processes and the data presented in various reports produced by the Department to assess the data management capability of the Department.

Economic Development Incentive Benchmarking Study

In consultation with the Ohio Department of Development staff, six states were selected for comparison with Ohio as part of an economic development incentive and relative tax burden benchmarking analysis. Four states immediately bordering Ohio were selected: Michigan, Pennsylvania, Kentucky, and Indiana. Two additional states, Alabama and North Carolina, were also selected for inclusion based on the frequent number of times Ohio has found itself in competition with these states for the retention and attraction of companies in recent years.

TechSolve collaborated with the Council for Community and Economic Research (C2ER) of Arlington, Virginia to compile comprehensive data regarding the economic development incentive offerings of each of the states in the benchmark survey. This work was overseen by Dr. Kenneth E. Poole, Executive Director of the Council. Dr. Poole formerly served as the Director of Domestic Economic Development for the National Association of State Development Agencies. Tables summarizing the incentive offering of the states in the survey are contained in Appendix A.

Project Comparison Benchmarking Analysis: Economic Development Incentives and Relative Tax Burden

As indicated above, passage of the Ohio House Bill 66 Tax Reform Initiative dramatically improved Ohio's tax structure for most businesses. Accordingly, a major thrust of this report is to evaluate how the combination of Ohio's tax reform initiative and Ohio's economic development incentives have changed the competitiveness of Ohio for investment.

In addition to the incentives being offered, the attractiveness of any state to a company depends upon a variety of factors. These include availability of skilled workers, salary levels and wage rates, energy and transportation costs, and state and local taxes, to name a few. It is not possible to evaluate the relative benefits of economic development incentives in the abstract. The value of incentive benefits will vary from company to company and project to project based upon the specifics of the project, the type of investment undertaken, and the extent to which the business is either capital or labor intensive.

To provide a basis for analysis, four different detailed project scenarios were developed. These scenarios are typical of the generic project categories that represent the majority of projects that the Ohio Department of Development encounters in any given year. These included:

- **Scenario One – Small Company Retention**: Company making an investment in equipment resulting in retention of existing jobs, but no new job creation.
- **Scenario Two – Large Company Attraction**: Company making an investment in both real property and equipment creating a large number of new jobs.
- **Scenario Three – High-Tech Company Attraction:** High-tech company making a large investment in both real property and equipment, but creating few new jobs.
- **Scenario Four – Headquarters Attraction**: Headquarters of service company making a real property investment creating a large number of new jobs.

In connection with the initial development of the Ohio House Bill 66 Tax Reform Initiative and as part of its ongoing monitoring of the impact of the bill, the Ohio Department of Development's Office of Policy, Research, and Strategic Planning has developed internal capacity that allows the Division to develop detailed information regarding the state and local tax liability that will be incurred by a project. The Division provided a detailed estimate of the state and local tax liability likely to be incurred by each of the project scenarios both in Ohio and in each of the six benchmark states.

TechSolve collaborated with Dr. Ellen Harpel, CEO of Business Development Advisors, an economic development and market intelligence consulting firm based in Arlington, Virginia, to develop the anticipated economic development incentive packages each of the projects were likely to receive in Ohio and in each of the six benchmark states. Dr. Harpel, along with several associates of her firm, was formerly associated with the prominent site location consulting firm Deloitte Fantus.

The state and local tax information provided by the Office of Policy, Research, and Strategic Planning and the economic development incentive information provided by Business Development Advisors were used by TechSolve to develop pro forma financial statements for each of the scenarios for each of the benchmark states. TechSolve used the pro forma financial statements to calculate the discounted, after-federal income tax net present value cost for each of the project scenarios for each of the benchmark states.

These calculations were subsequently indexed to Ohio by dividing each state's net present value cost calculation by Ohio's for each of the projects. Utilizing this technique, states with lower net present value cost calculations will have an index number of less than 100 percent, and states with higher net present value cost calculations will have an index number greater than 100 percent. The results of this analysis are presented in the "Detailed Recommendations" section on page 20.

Regional Economic Development Incentive Workshops

To obtain widespread input from public officials, economic development practitioners, and business and community leaders, half-day Regional Economic Development Incentive Workshops were held at the following locations on the dates indicated:

- **Southeast Session:** Marietta College, December 10, 2007
- **Central Session:** Riffe Center, December 17, 2007
- **Southwest Session:** TechSolve, January 3, 2008
- **Northeast Session (AM):** Brecksville Community Center, January 7, 2008
- **Northeast Session (PM):** Brecksville Community Center, January 7, 2008
- **Northwest Session:** Bowling Green State University, January 9, 2008
- **Dayton Session:** Sinclair Community College, January 11, 2008

To obtain additional input, workshop sessions were held with the following groups at the dates indicated:

- Ohio Economic Development Association, January 14, 2008
- Ohio School Board and Business Associations, January 14, 2008
- Ohio Site Location Consultants, January 23, 2008

Notes from each of these work sessions are presented in Appendix B.

Confidential Individual Interviews

Confidential individual interviews were conducted with 20 individuals identified as applicants or recipients of economic development incentives and five individuals with substantial knowledge of the economic development incentive programs. The results of these interviews are confidential, but the information gathered was used to inform many of the recommendations of this report.

Internal Ohio Department of Development Systems Evaluations and Process Mapping

TechSolve developed detailed process maps for selected internal economic development incentive work flow processes within the Ohio Department of Development, specifically:

- Development and approval of project commitment letters
- Job Creation Tax Credit approval, serving, and management process
- 166 Direct Loan approval, closing, servicing, and management process
- Ohio Enterprise Bond Fund approval, closing, servicing, and management process
- Ohio Investment in Training Partnership grant approval, contracting, servicing, and management process

TechSolve used a mapping technique known as "swim lane" flow charting. Swim lane flow charts are particularly useful in the analysis of service functions involving multiple "hand-offs" of tasks and information between work units within organizations. The technique uses stacked, horizontal rows (i.e., "swim lanes") to represent individual subunits within an organization. Work flows are then "mapped" over the horizontal rows to reflect the sequential work tasks and the hand-offs that occur between organizations depicted on the maps.

Schematic drafts of the maps were developed during the direct interviews with Ohio Department of Development staff members. Subsequently, the schematic drafts were redrawn in publishable form by TechSolve and submitted to the Ohio Department of Development. Because of their extreme detail, the maps cannot be legibly reproduced as an appendix to this report. Instead, multiple copies of the maps have been submitted to the Ohio Department of Development under separate cover.

Detailed Recommendations

While the Ohio Department of Development identified many areas in which Ohio's economic development incentives or the management of them could be improved, this does not reflect negatively either on Ohio's development programs or on the management of the Ohio Department of Development. The Ohio Department of Development has an excellent performance record. *Site Selection* magazine has ranked Ohio first among all 50 states in economic development effectiveness in the last three years, and no worse than fourth in each of the last three years.

Further, in recent years, the Ohio Department of Development has undertaken many far-reaching improvements of its internal management processes and programs. Examples include the installation of the Department's Pivotal project tracking database and the formation of the Ohio Business Development Coalition to enhance marketing of Ohio on a statewide basis.

The study's assignment, however, was not to applaud the Ohio Department of Development or Ohio's current incentives, but to identify ways in which both could be made even better. The assignment required an overtly critical assessment of Ohio's incentives and the way they are managed. In the experience of the study's lead consultant, TechSolve, this type of assessment invariably produces an extensive list of improvement opportunities. As expected, the study's evaluation of Ohio economic development incentives and management system did produce a list of improvement opportunities, but the improvement opportunities within the Ohio Department of Development were no more extensive than produced in similar reviews of other organizations.

Detailed recommendations and analysis are presented below. The format of presentation for each set of recommendations is as follows:

- **Representative Workshop and Interviewee Comments:** These include one or more representative comments, criticisms, and improvement suggestions provided by the individuals participating in workshop sessions or individual interviews.
- **Analysis:** This is a description of findings of fact, based upon the research and interviews conducted.
- **Conclusions:** This describes conclusions derived from the analysis and, where relevant, any areas of concern or opportunities for improvement identified.
- **Recommendations:** This describes actions, changes, or improvements recommended.

Impact of Tax Reform

Representative Workshop and Interviewee Comments

> *"There is almost unanimous appreciation by businesses for tax reform and the Commercial Activity Tax (CAT)."*

Analysis

Ohio's ability to be competitive with other states relies on a number of important factors, including tax reform. The results of the consultant's analysis and comments (made in confidential interviews or at regional workshops) all show that there was a dramatic improvement in Ohio's competitiveness because of the Ohio House Bill 66 Tax Reform Initiatives. Without question, Ohio House Bill 66 changed the competitive landscape in favor of Ohio.

The dimension of the improvement is indicated in the Project Comparison Benchmarking Analysis described earlier. This analysis consisted of formulating four different detailed project scenarios, representative of many of the projects the Ohio Department of Development encounters in any given year. A detailed description of the scenarios and information used in their analysis is presented in Table 3 (below).

Table 3: Detailed Project Scenarios

Scenario	1. Mid-Sized Manufacturer Retention	2. Large Manufacturer Attraction	3. "High-Tech" Manufacturer Attraction	4. Headquarters Office Attraction
Description	Ohio manufacturer with 195 employees considering $10 million investment in new tooling	Large non-Ohio manufacturer plans to invest $41,000,000, creating 250 jobs	Pharmaceutical manufacturer outside Ohio plans to invest $60.7 million, creating 50 jobs	Non-Ohio company plans to invest $25 million in a headquarters office, creating 770 jobs
NAIC	335310	336410	325410	551112
Market Segment	Electrical Equip	Aerospace	Pharma	Other Holding Co.
Fixed Investment	**$10,000,000**	**$41,000,000**	**$60,700,000**	**$25,000,000**
Real Prop. – Land	$0	$1,000,000	$700,000	$1,000,000
Real Prop. – Bldg.	$0	$16,000,000	$10,000,000	$22,000,000
Machinery	$10,000,000	$24,000,000	$50,000,000	$2,000,000
Inventories	$13,500,000	$65,000,000	$7,000,000	$0

As described earlier, the Ohio Department of Development's Office of Policy, Research, and Strategic Planning has the capacity to develop detailed information regarding the state and local tax liability that will be incurred by a project. The Ohio Department of Development provided a detailed estimate of the state and local tax liability likely to be incurred by each of the project scenarios both in Ohio and in each of the six benchmark states.

TechSolve collaborated with Dr. Ellen Harpel, CEO of Business Development Advisors, an economic development and market intelligence consulting firm based in Arlington, Virginia, to develop the anticipated economic development incentive packages each of the projects were likely to receive in Ohio and in each of the six benchmark states. Dr. Harpel, along with several associates of her firm, was formerly associated with the prominent site location consulting firm Deloitte Fantus.

The state and local tax information (provided by the Office of Policy, Research, and Strategic Planning) and the economic development incentive information (provided by Business Development Advisors) were used by TechSolve to develop pro forma financial statements for each of the scenarios for each of the benchmark states. TechSolve used the pro forma financial statements to calculate the discounted, after-federal income tax net present value cost for each of the project scenarios for each of the benchmark states. The discounted net present value cost calculations provided a common baseline for comparing the relative competitiveness of the combination of state and local tax structures and economic development incentives for each of the projects in each of the benchmark states.

These calculations were indexed to Ohio by dividing each state's net present value cost calculation by Ohio's net present value cost calculation for each of the projects. Utilizing this technique, states with lower net present value cost calculations will have an index number less than 100 percent and states with higher net present value cost calculations will have an index number greater than 100 percent.

Several major deficiencies of this analysis should be recognized. First, the methodology assumes that all cost location advantages or cost factors, other than state and local taxes and the availability of economic development incentives, are the same across all states. A second major deficiency is that the model includes local taxes as well as state taxes. While an effort was made to "locate" the scenarios in local jurisdictions with similar characteristics across all states, there is great variation among the tax rates of local jurisdictions within any given state.

Finally, purely discretionary "closing funds" were ignored for purposes of this analysis, since there was no basis to systematically determine the amount of such discretionary awards. The reality is that any state can "outbid" any other state to attract a development project if it is determined to "win" at all cost.

For this and other reasons, the findings of this analysis should be considered as illustrative indicators of Ohio's relative competitiveness with the benchmark states where tax structure and non-discretionary economic development incentives are concerned (as opposed to an absolute, definitive measure of actual overall differences in competitiveness among the states).

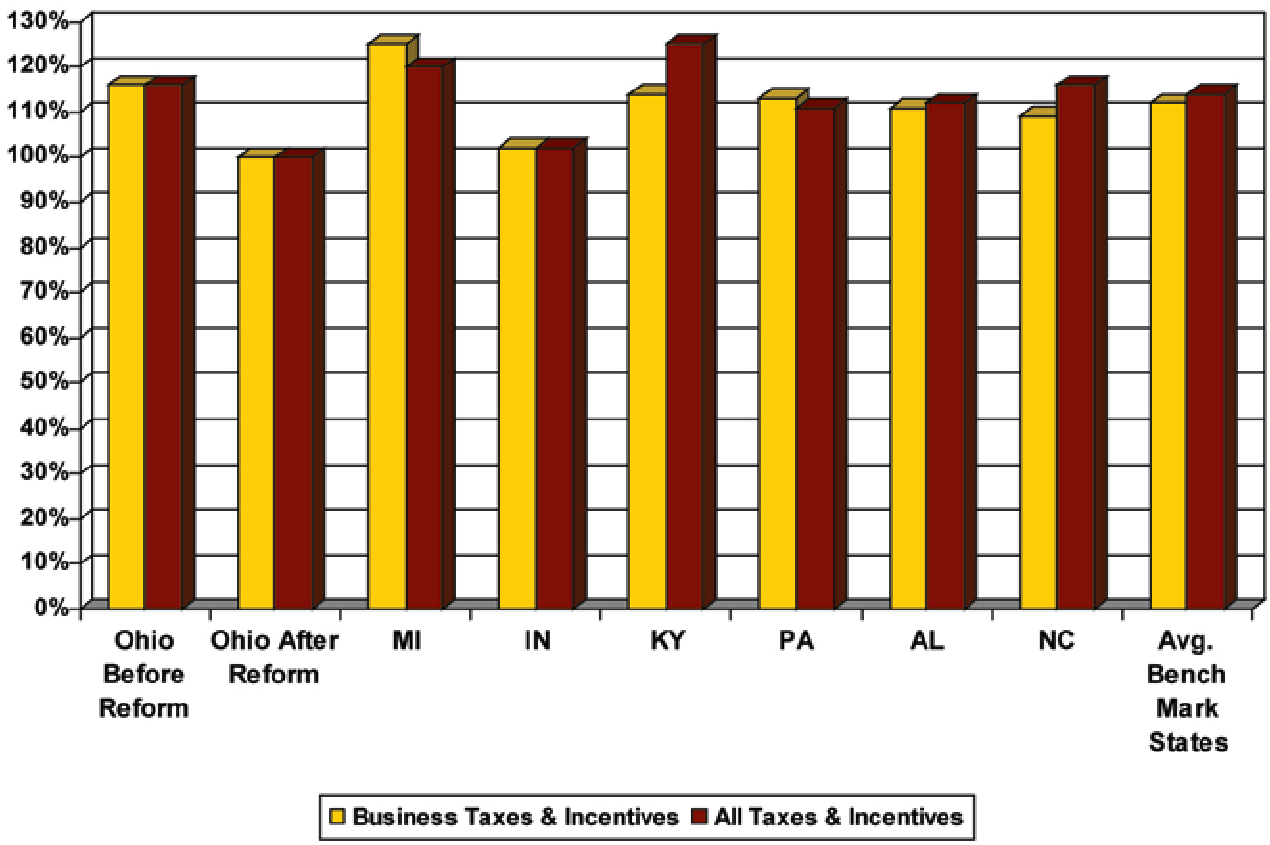
Two indices were established for each state as follows:

- **Business Taxes and Investment Index:** This index is an indicator of the relative net present value of Ohio's combination of economic development incentives and direct taxes paid by the business in the scenario.
- **All Taxes and Investment Index**: This indicator includes the relative net present value of the Ohio personal income taxes paid by employees of the company, in addition to the relative net present value of Ohio's combination of economic development incentives and direct taxes paid by the businesses, as described in the Business Taxes and Investment Index described above.

The Ohio tax structure used in these indices is the tax structure that will exist in 2011 after all aspects of the Ohio House Bill 66 Tax Reform Initiative have been fully phased in. To provide a comparison with the tax and incentive structure that passed in Ohio House Bill 66, Ohio's "Before Tax Reform" tax and incentive structure were indexed to the "After Tax" tax structure, similar to other benchmark states in the analysis.

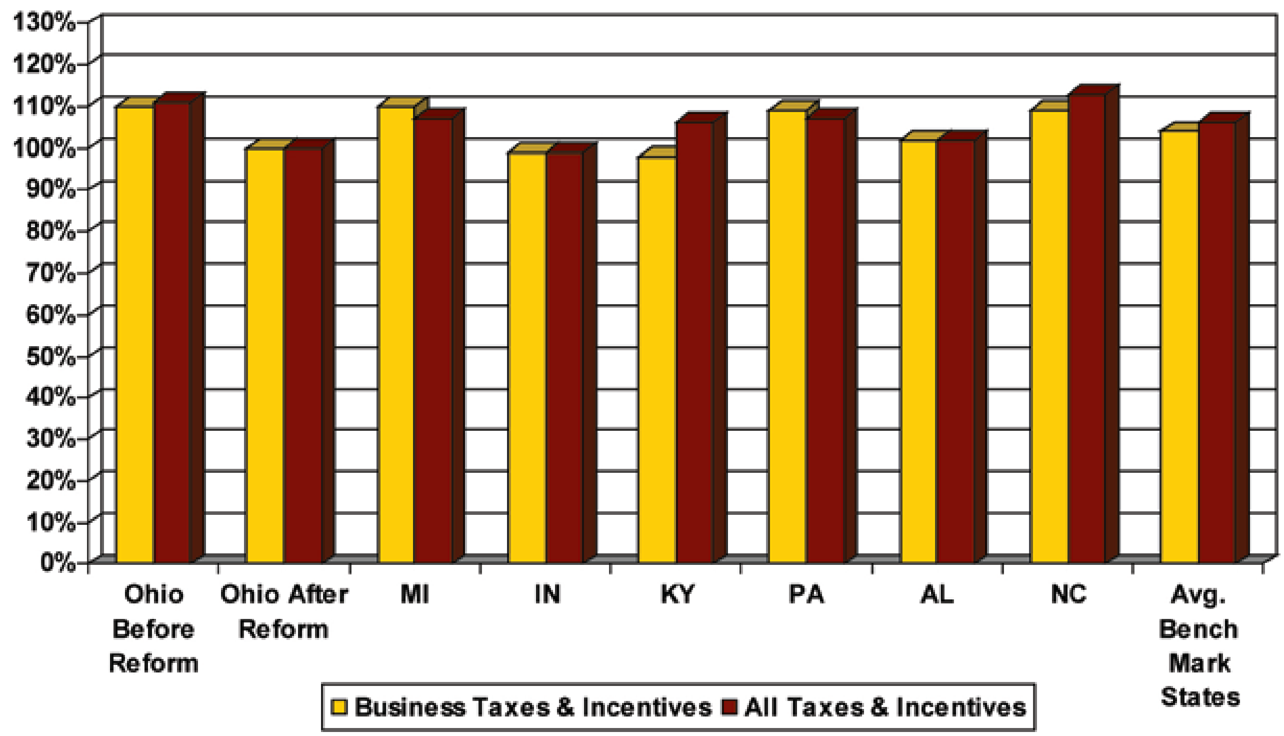
The results of this analysis are presented for each of the scenarios in Tables 4 through 7 below:

Table 4: Scenario One – Small Manufacturers Retention Project Costs, Incentives, and Tax Burden Indexed to Ohio.



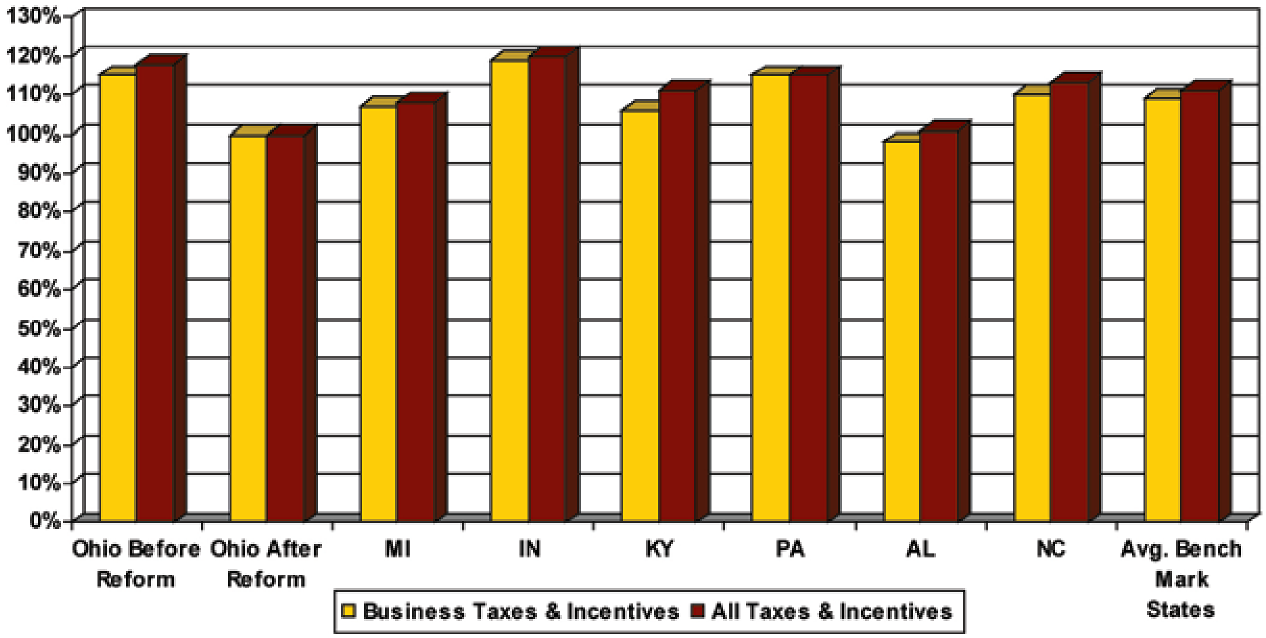
Analysis of Scenario One indicates that "Ohio After Reform" at 100 percent on the index compares with "Ohio Before Reform" at approximately 115 percent for both "Business Taxes and Incentives" and "All Taxes and Incentives," a cost advantage of some 15 percent. The average index for all benchmark states is 110 percent for "Business Taxes and Incentives" and 112 percent for "All Taxes and Incentives," reflecting a cost advantage of 10 percent and 12 percent respectively. Of all the benchmark states, only Indiana has a cost structure equivalent to Ohio on both the "Business Taxes and Incentives" and "All Taxes and Incentives."

Table 5: Scenario Two – Large Manufacturers Attraction Project Costs, Incentives, and Tax Burden Indexed to Ohio.



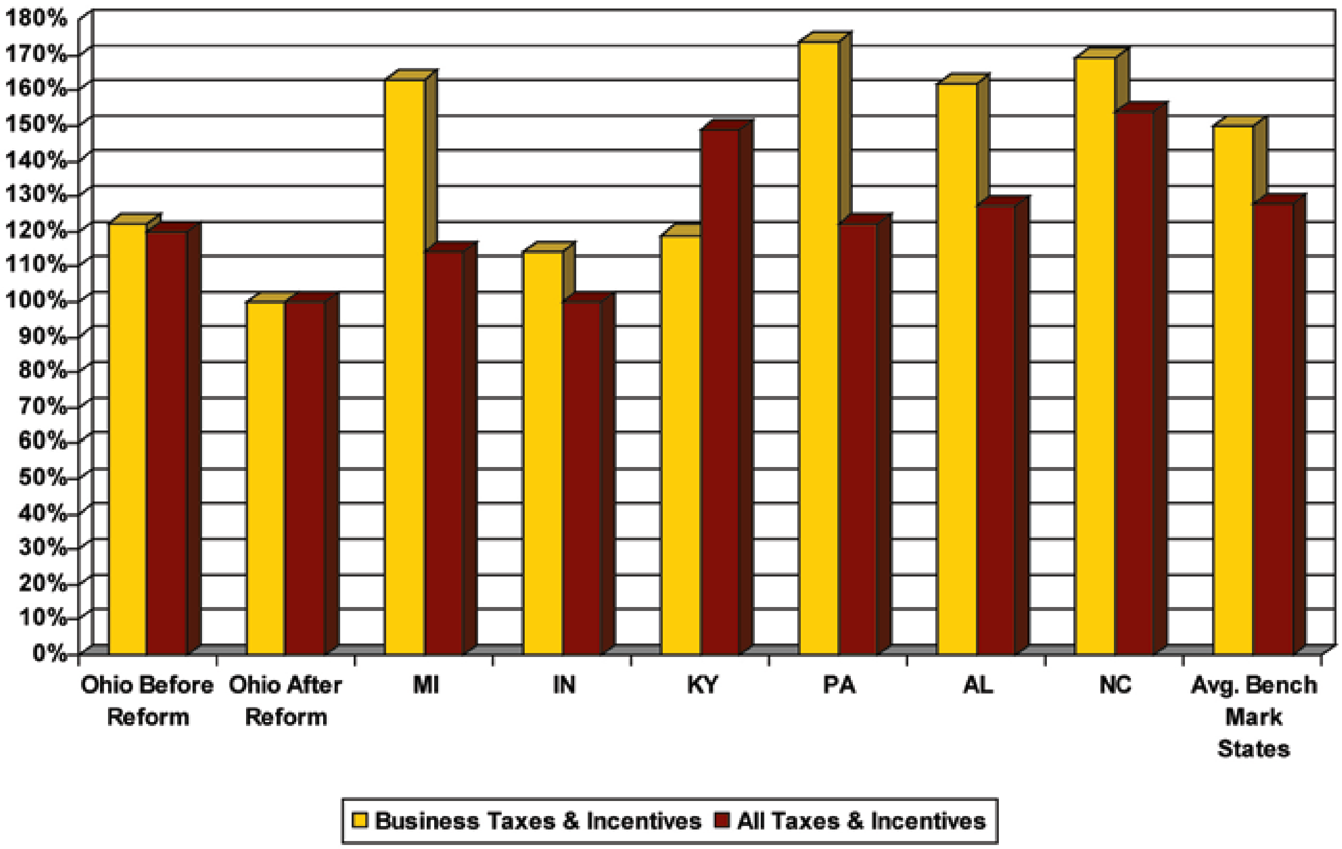
Analysis of Scenario Two indicates that "Ohio After Reform" at 100 percent on the index compares with "Ohio Before Reform" at approximately 110 percent for "Business Taxes and Incentives" and 112 percent for "All Taxes and Incentives," reflecting a cost advantage of 10 percent and 12 percent respectively. The average index for all benchmark states is 104 percent for "Business Taxes and Incentives" and 106 percent for "All Taxes and Incentives," suggesting that Ohio is, on average, competitive with the benchmark states. Of all the benchmark states, only Indiana has a cost structure equivalent to Ohio on both the "Business Taxes and Incentives" and "All Taxes and Incentives." Likewise, Kentucky enjoys a slight advantage on "Business Taxes and Incentives" and a slight disadvantage on "All Taxes and Incentives."

Table 6: Scenario Three – High-Tech Pharmaceutical Attraction Project Costs, Incentives, and Tax Burden Indexed to Ohio.



Analysis of Scenario Three indicates that "Ohio After Reform" at 100 percent on the index compares with "Ohio Before Reform" at approximately 115 percent for "Business Taxes and Incentives" and 118 percent for "All Taxes and Incentives," reflecting a cost advantage of 15 percent and 18 percent respectively. The average index for all benchmark states is 109 percent for "Business Taxes and Incentives" and 111 percent for "All Taxes and Incentives," suggesting that Ohio, on average, enjoys a competitive advantage with the benchmark states. Of all the benchmark states, only Alabama has a cost structure slightly less than Ohio's for "Business Taxes and Incentives," while Alabama's "All Taxes and Incentives" are essentially equivalent to Ohio.

Table 7: Scenario Four – Corporate Headquarters Relocation Project Costs, Incentives, and Tax Burden Indexed to Ohio.



Analysis of Scenario Four indicates that "Ohio After Reform" at 100 percent on the index compares with "Ohio Before Reform" at approximately 122 percent for "Business Taxes and Incentives" and 120 percent for "All Taxes and Incentives," reflecting a cost advantage of 22 percent and 20 percent respectively over "Ohio Before Reform." The average index for all benchmark states is 150 percent for "Business Taxes and Incentives" and 128 percent for "All Taxes and Incentives," suggesting that Ohio, on average, enjoys a substantial competitive advantage over the benchmark states. Of all the benchmark states, only Indiana has a cost structure equivalent to Ohio for "All Taxes and Incentives." Ohio's apparent advantage is almost certainly somewhat overstated in this scenario because of the exclusion of discretionary closing funds, which are frequently made available by competing states to assist corporate relocations. That said, the comparison of Ohio costs before and after tax reform is highly reliable and indicates the dramatic impact of tax reform in improving Ohio's competitive position.

Conclusions

Ohio's combination of existing tax incentives and reformed tax structure is competitive with the taxes and tax incentives available in other states.

After running and analyzing the above scenarios, the results indicate that tax reform improved Ohio's competitiveness by 10 percent to 20 percent as compared with "Before Tax Reform." Further, the analysis indicates that Ohio either enjoys a competitive advantage or has a cost structure equivalent to that of the benchmark states for each of the scenarios. Ohio's combination of existing incentives and tax structure is competitive with the taxes and incentives available in other states.

Opportunities to further reduce Ohio's incentive benefit offerings as a result of tax reform and still remain competitive are limited.

Opportunities for Ohio to further reduce its incentive offerings are not supported by the analysis for the following reasons:

- Some Ohio incentives were eliminated by tax reform (Personal Property Tax Abatement and Machinery & Equipment Tax Credit)
- The Ohio Department of Development has already reduced Job Creation Tax Credit (JCTC) benefit levels post tax reform
- Ohio can always be "outbid" by any other state determined to do so using discretionary grant funds, often referred to as "closing funds"

Many states, including Ohio, have discretionary cash grant funds that they can offer to companies that will commit to undertake a project within the state. These are often referred to as "closing funds," since they are frequently offered at the very end of negotiations to "close" the agreement with the company to undertake a project. These "closing funds" are offered entirely at the discretion of the state providing them, based on that state's determinant of the unique value of the project to its economy. States do not publish the criteria they apply in determining the commitment of "closing funds" to a project. In addition, the amounts of the commitments are usually not based on criteria per se, but are derived through negotiations. As a result, there is no objective way to determine how much a particular state will commit to a given project. For this reason, the competitive impact of "closing funds" was not factored into the analysis of the scenarios above.

However, it is possible to compare the official, publicly reported "closing fund" budgets of states. This information is presented in Table 8 (below) both in terms of total dollars budgeted and dollars per employed persons in each respective state. The "per employee" measures provide a basis to compare the amounts budgeted, adjusted by the size of the state's economy. As indicated by the table, Ohio budgets fewer "closing funds" in total dollars and dollars per employed person in the state than many of the other states in the analysis. Because of Ohio's relative paucity of "closing funds," a state that desires to attract a development project at any cost can use its closing funds to outbid Ohio for a project, even though Ohio's overall tax and incentive offerings, excluding closing funds, may be more competitive than the other state.

Table 8: Ohio Budgets Fewer Deal Closing Funds per Employee than Other States (2004 Data)

State	Budget	Per Employee	State	Budget	Per Employee
Oklahoma	$50,000,000	$32.03	Colorado	$12,000,000	$5.22
Texas	$295,000,000	$29.00	New York	$40,000,000	$4.62
Delaware	$10,000,000	$22.83	Virginia	$17,000,000	$4.54
Utah	$20,000,000	$16.37	Georgia	$18,000,000	$4.39
Arkansas	$19,000,000	$15.79	Missouri	$12,000,000	$4.30
West Virginia	**$10,000,000**	**$13.18**	**North Carolina**	**$17,000,000**	**$4.18**
Mississippi	$13,000,000	$11.76	Florida	$31,000,000	$3.85
South Carolina	$18,000,000	$9.38	**Ohio***	**$15,600,000**	**$2.88**
Pennsylvania	**$50,000,000**	**$8.65**	**Indiana**	**$3,500,000**	**$1.17**
Louisiana	$15,000,000	$7.95	Illinois	$5,000,000	$0.84
Tennessee	$20,000,000	$7.16	Maryland	$2,000,000	$0.75
Alabama	**$11,000,000**	**$5.51**			

Data Sources: Information regarding budgeted deal closing funds for each of the states listed was derived from selected newspapers accounts for calendar 2004. Per employee calculations were derived using U.S. Department of Labor Statistics for the year 2004.

**Ohio data is fiscal year 2009 Rapid Outreach funds and 2006 labor force data.*

Even though opportunities to further reduce Ohio's incentive benefit offerings as a result of tax reform and still remain competitive are limited, Ohio can further improve its competitiveness through highly targeted modification of incentive regulations and streamlining of its incentive management processes.

As will be documented elsewhere in this study, Ohio can further enhance its competitiveness by improving its reputation as a state that provides exceptional service to companies considering locating or expanding in Ohio. This can be achieved through simplification of incentive regulations, selective consolidation of some programs, and streamlining of incentive management practices. This would enhance the quality of the Ohio Department of Development's interactions with companies and potential investors, and earn Ohio a reputation of "operating at the speed of business."

Ohio can also significantly improve the "transparency" of its incentive transactions and decision-making processes, and increase accountability to the public without adversely impacting its competitiveness.

Ohio can improve the transparency and increase accountability of its incentive programs through standardization and simplification of its incentive regulations, performance measurements, and reporting processes, as well as through targeted investments in its information technology infrastructure. Such measures are entirely complementary with improving the state's competitiveness and the quality of service it offers its business customers.

Recommendations

As indicated above, Ohio's combination of existing incentives and tax structure is generally competitive with the taxes and incentives available in other states. The implementation of the tax reforms enacted in Ohio House Bill 66 should be continued and Ohio should be selective in creating new or expanding existing incentive programs.

Competing states have very effective incentive programs and spend more on certain incentive programs than Ohio. That means Ohio should be cautious in making additional reductions in the benefit levels of the existing incentive programs it offers.

Ohio can and should further improve its competitiveness through highly targeted modifications of incentive regulations and incentive management processes.

Ohio can and should significantly improve the "transparency" of its incentive transactions and decision-making processes and increase accountability to the public without adversely impacting its competitiveness.

Job Creation Tax Credit (JCTC) and Job Retention Tax Credit (JRTC)

Representative Workshop and Interviewee Comments

"(JCTC) is very valuable and comparable to what is available in other states but the 'double term' reporting and clawback provision is too severe."

"JCTC is too cumbersome and should be replaced with a payroll-based as opposed to job-based incentive."

"The local match requirement is counter-productive ... None of the other states (we) worked with required (us) to seek a local match."

Analysis

Job Creation Tax Credit (JCTC)

The JCTC is the Ohio Department of Development's largest incentive program, with an estimated $66.8 million in new benefits granted in 2007. Moreover, it is the Ohio Department of Development's most potent incentive measured by its "bottom-line" impact on businesses and projects.

The JCTC provides a business with a tax credit equivalent to a proportion of the Ohio income taxes withheld against the earnings of new employees added to the company's payroll as a result of a business expansion. In the event a company's tax liability to the state is less than the credit, the state provides a cash reimbursement to the company for the difference.

To qualify for the JCTC, companies must commit to create and maintain (for the term of the credit) at least 25 net new jobs and pay 150 percent of the federal minimum wage (or 10 jobs and 400 percent of federal minimum wage) within three years of initial operations.

- "Net" means job growth at the project site, above employment at the site on the day the project was approved by the Ohio Tax Credit Authority.
- "New" means employees who were first employed by the tax credit recipient (or a related party) after the credit was approved by the Ohio Tax Credit Authority.
- "Full-time" means an average of 35 hours per week, unless full-time is less than 35 hours per week by law or custom.

The amount and terms of the credit are determined by the Ohio Tax Credit Authority, with a maximum of 15 years and 100 percent of the income taxes withheld for new employees. Typically, however, the credits are issued for less than half the term and percentage allowed by law. The business must commit to maintain operations at the project site for twice the term of the credit, which given the 15-year allowable maximum term, could be for a period of up to 30 years.

Finally, to receive the JCTC, the company must obtain a "matching" incentive commitment from the local political subdivision in which the project is located. Typically these so-called "local match" incentive commitments are of very low dollar amounts as compared with the dollar amount of the JCTC.

Job Retention Tax Credit (JRTC)

The JRTC program was created in 2001 for the purpose of fostering the retention of full-time jobs in Ohio. The JRTC program is similar to the JCTC in program structure, requirements, and conditions for participation, with the following exceptions:

- The JRTC is non-refundable.
- Within three consecutive calendar years, the company's investment at the project site must meet or exceed at least $200 million in the aggregate, or at least $100 million if the committed wage rate associated with the retained positions exceeds 400 percent of the federal minimum wage.
- Companies must retain at least 1,000 eligible employment positions to qualify for the credit, versus creating 25 net new jobs and pay 150 percent of the federal minimum wage (or 10 jobs and 400 percent of federal minimum wage) within three years of initial operations, as required for the JCTC.
- The maximum amount of the credit is 75 percent of the state income taxes withheld from the taxpayer's eligible full-time employees at the project site; however, the maximum term of the credit is 10 years for projects retaining 1,000 to 1,499 jobs and 15 years for projects retaining 1,500 jobs or more.

Conclusions

The 150 percent of the federal minimum wage requirement allows a business to receive a JCTC for creating relatively low-paying jobs.

In May 2007, the U.S. Department of Labor's Bureau of Labor Statistics reported that the hourly wage for Ohioans averaged $18.58, resulting in earnings of $743.20 per week, or $38,640 per year. The Federal minimum wage is scheduled to increase to $7.25 per hour in July 2009. One hundred and fifty percent of this amount provides for a minimum eligibility wage for JCTC purposes of $10.88 per hour, or earnings of $435 per week, or $22,620 per year. In July 2009, the minimum eligibility wage for JCTC purpose will be approximately 58 percent of the average hourly wage earned by Ohioans in May 2007.

If a goal of economic development incentives is to promote higher paying jobs for all Ohioans, the 150 percent of federal minimum wage criteria is a very low threshold.

Legislative and administrative reporting requirements for both the JCTC and JRTC obligate a business to track information and file cumbersome reports to the Ohio Department of Development at considerable expense to the company, while affording no apparent benefit to the public.

Specifically, the JCTC and JRTC statutes require that the Ohio Department of Development certify that companies are claiming credit only on eligible positions. To ensure this, the Ohio Department of Development requires companies to submit lengthy and complex annual reports that list the following:

- For every employee:
  - Name
  - Identifying number
  - Start date
  - Transfer date and location (if transferred into the facility)
  - Termination date (if applicable)

- For every new employee, all of the above, plus:
  - Average hourly base wage
  - Hours paid
  - Ohio taxable wages
  - Ohio withholding
  - Minority status
  - Disadvantaged status
- Additionally, the JRTC statute requires companies to provide weekly employee counts throughout the year.

The complexity of this process leads to many mistakes, such that the JCTC and JRTC program auditors estimate that 80 to 90 percent of annual reports are incorrect. This error rate continues after several years of an aggressive training program.

JCTC and JRTC credits are only provided against incomes of full-time employees; businesses are penalized for using part-time workers, permitting job sharing, and for providing employees extended leaves.

The requirement that employees work an average of 35 hours per week across their period of employment during the year can lead to challenging outcomes. For example, employers who offer alternative work schedules, job sharing, and other non-traditional work options, in addition to part-time work, cannot receive credit for employees exercising these options. Therefore, the program has been criticized by recipients for penalizing companies with family-friendly human resources practices.

The clawback requirement for the JCTC and JRTC is for twice the term of the credit, far longer than similar requirements imposed by other states.

To receive the JCTC, a company must commit to maintain operations at the project site for twice the term of the credit. With the pace of modern business, many companies are very hesitant to make a commitment to a specific site for an extended period of time. Ohio's twice-the-term commitment requirement is far greater than the commitment requirements of any of the benchmark states, which typically only require a company to stay for the term of its credit.

In June 2008, the Ohio General Assembly modified the twice-the-term commitment for the JRTC to the greater of seven years or the term of the credit plus three years. This change has enhanced Ohio's competitiveness on retention projects that are eligible for the JRTC program.

The local match requirement obligates communities to provide subsidies that businesses do not value, but must accept, to qualify for the JCTC or JRTC.

The local match requirement was put in place to ensure that Ohio Department of Development and local communities were sharing in the costs of incentivizing business growth. However, after the elimination of the personal property tax, the local match requirement is currently a "lose-lose" proposition. The requirement imposes a financial burden on communities to provide incentives to businesses that cost businesses more in transaction and servicing costs than the benefits to them for the incentives provided.

The anti-relocation provisions within the JCTC and JRTC programs can be criticized as being both too lax and too severe.

Economic development incentives should not be used to "incent" the relocation of a company from one jurisdiction within Ohio to another, except when essential to preserving Ohio jobs. But it is important that anti-relocation provisions be both clear and reasonable. The anti-relocation provisions within the JCTC legislation have been criticized for being too lax by not requiring an extended notice period to a negatively impacted community prior to authorizing a waiver of relocation prohibitions. But companies complain that the provisions are too severe because they have no minimum standard, and any violation of the provisions requires forfeiture of all future credits. Further, the anti-relocation provisions contained in state legislation vary from incentive to incentive. The state would be better served by a standard anti-relocation provision that applies across all programs.

Recommendations

Increase the wage threshold for JCTC and JRTC eligibility to 175 percent of federal minimum wage, with an exception for projects in counties where the county per capita income is less than 175 percent of the federal minimum wage.

To accomplish the state's goals of increasing the incomes of Ohio's citizens faster than the national average, the state should increase the wage threshold for eligibility for the JCTC and JRTC. In doing so, it must also be recognized that in some areas of the state, especially in parts of Appalachian Ohio, local wage levels are especially low. Therefore, any increase in wage thresholds must be careful to avoid precluding state participation in projects that would in fact raise the local standard of living.

Change the unit of measure for the JCTC and JRTC credits from individuals working 35 hours per week or more to payroll growth and full-time-equivalent employees.

The Ohio Department of Development's Strategic Plan lays out three primary goals:

1. Grow the income of Ohioans
2. Create and retain jobs for Ohioans
3. Expand productivity through innovation

The basic commitments and evaluation criteria for Ohio's incentives must align with these goals. Payroll growth and growth in full-time-equivalent employees are basic and well-understood measures of an individual company's contributions to the state's income and job growth. Additionally, by including payroll growth in fundamental criteria, it is easier to recognize that for some companies, adding fewer employees but better compensating existing employees may be the best choice for the vitality of the company and Ohio's economy.

The application of the current legislation's requirement that an employee work an average of 35 hours per week or more for his or her withholdings to count toward the company's credit is the cause of several negative, unintended consequences. First, much of the detailed annual reporting required by companies is driven by the need for the Ohio Department of Development to determine which individuals at a location are eligible for credit.

Second, employers who offer alternative work schedules, job sharing, and other non-traditional work options, in addition to part-time work, cannot receive credit for employees exercising these options. The recommendation eliminates the penalization of companies with family-friendly human resources practices. However, since business would still be required to meet the 175 percent of the minimum wage as an average, this provision would not extend JCTC or JRTC eligibility to companies with low-paying jobs in general, and particularly very low-paying companies in the retail and service sectors.

Broaden the eligibility for the JRTC but institute a cap on the amount of credits issued by the Ohio Department of Development to ensure that we continue to live within our means.

As noted earlier, Ohio's most important job retention strategy is the maintenance of the tax system put in place with Ohio House Bill 66. When compared against other states that are trying to lure away an existing Ohio facility, a dramatic improvement in Ohio's competitiveness was seen as a result of the elimination of the Corporate Franchise Tax for most taxpayers, the elimination of the tax on tangible personal property, and the 21 percent reduction to the personal income tax. However, in today's hyper-competitive economic development environment, these reforms are sometimes not enough.

With its current job and investment thresholds, the JRTC applies to only the largest of facilities. Additionally, the high-capital investment thresholds of the program are designed for manufacturing projects, making it a difficult tool to use when competing for equally important headquarters or research and development projects.

In crafting a tax credit for job retention, it is important to recognize that retention tax credits present a significant risk of tax base erosion if not limited and carefully managed. Unlike creation tax credits, which forgo incremental tax growth, retention tax credits eliminate revenue that is currently coming into the state treasury.

Given the above, this study recommends that the State of Ohio reduce its job and investment thresholds under the JRTC program, but institute a cap on the amount of credits that the Ohio Department of Development can issue in a given year. Specifically, job and investment thresholds should be adjusted as follows:

- A minimum of 500 jobs must be maintained and those jobs must pay a minimum of 175 percent of the federal minimum wage.
- For manufacturing projects, the project must result in investment of at least the lower of $100,000 per retained job or $100 million.
- For non-manufacturing projects, the project must result in investment of at least the lower of $40,000 per retained job or $20 million.

To ensure that the JRTC program is properly administered, these adjustments in eligibility must be combined with a cap on the value of JRTC credits that the Ohio Department of Development can issue in a given year. This report recommends that the cap be developed based on cost estimates of projects already approved. Thus, the Department will be able to apply the credit to more projects while holding the cost of the program steady.

Simplify annual reporting requirements by companies participating in the JCTC and JRTC programs.

The annual reporting requirements are burdensome and complex. It is recommended that companies be relieved of the responsibility of providing information on individual employees, and instead, only be required to provide aggregated wage and salary, employment, and total investment information on an annual basis. The recommendation to base job commitments on full-time equivalents rather than full-time employees will help simplify the reporting requirements for companies.

Eliminate the local match requirement.

The local match requirement is a "lose-lose" proposition. It imposes financial burdens on both the local governments and companies the JCTC and JRTC were designed to serve. It is recommended that the local match requirement simply be eliminated.

Limit the term of the job maintenance requirement and clawback liability to seven years or the term of the credit plus three years, whichever is greater for both the JRTC and JCTC.

Ohio's twice-the-term commitment is greater than the commitment required by any of the benchmark states, most of which only require a company to stay for the term of its credit. It is recommended that clawback liability be limited to seven years or the term of the credit plus three years, whichever is greater.

Standardize the relocation provisions across all Ohio incentive programs, including the JCTC program, to the maximum extent possible by using an early-warning system used in the Dayton-Miami Valley region.

The anti-relocation provisions contained in state legislation vary from incentive to incentive. The state would be better served by a standard anti-relocation provision that applies to all programs.

The Dayton-Miami Valley Region has long distinguished itself as a pioneer in local, inter-governmental collaboration with the use of economic development incentives and discouraging the relocation of jobs from one jurisdiction to another within the Dayton-Miami Valley Region (except as necessary to preserve jobs). The practice in this region is a company must notify the jurisdiction in which it is currently located that it is considering relocating operations to another jurisdiction within the region prior to applying for development incentives in the community to which it is considering relocating.

The Dayton-Miami Valley Region has been successful at enforcing this policy because it requires economic development professionals to verify that colleagues in their current community have been notified before any discussion of incentives begins.

It is recommended that this policy be adopted as the standard anti-relocation provision for all state economic development incentives, including the JCTC.

Local Tax Incentives

Representative Workshop and Interviewee Comments

"Businesses want more local incentives and support."

"Availability of property tax abatement gives the local community a competitive advantage."

"Companies (are) moving to nearby communities because incentives are better – school districts (are) losing companies that are jumping from community to community for incentives."

Analysis

Tax Abatement Programs

Ohio law gives general purpose units of government the authority (under select circumstances) to exempt increases in the valuation of a parcel or parcels of real property within a designated development project or area from local property tax. The exemption is designed to reduce taxes and encourage investment in real property to create jobs, expand the economy, build or improve housing and communities, and cure blight. These measures include:

- Ohio Enterprise Zone Program (O.R.C. 5709.61-5709.69)
- Ohio Community Reinvestment Area Program,1969 (O.R.C. 3735.65-3735.70)
- Community Urban Redevelopment Corporation/Impacted Cities (O.R.C. 1728.01-1728.13)

Ohio Enterprise Zone Program

Ohio Enterprise Zone Program (EZ) permits local governments to grant exemptions from real and personal property taxation for qualifying improvements made within a locally designated EZ area. The EZ area must meet one or more economic distress criteria. Abatements are permitted for a period of 1-15 years and for 0-100 percent of property tax liability. Improvements to residential, commercial, and industrial properties are eligible for abatements, but retail users are ineligible. The EZ program is scheduled to expire on October 15, 2009.

Ohio Community Reinvestment Area Program

Ohio Community Reinvestment Area Program (CRA) permits local governments to grant exemptions from real property taxation for qualifying improvements made within a locally designated CRA area. To be designated a CRA area, the local jurisdiction must determine that there is a lack of reinvestment in housing. Improvements to residential, commercial, and industrial properties are eligible for abatements. Abatements can be provided for up to 100 percent of property tax liability, but the maximum term varies from 10-15 years, depending on the type of improvements (new construction vs. renovation) and project type (single-family, multi-family, commercial, or industrial).

Community Urban Redevelopment Corporation/Impacted Cities

Community Urban Redevelopment Corporation (CURC) legislation permits local governments to grant exemptions from real property taxation for qualifying improvements made within a locally designated "blighted area" determined to be within an "impacted city." An "impacted city" is a city that has a fair housing plan that meets the federal workable program requirements, has taken affirmative action to permit construction of housing by a metropolitan housing authority, and is certified as an "impacted city" by the Ohio Department of Development. Some 27 Ohio cities are currently certified as impacted cities.

Seventy-five percent of the redevelopment value added to real property can be exempted for a term of up to 30 years for a residential project of less than three units, and up to 20 years for industrial, commercial, retail, or multi-family residential property. With the approval of the local school board, the 75 percent of the redevelopment value added to real property can be increased to as much as 100 percent.

Tax Increment Financing

Several statutes give general purpose units of government the authority to exempt increases in the valuation of a parcel or parcels of real property within a designated development project or area from local property tax, in order to create a financing mechanism known as "tax increment financing" (TIF). These statutes provide that the property owners receiving the exemptions make a payment in lieu of taxes (PILOT) to the local government granting the exemption. The PILOT is equivalent to all or some portion of the tax the property owner would otherwise have been obligated to pay. The PILOT is deposited in a service fund, the proceeds of which are used by the local government to fund public improvements serving the property (frequently the amortization of bonds financing the original acquisition of the site and/or construction of public infrastructure). These measures include:

- Municipal Tax Increment Financing (O.R.C. 5709.40, 5709.42-5709.43)
- Urban Redevelopment Tax Increment Financing (O.R.C. 5709.42-5709.43)
- Township Public Improvement Tax Increment Financing (O.R.C. 5709.73-5709.75)
- County Redevelopment Tax Increment Financing (O.R.C. 5709.77-5709.81)
- Municipal Urban Renewal Debt Retirement Fund (O.R.C. 725.03)

There is greater similarity among Ohio's tax increment financing statutes than among its tax abatement statutes. In general, the statutes provide that 75 percent of the redevelopment value added to real property can be exempted for a term of up to 10 years to support a TIF. With the approval of the local school board, the 75 percent of the redevelopment value added to real property can be increased to as much as 100 percent and the maximum term increased to 30 years. Likewise, the approval of other political jurisdictions impacted by the tax exemption supporting the TIF is required to extend beyond the 75 percent and 10-year limit, unless the jurisdiction issuing the TIF makes compensation to the impacted subdivisions equal to 50 percent of the taxes exempted above the 75 percent threshold.

Conclusions

Enterprise Zone authority "sunsets" October 15, 2009.

The automatic statutory "sunset" provision obligates the Administration and the Legislature to be proactive in reconsidering the future of tax abatement programs in Ohio since even inaction will result in major program changes.

Tax reform has rendered major portions of the Enterprise Zone program obsolete.

The phase-out of the personal property tax mandated in Ohio House Bill 66 has rendered the personal property tax provisions of the Enterprise Zone program obsolete.

Tax abatement began in Ohio as a targeted urban development program, but now virtually all areas of the state qualify.

Ohio's first tax abatement statute (Section 1728: Impacted Cities) was designed as a tool targeted exclusively at blighted inner-city areas. Over the years, Ohio has added and amended tax abatement on an ad hoc basis. The number and types of tax abatement programs and amended tax abatement programs have proliferated. The result is that virtually every corner of the state and every type of project is now eligible for abatement. There is no longer a discernable overall public policy focus to the programs, other than to maximize the locations and projects eligible for abatement.

Ohio's Tax Abatement statutes do not align with its Tax Increment Financing statutes.

The general purpose and intent of Ohio's Tax Abatement and Tax Increment Financing statutes are the same; namely to encourage investment in real property for the purposes of creating jobs, expanding the economy, building or improving housing and communities, and curing blight. Ideally, the programs should be interchangeable. The eligibility, reporting, and regulatory requirements of the two program types should align with one another. In 2001, 2004, and 2006, the legislature made major amendments to Ohio's tax increment financing statutes. These amendments greatly standardized and simplified Ohio's tax increment financing statutes in very beneficial ways, but there is less alignment between the regulations today than before the tax increment statutes were amended.

Ohio's Tax Abatement statutes are complex and confusing.

The increase of tax abatement statutes, as well as amendments to statutes, has led to an unnecessarily complex patchwork of inconsistent, non-transparent regulations and reporting requirements. Program requirements are difficult to understand and expensive for companies to fulfill. Reporting requirements are non-existent in some programs and overly complex in others, making it impossible for the Ohio Department of Development to accurately report program activities and outcomes to the general public.

Ohio's Tax Abatement and Tax Increment Financing programs adversely impact school district revenues, particularly in Ohio's most "urbanized" counties.

Ohio's Tax Abatement and Tax Increment Financing programs can deprive school districts of the real property tax revenues they would normally receive from increases in real property valuation, usually caused by new construction or property improvements.

Economic development officials maintain schools lose nothing, since the investment in new construction and property improvements would not have occurred "but for" the provision of the Enterprise Zone (EZ) or Tax Increment Financing (TIF) subsidies. School district officials argue, though, that some businesses view incentives as an entitlement, eroding the strength of the "but for" component of the rationale for incentives.

Both positions have merit, since it is probable that some investments would have occurred in the absence of tax abatement or TIF subsidies, and others would not. Unfortunately, it is impossible to know which investments would or would not have occurred in the absence of subsidies, and the amount of property tax revenues “lost” to Ohio school districts as a result of tax abatement and TIF subsidies cannot be determined.

The amounts and locations of property valuations being exempted by tax abatement and TIF subsidies can be identified by analyzing reports of property exemptions published by the Ohio Department of Taxation. The Department of Taxation annually reports the property tax exemptions resulting from tax abatements and TIFs for each county. These reports aggregate the exemptions in three categories: CRAs and CURCs, EZs, and TIFs. By applying the average school district millage rates for each of the counties and the average terms of CRA, CURC, EZ, and TIF property tax exemptions, it is possible to develop a rough estimate of the property taxes forgone by school districts per county over the estimated lifetime of the exemptions. Results of such analysis are presented in Table 9 (below).

Table 9: Estimated School District Taxes Foregone over the Lifetime of the Tax Abatement and Tax Increment Financing Property Exemptions by County

County	CRA & CURC	EZ	TIF	Total Annual	Percent Total
Hamilton	$85,727,657	$22,299,274	$709,405,923	$817,432,854	31.55%
Franklin	$186,490,048	$12,920,832	$390,897,951	$590,308,830	22.78%
Cuyahoga	$188,056,929	$20,350,347	$139,424,566	$347,831,842	13.43%
Butler	$6,635,488	$63,518,469	$7,275,851	$77,429,808	2.99%
Delaware	$59,085,520	$15,088,422	$2,240,819	$76,414,761	2.95%
Warren	$18,676,988	$54,640,357	$0	$73,317,345	2.83%
Montgomery	$36,204,231	$10,752,195	$26,232,196	$73,188,622	2.82%
Summit	$5,405,310	$292,185	$54,988,383	$60,685,878	2.34%
Lucas	$25,429,369	$21,735,857	$0	$47,165,226	1.82%
Stark	$10,327,981	$435,030	$28,857,936	$39,620,947	1.53%
Total	**$622,039,521**	**$222,032,967**	**$1,359,323,624**	**$2,203,396,112**	**85.00%**

Source: Calculated utilizing Ohio Department of Taxation, 2006 Tables Valuation of Real Property Exempted by Tax Abatements-By Class of Abatement and County (PE3), and Millage Rates by School District.

The analysis indicates that 85 percent of tax abatement and TIF property exemptions are concentrated in Ohio’s 10 most heavily urbanized counties, with 66 percent of the exemptions concentrated in only three counties: Hamilton, Franklin, and Cuyahoga.

Recommendations

No subject generated more discussion and feedback among the Incentives Study Task Force than the discussion of how to modernize and standardize Ohio's system of property tax abatement and tax increment financing. Discussions within the Task Force and with external stakeholders have made it clear that changes to Ohio's local property tax abatement and TIF systems will require much further study and discussion before firm recommendations can be offered.

However, the strength of the debate on these issues does not argue for doing nothing; rather it underscores the stakes and importance of ensuring that the property tax abatement system in Ohio is reformed. Therefore, two recommendations are offered, as well as a suggested starting point for further discussions.

Extend the Enterprise Zone program in its current form for an additional 12 months to allow time for the development of reforms to the entire system. Then allow the Enterprise Zone program to sunset and consolidate all property tax abatements into a single program.

Though the current system is flawed, allowing the Enterprise Zone program to expire would generate a harmful degree of uncertainty in Ohio's economic development systems. A likely outcome would be a rush by communities to replace Enterprise Zones with Community Reinvestment Areas covering the same territories. The enactment of these new Community Reinvestment Areas would generate no additional benefit to the state or our citizens as compared to the current Enterprise Zones. It is recommended that a one-year extension of the Enterprise Zone program be applied to allow for further study and planning.

Following the enactment of the 2010 – 2011 Biennial Budget, initiate a special bipartisan working group selected by the Administration and the General Assembly to develop a detailed proposal to reform local property tax incentives.

Based on research and discussions with stakeholders, a complete and responsible recommendation on property tax incentives cannot be achieved until the details of how the programs will be designed and administered are further developed.

While this report does not offer a recommendation of any specific plan, it does present suggestions for further study and principles for a new system of property tax incentives.

Our vision is to develop a simplified system of property tax incentives that encourages the use of our existing economic development assets first, while providing Ohio the ability to compete as a state for projects that require a greenfield location. To achieve this vision, Ohio's system of property tax incentives must be built with four principles in mind.

- First, the system must be simple. In order to be transparent to Ohio's citizens and cost effective for government and businesses to administer, the options for property tax incentives must be based upon a consistent set of criteria across programs and the number of programs should be kept to a minimum.
- Second, the system must encourage our existing companies to grow in place, if possible. Our best opportunity to grow our state and our communities is to grow the businesses that we already have. Ohio's property tax incentive system must encourage companies to grow in place and make it easy for companies considering significant investments to create and retain jobs to qualify for property tax abatement in their home communities.
- Third, the system must encourage the development of a portfolio of sites and communities that companies can choose from in Ohio. In economic development, government cannot dictate the type of community that a company selects for its project. However, we must also

recognize that for older and distressed communities to compete for economic development, those communities must have more and different tools at their disposal.

- Fourth, not all development requires direct public assistance, and public assistance is not an entitlement. Incentives should be concentrated on encouraging those projects that would not go forward in our state without incentives.

Below is a framework for consolidating property tax incentive programs in a way that could accomplish these objectives. To turn this framework into a set of efficient and effective programs will require much additional work. We believe this framework provides the foundation upon which a sturdy tax incentives structure can be built.

Consolidate property tax abatement programs by allowing the Enterprise Zone program to sunset, repealing the CURC "Impacted Cities" programs and using the CRA program as the basis for program redesign.

Allowing the Enterprise Zone program to sunset and repealing the CURC "Impacted Cities" programs eliminates all but one major tax abatement program, namely the CRA program.

Create the "Stay and Grow" program to encourage Ohio companies to create new jobs and make real property improvements at their current locations.

Local jurisdictions could be allowed to provide property tax abatements to any Ohio company making substantial investments in real property and adding new jobs at its current location. Under the current system, if a company's facility is located outside of an Enterprise Zone or CRA, the company must move to receive property tax abatement. Local jurisdictions should be empowered to help companies "Stay and Grow" at their existing locations.

Redesign the CRA and TIF programs to limit tax abatement and redirection eligibility to areas meeting a single system of unified criteria.

The proposed redesign of the CRA program would limit future tax abatements and TIFs to the following four types of area designations:

- **OHIO Hubs:** As outlined in the Ohio Department of Development's Strategic Plan, the Department recommends creating new Ohio Hubs of Innovation and Opportunity (OHIO Hubs). The OHIO Hubs will facilitate and catalyze the creation of at least 12 regionally designated knowledge intersections where targeted and emerging industries can grow and flourish. These OHIO Hubs will be designed to support and catalyze business growth and formation through the resulting synergies of proximity to a geographical concentration of knowledge resources. These resources will include such regional knowledge centers as universities, community colleges, adult technical schools, research and development centers, entrepreneurial resources, creative cultural institutions, Edison Centers, and Small Business Development Centers.
- **Distressed Areas:** Urban and rural areas with a high incidence of poverty, high unemployment, blight, and obsolete or inadequate public infrastructure.
- **Rehabilitation Areas:** Areas demonstrating early stages of disinvestment in the maintenance of the built environment, primarily stable inner-city neighborhoods, first suburbs, and older ex-urban towns and villages.
- **Commercial and Industrial Development Areas:** Designated areas of at least 50 acres, but not more than a defined proportion of a community's area where the local community has chosen to concentrate commercial or industrial new development and rehabilitation. These areas may include both existing development and undeveloped areas, and could be subdivided for development.

Encourage revitalization of Ohio's distressed and older communities while fostering planned growth in our developing areas by designating the types of abatement that can be provided according to the area designations outlined above.

- **Distressed Areas and OHIO Hubs:** Allow abatement of real property taxes for commercial, industrial, residential, and retail new development and rehabilitation.
- **Rehabilitation Areas:** Allow abatement of real property taxes for commercial, industrial, residential, and retail rehabilitation, and real property taxes for commercial and industrial new development.
- **Commercial and Industrial Development Areas:** Allow abatement of real property tax on commercial and industrial new development and rehabilitation.

The Ohio Department of Development believes that this structure would help distressed and older communities spur new commercial and industrial development while revitalizing the residential and retail assets that are critical to successful development in urban areas and older rural communities. In suburban communities, this structure would help focus growth and allow for more efficient use of public resources.

Align Ohio's tax abatement and tax increment financing programs with Ohio's Economic Development Strategy by varying eligibility for abatements and TIFs by area designation.

Eligibility for abatements and TIFs could be differentiated in the same manner as the new Community Reinvestment Area system outlined above. Such a system could follow this outline:

- **Distressed Areas and OHIO Hubs:** Eligible for abatements and TIFs supporting rehabilitation and new construction for all industrial, commercial, retail, and residential land uses.
- **Rehabilitation Areas:** Eligible for abatements and TIFs supporting industrial and commercial new construction and industrial, commercial, and residential rehabilitation, but not new residential or retail construction.
- **Commercial and Industrial Development Areas:** Eligible for abatements and TIFs supporting commercial and industrial new development and rehabilitation.

To provide clarity and transparency to taxpayers, developers, and elected officials, it is important to maintain the symmetry between the property tax abatement and tax increment financing structures. As with the property tax abatement system, this structure allows communities to finance infrastructure improvements that are appropriate to their development needs.

In addition to providing communities with the authority to use Tax Increment Financing under this tiered system, it is important to maintain and explore ways to enhance the use of special assessments and other non-tax diverting means to finance infrastructure improvements for retail and residential development outside of OHIO Hubs and Distressed and Rehabilitation areas. Such market-based approaches to using public tools to support private development should be continually reviewed and enhanced.

The importance of TIF financing to Ohio's transportation systems should not be underestimated. While this study focuses primarily on their role from an economic development practitioner's perspective, the Ohio Department of Transportation is also studying the role of TIF financing as Ohio looks to better integrate economic development and transportation planning. The ideas presented here must also be reviewed in the context of the findings of the Ohio 21st Century Transportation Priorities Task Force.

For any given project, limit the authority of local jurisdictions to abate or "TIF" the property taxes of school districts to 25 percent of the tax revenues the district would otherwise receive from the project.

As indicated above, 85 percent of tax abatement and TIF property exemptions are concentrated in Ohio's 10 most heavily urbanized counties, with 66 percent of the exemptions concentrated in only three counties: Hamilton, Franklin, and Cuyahoga. The 25 percent limitation would afford all school districts, particularly those in urbanized areas, greater protection against loss of future revenues as a result of tax abatements and TIFs.

As reported by the Ohio Department of Taxation in 2006, the statewide average total real property millage rate was 92.92 mills for public utility, commercial, industrial, and mineral real property. Of the total of 92.92 mills, on average 49.37 mills (53 percent) were levied on behalf of local school districts, and on average 43.55 mills (47 percent) were levied in behalf of other jurisdictions. The 25 percent limitation recommended will allow jurisdictions to abate (on average) up to 12.34 mills of a school district's portion of the average gross millage rate and all of the 43.55 mills collected in behalf of other jurisdictions, for a total abatement of 55.89 mills – some 60 percent of the average gross millage rate of 92.92 mills.

Provide an exception to the 25 percent limitation where a collaborative revenue sharing agreement exists between the school district and the local jurisdiction.

This exception enables a school district and a local jurisdiction the opportunity to establish a revenue sharing agreement to compensate districts for revenue losses in the event a district agrees to lift the 25 percent limitation.

Authorize the use of Tax Increment Financing for job training and educational purposes.

As will be documented in a later section of this report, the availability of skilled workers is the number-one concern of most businesses in Ohio. Specifically authorizing the use of tax increment financing to fund job training and educational programs gives local jurisdictions a tool to address this problem.

Standardize the relocation provisions across all Ohio incentive programs including local tax abatement and tax increment financing programs to the maximum extent possible by adopting an early-warning system.

As indicated above, the anti-relocation provisions contained in state legislation vary from incentive to incentive. The state would be better served by a standard anti-relocation provision that applied across all programs.

The Dayton-Miami Valley Region has long distinguished itself as a pioneer in local, inter-governmental collaboration with the use of economic development incentives and discouraging the relocation of jobs from one jurisdiction to another within the Dayton-Miami Valley Region (except as necessary to preserve jobs). The practice in this region is a company must notify the jurisdiction in which it is currently located that it is considering relocating operations to another jurisdiction within the region prior to applying for development incentives in the community to which it is considering relocating.

The Dayton-Miami Valley Region has been successful at enforcing this policy because it requires economic development professionals to verify that colleagues in their current community have been notified before any discussion of incentives begins. Dayton's experience with this policy proves that it works and has prompted substantial collaboration with the Dayton-Miami Valley Region.

Enable communities to review and approve (at their discretion) abatement and increment project agreements within the area designations recommended above, either on a case-by-case, legislated basis, or provide for automatic approvals based on legislated criteria and regulations.

Currently, under the Enterprise Zone and post-1994 CRA programs, communities must enact legislation to approve each individual business tax abatement. Alternatively, under the pre-1994 CRA system, business tax abatements are automatic, provided that the business meets the requirements that were set forth when the zone was established. It is suggested that communities should be allowed to choose between these two approval models going forward. When establishing its new zones, a community could choose to designate its zone as an "negotiated abatement" zone or an "expedited abatement" zone. The expedited option would enable communities to give applicants shorter turnaround time and less paperwork within tax abatement and tax increment districts likely to experience a high volume of projects (as for example, in projects areas with large numbers of single-family homes). Additionally, communities should be required to review their approval process periodically, particularly where expedited procedures exist, to ensure that the approval criteria meet the community's current goals and objectives.

Minority & Small Business Loans

Representative Workshop and Interviewee Comments

> *"We need to provide some means of providing working capital to (minority) companies. This is especially important to start-up companies. We need a state program that works with them."*

> *"Current incentives targeted to large businesses – need to provide value to smaller companies, too."*

Analysis

The Ohio Department of Development supports two business loan programs targeted to minority entrepreneurs: the Minority Business Direct Loan Program and the Ohio Capital Access Loan Program.

Minority Business Direct Loan Program (MBDL)

The Minority Business Direct Loan Program is administered by the Ohio Department of Development's Minority Business Enterprise Division. Businesses receiving loans must be certified as minority businesses by the State Equal Opportunity Coordinator or the National Minority Supplier Development Council. Eligible businesses can receive direct loans at 3 percent interest for fixed assets in amounts ranging from $45,000 to $450,000. Businesses must create or retain one job for $35,000 of financing. Prepayment terms vary from 15 years for real estate, 10 years for machinery and equipment, and five years for office equipment, furnishings, fixtures, and specialty tooling (i.e., molds, dies, and fixtures).

Ohio Capital Access Loan Program (OCALP)

The Ohio Capital Access Loan Program is administered in partnership with participating banks throughout Ohio. The program provides working capital loans of up to $250,000 and fixed asset loans of up to $500,000 with conventional rates and terms.

The loans are originated by the 11 banks participating in the program. The risk to the banks is reduced through partial collateralization of the loans by using reserve account contributions. The reserve accounts are funded as follows:

- **Borrower:** 1.5 to 3 percent of loan principal amount
- **Lender:** Same as Borrower contribution
- **State:** 50 percent deposit against Lender's first – third loans and 10 percent for all loans

Borrowers must have annual sales of less than $10 million, be headquartered in Ohio, and must create or retain jobs.

The Ohio Capital Access Loan Program addresses a critical, underserved need of minority entrepreneurs – the need for sources of working capital.

Conclusions

The Minority Business Direct Loan Program (MBDL) is underutilized.

The primary issue regarding this program is its low level of utilization in recent years. Very few loans have been originated under this program during the state's past two fiscal years. While additional marketing would probably increase the level of utilization, the MBDL is a fixed asset financing program. Start-up and thinly capitalized minority companies typically have a greater need for working capital than for fixed asset financing.

The Minority Business Direct Loan program is essentially a 166 loan provided at a slightly lower interest rate.

The MBDL's design is very close to that of the state's 166 Direct Loan Program. Terms of the 166 program could be modified to provide lower interest rates for minority borrowers, such as are provided under the MBDL.

Eligibility for the MBDL is limited to companies certified as minority businesses by the State Equal Opportunity Coordinator or the National Minority Supplier Development Council. Businesses certified by Ohio cities or other states must apply for an additional certification from the State Equal Opportunity Coordinator or the National Minority Supplier Development Council to be eligible for an MBDL. This is a redundant step that serves no public purpose and results in slower turnaround time and greater transaction cost.

Relatively few Ohio financial institutions participate in the Ohio Capital Access Loan Program (OCALP).

Currently, 11 Ohio financial institutions participate in the OCALP. Administrators of the program believe that the lack of participation results from the limited contribution of the state to the reserve accounts at the participating institutions.

Recommendations

Minority Business Direct Loan Program

By supporting working capital loans, the Ohio Capital Access Loan Program addresses a more critical, underserved need of minority businesses than does the fixed asset-oriented Minority Business Direct Loan Program. The state's 166 Direct Loan Program provides fixed asset loans similar to the Minority Business Direct Loan Program, albeit at higher interest rates. But working capital financing is a far more critical need within the minority community than fixed asset financing.

In light of this, it is recommended that:

- Eligibility should be extended to any minority-owned company certified by a federal or Ohio public agency to eliminate the need for multiple certifications to obtain financing.
- The Ohio Department of Development's loan programs and the programs administered by the Department of Administrative Services, particularly the Minority Business Enterprise (MBE) and Encouraging Diversity, Growth, and Equity (EDGE) programs, should be closely coordinated to ensure that all eligible companies are aware of the Ohio Department of Development's minority-focused programs.
- To the greatest extent possible, the back office functions of the minority-focused loan programs and the 166 Direct Loan program should be combined. Any efficiencies gained should be used to free resources, to allow increased outreach and marketing of the minority business loan programs.

Ohio Capital Access Program

Currently, 11 banks throughout the state participate in the Ohio Capital Access Program. To increase bank participation and to expand the availability of working capital, it is recommended that the state's reserve deposit be increased to 80 percent of the principal balance of loans for MBE/EDGE certified borrowers.

Workforce Development

Representative Workshop and Interviewee Comments

"Labor force availability is the number one concern of Ohio businesses."

"(We were) blown away by North Carolina's seamless, end-to-end, recruitment and training process. Both South Carolina and Florida offered similar support. The Ohio workforce system representatives were very dedicated, but the offerings and process were not close to … North Carolina."

"(Ohio's) workforce development programs need to be ramped up; greater collaboration among training providers is desperately needed."

Analysis

Program Administration

Until February 2008, Ohio's workforce economic development incentives were administered as a program unit within what was then Ohio Department of Development's Economic Development Division (Division), with a staff of only 14 full-time positions. At this staffing level, the unit was barely capable of administering the Ohio Investment in Training program described below, much less provide a comprehensive range of workforce development services to industry comparable to those available in other states.

Lt. Governor Lee Fisher, recognizing the importance of workforce development to industry, elevated the unit to a Division status within the Ohio Department of Development in February 2008. The Division has a budget supporting 56 full-time positions, including 12 Regional Workforce Directors to be stationed at the 12 Ohio Department of Development regional offices throughout the state.

Staff hiring provided for in the Division's fiscal years 2008 and 2009 budget is complete and our efforts have been underway for the past year to create an organizational infrastructure to support a more effective and capable program.

Ohio Investment in Training Program (OITP)

The OITP has historically been Ohio's primary workforce economic development incentive. Approximately $17 million in training funds were made available to industry through the program in 2007. Eligible training costs are reimbursed based upon 50 percent of the actual company costs per instructional hour for the instructor(s), and up to 50 percent of actual company costs for instructional materials and special needs as specified in the company's proposal. In addition, the state can pay a portion of the cost of training an employee at a company's out-of-state facility, if necessary.

Companies are awarded funds typically by a formula based upon the average hourly rate of the workforce, along with the capital investment made by the company. If the company is located in a designated Priority Investment Area and the average hourly wage without benefits is between $7.73 and $13.80, the company can receive a 60 percent reimbursement of documented training expenses.

The State of Ohio assigns a Regional Workforce Director to assist the company with putting together an application in order to secure training funds for eligible training activities under the OITP program.

Conclusions

The availability of skilled workers is the most important factor impacting the retention and expansion of Ohio companies and the creation and attraction of new ones.

Workshop and interview participants consistently reported that the availability of skilled workers is the foremost concern of existing businesses throughout the state and of those considering locating or expanding here. It was frequently stated that in today's knowledge-based, globally competitive economy, businesses require more highly skilled and capable workers in every category of employment than at any time in the past. The availability of skilled workers was identified as the primary "driver" of business success and the future prosperity of the Ohio economy.

The assistance available for the training of incumbent workers was identified as the largest gap in the array of workforce development assistance provided by Ohio.

Workshop and interview participants reported that the greatest "gap" in economic development assistance available to Ohio companies was support for the training of incumbent workers. Currently, the majority of training assistance programs, particularly federally funded training assistance programs, is targeted to assist disadvantaged and/or unemployed persons gain employment. As valuable as these programs are, they do not address the needs of employers to improve the skills of their existing employees.

Some businesses interviewed stated that the quality and funding of Ohio's workforce development offerings are not competitive with what is available from other states.

Some businesses said that the quality of Ohio's offerings were less competitive than those offered by other states. The Ohio shortcomings that were cited varied from business to business. The shortcoming cited most often was Ohio's apparent inability to present a comprehensive workforce development assistance proposal that was as credible as the proposals companies received from other states. Businesses said that other states offered them a more comprehensive and elaborate set of workforce development services than Ohio, including more in-depth assistance in employee recruiting, screening, orientation, and training.

Businesses said that compared to other states, Ohio's workforce development assistance proposals appeared less well-organized and its service delivery capacity more fragmented. Unlike Ohio, other states provided many compelling examples of previous businesses they had assisted, including in-person presentations from executives of previously assisted businesses. Many businesses stated that compared to other states, Ohio appeared to lack the organizational expertise and experience to effectively manage and execute the assistance programs it offered.

Some businesses said that some other states either offered more funding for training per employee and/or required less employer match funding than Ohio. It was also stated that some other states reimburse employers for the wages of workers while they are in training, an option that Ohio does not offer. Some companies said that other states provide more funding for recruitment than Ohio.

By way of example, one individual interviewed provided information on the workforce development assistance proposal received from another state, summarized as follows:

- Offered to provide a single point of contact and account manager to coordinate the provision of workforce development services.
- Provided position-by-position information regarding labor availability at various readiness levels, and compensation rates at various commuting distances in first meeting with client company.

- Offered funding for third-party recruiters, temporary offices for recruiters, TV and newspaper ads, and other recruitment tools and tactics.
- Offered to manage applicant flow, and conduct and fund pre-screening, blood tests, criminal background checks, and aptitude tests.
- Offered to fund and conduct pre-employment training, company orientation, and five-10 weeks of customized training, including 50 percent of the candidate's wages during the training period.
- Offered to pay 100 percent of the unemployment compensation of any employees terminated within 90 days.

Some businesses claim that other states provide a "single-point-of-contact" for all forms of workforce development assistance, whereas Ohio requires businesses to engage with multiple service providers, and even multiple levels within service provider organizations, to gain access to workforce development assistance.

Some businesses interviewed complained that it was difficult to obtain useful information regarding the workforce development services that are available in Ohio. Ohio training and education providers include vocational high schools, community colleges, four-year colleges and universities (both public and private), workforce development centers, and Edison and other technical centers, to name a few. Businesses complain that Ohio provides insufficient assistance to businesses in navigating Ohio's fragmented and complex network of workforce assistance service providers. Further, it is difficult for businesses to assess the relative quality of the services offered. Business said that some other states provide a single-point-of-contact for both accessing workforce development assistance and assessing the quality of services available.

Some businesses complain that the application and administrative process for approval and receipt of OITP funds is lengthy, expensive, and not transparent.

Some businesses complain that they have been invited to apply for OITP funding, but that they were unable to do so because the Ohio Department of Development failed to provide them with the necessary application materials. Other businesses complain that they have been encouraged to file for OITP funding only to find that after they had filed, funding was unavailable. Likewise, funding applications have been known to wait for up to a year for approval and have taken nine months or more after that to go to contract.

Over the past 12 months, the Workforce and Talent Division has redesigned its application and administrative processes to address many of the complaints by businesses cited above. While it is too early to determine whether the improvements have been sufficient to resolve all the problems cited by industry, this obviously is an important step in the right direction.

Some other states budget more funding than Ohio does for incumbent worker training; some of the states that budget less than Ohio are considered to have outstanding incumbent worker training offerings.

Table 10 (below) provides examples of state funding for incumbent worker training, excluding the federal training funding received by these states. Total funding is indicated along with the per capita funding for each employed person within the state. Businesses report that Indiana provides higher levels of funding than Ohio. The table indicates that Indiana, at $5.11 per employee, does in fact budget more per employee than Ohio, which budgets only $3.17 per employee. Conversely, North Carolina, which is frequently cited as having one of the nation's highest quality and effective incumbent workforce development programs, budgets only $2.17 per employed person as compared to Ohio's $3.17.

Table 10: Examples of State Funded Incumbent Worker Training Funding Program (Federal Funding Excluded)

State	2006 Funding	Funding Per Employed Person in the State
Pennsylvania	$30,000,000	$5.27
Indiana	$15,000,000	$5.11
Ohio	**$17,200,000**	**$3.17**
Kentucky	$5,500,000	$3.05
Michigan	$9,798,000	$2.28
North Carolina	$8,343,277	$2.17
Arkansas	$2,385,000	$2.05

Source: Calculations based on data contained in The Employer as the Client: State-Financed Customized Training, Steve Duscha and Wanda Lee Graves, Employment and Training Administration, U.S. Department of Labor, 2007

These data suggest that while higher levels of funding can enhance the effectiveness of a state's training program, the effective integration and management of service delivery resources (even at lower levels of program funding) are also essential to producing outstanding program results.

Recommendations

Ohio should clarify the roles of its various workforce development organizations.

Ohio's network of training and education providers has evolved ad hoc over the years and now consists of a patchwork of loosely connected, highly fragmented vocational high schools, community colleges, four-year colleges and universities, and One-Stop Career Centers. The respective roles of the various organizations are not clearly defined, and as a result, many service providers try to be all things to all persons. Service providers find themselves competing rather than collaborating with one another, and the quality of service to business suffers.

As the availability of skilled workers becomes an even more important determinant of economic prosperity in the past, states that have developed a comprehensive, coordinated workforce development assistance system (such as North Carolina and Alabama) will enjoy a competitive advantage if Ohio's remains fragmented.

To address this, Ohio should undertake a "top-to-bottom" strategic re-evaluation of the overall organization of Ohio's workforce development system with an eye toward clarifying the roles to be served by each of the service providers in the system, establishing processes for the coordinated delivery of services among the various providers to industry, and making information regarding the availability of services more readily accessible and transparent to business.

This evaluation should include a benchmarking of the best-in-class workforce program organizational structures and services provided in other states.

Ohio's workforce development system should establish organizational development priorities.

In the analysis above, a description of a workforce development proposal submitted by another state to a prospect was presented. The proposal included a more comprehensive set of services, presented in a more credible manner than Ohio currently has the capacity to provide. It will probably take Ohio several years of focused organizational development to create a workforce development system as proficient as the example described above. Ohio needs an organizational development plan for its workforce development system to guide its transition from the condition that prevails today to the desired future state. Such a plan should include organizational development priorities, a time table for action, and a list of necessary specific program investment priorities.

Over the past eight months, the Ohio Department of Development had honed its process for providing comprehensive workforce proposals to companies looking to expand or locate in Ohio. The proposals include coordination with all our workforce partners.

Administrative contracting and grant administration practices improvements implemented by the Workforce and Talent Division should be closely monitored to ensure that these improvements resolve business complaints.

As indicated above, there have been shortcomings in the Division's application and contract administration processes. These processes have recently been redesigned to address such issues. Administrative contracting and grant administration practices improvements implemented by the Division should be closely monitored to ensure that these improvements do in fact resolve business complaints.

Recruitment and deployment of Regional Workforce Directors should be completed as soon as possible.

Staff hiring provided for in the Division's fiscal years 2008 and 2009 budget is complete and our efforts have been underway for the past year to create an organizational infrastructure to support a more effective and capable program.

Regional Workforce Directors should be co-located in regional partnership agencies.

Regional Workforce Directors, however, need to be embedded within the service delivery fabric of the regions they serve. To ensure coordination of workforce development services with other businesses development services within regions, it is recommended that Regional Workforce Directors be co-located in the offices of the regional partnership agencies where possible.

State-Local Partnership

Representative Workshop and Interviewee Comments

"Where are we lacking in customer service as compared to other states? Coordination between chambers, cities and the state."

"In all other states the regional organizations (were) the coordinators of all interactions with (us) and the state local offices were co-located in each of the regional offices."

"It (is) difficult to decide (where) the "entry point" into the Ohio Department of Development (is). Should (you) go to the local rep or the business rep in Columbus or elsewhere … There is no system."

"Kentucky staff people have more authority and are more empowered. They know what they can offer. TRI-Ed (the Northern Kentucky regional group) has the authority to speak for the state."

"Don't make (a) client show up to five or six different meetings – companies don't know how to coordinate – don't know who to contact."

Analysis

The economic development landscape of Ohio is fragmented. There are hundreds of economic development agencies within the state. While it is possible to influence organizations within the network, each is independent and cannot be required to take an action unless it so chooses.

Often there are two phases to an economic development project:

- **Lead generation**, which in the case of attraction, entails developing the interest of a company to locate or expand in Ohio and, in the case of retention, entails identifying or responding to companies that are "at risk" of discontinuing operations in Ohio.
- **Deal-making**, which involves processing an assistance package that enables or incentivizes a company to locate, invest, or remain in operations in Ohio.

Lead generation typically involves marketing and outreach activities to industry, whereas deal-making typically involves originating and processing commitments and contractual agreements among companies and state and local agencies providing incentives.

Most counties and cities in Ohio, and even some townships and villages, have either an individual or a department within local government tasked with both lead generation and deal-making responsibly. In addition, many communities have established or provide support to non-profit development organizations tasked with lead generation responsibilities, and in many cases with providing some degree of support for deal-making. Likewise, many cities have chambers of commerce that encourage both the retention and attraction of businesses, and serve as major lead generators within their local areas.

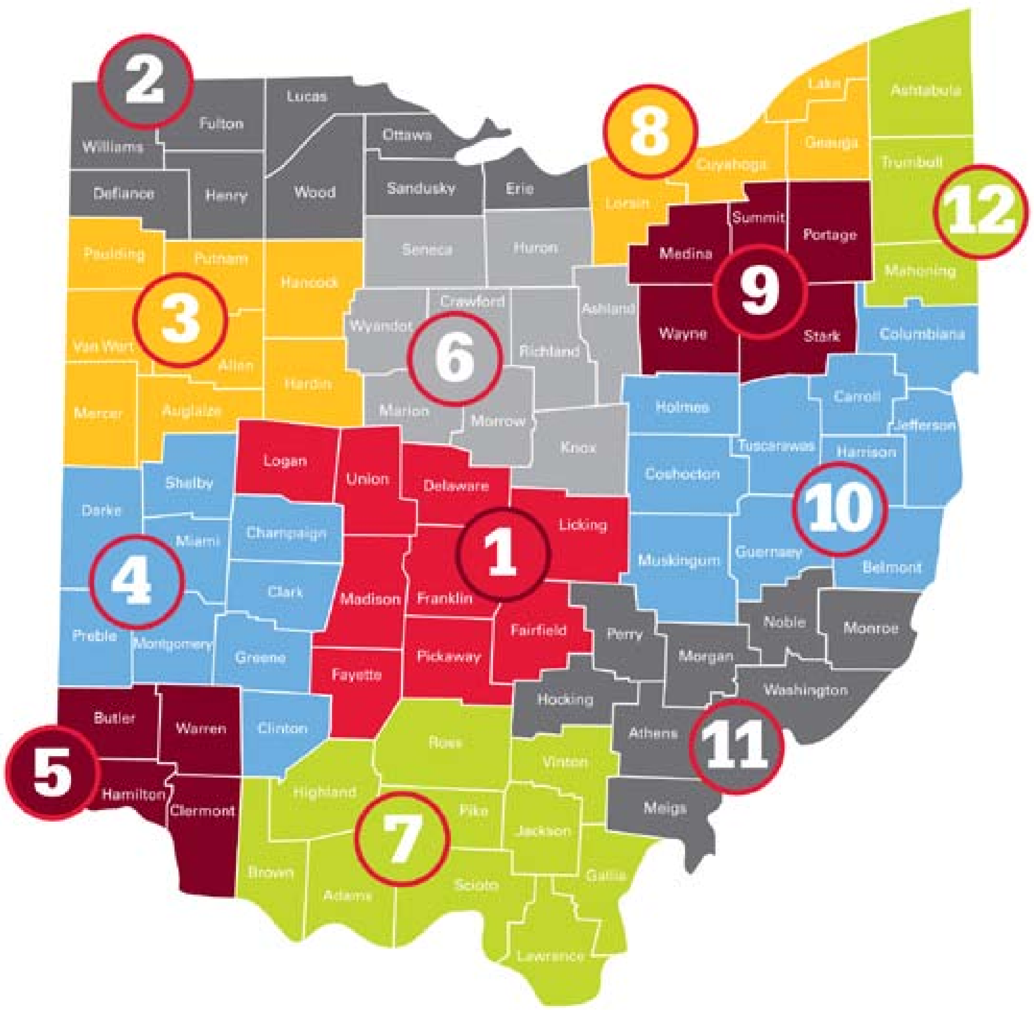
Private, regional development organizations have emerged in several of the major urban areas within the state. These include:

- Cincinnati USA Partnership (Cincinnati Region)
- Columbus Chamber (Central Ohio)
- Dayton Development Coalition (Dayton)
- Regional Growth Partnership (Toledo)
- Team NEO (Team Northeast Ohio; Cleveland, Akron, Canton, Warren, Youngstown)

These organizations are tasked with lead generation for their regions, and they play a coordinating role among the various economic development organizations within their respective service areas. The Columbus Chamber fulfills a similar lead generation and coordinating function for the Columbus metropolitan area.

All of these organizations serve as sources of lead generation bringing forward projects entering the deal-making processes of the Ohio Department of Development.

The Governor and the Ohio Department of Development have partitioned the state into 12 economic development areas (see map below). Each of the economic development areas have been assigned an Ohio Department of Development Regional Economic Development Director. The Ohio Department of Development Workforce and Talent Division now has Regional Workforce Directors, co-located with the Ohio Department of Development Regional Economic Development Director in a regional office within each of the areas. Further, many areas have also been assigned a Governor's Regional Director, also co-located with the Ohio Department of Development Regional Economic Development Director.



Within Columbus, the Ohio Department of Development is organized into several major operating Divisions and Offices that share responsibility for providing development assistance to business:

- Strategic Business Investment Division
- Workforce and Talent Division
- Global Markets Division
- Office of Policy, Research, and Strategic Planning
- Technology and Innovation Division
- Entrepreneurship and Small Business Division
- Minority Business Enterprise Division

The Strategic Business Investment Division is staffed with 12 Business Development Managers, variously assigned to manage the incentive assistance projects. As the name implies, the Workforce and Talent Division manages the state's workforce incentives as earlier described. The Global Markets Division provides export assistance to Ohio companies and manages Ohio's international offices.

The Office of Policy, Research, and Strategic Planning provides information and research support to the Department and to industry, but it is not directly involved in the management of the state's incentives other than from an information gathering, analysis, and evaluation standpoint. The Technology and Innovation Division manages the Edison and Ohio Third Frontier programs that are outside the scope of this study. Similarly, the Entrepreneurship and Small Business Division manages the Small Business Development Center network and provides programming to small and entrepreneurial businesses.

Many businesses wanting economic development incentives contact their local government or chamber. From there, they may be routed in several different directions:

- To the private regional development organization
- To the Governor's Regional Director, Ohio Department of Development Regional Economic Development Director, or Regional Workforce Director
- To a Business Development Manager, or their equivalent within the Columbus office of the Ohio Department of Development

Likewise, a business contacting a regional development organization seeking economic development assistance might be routed to:

- The local economic development office of a county, city, or town for a local development incentive
- A local workforce development assistance provider for workforce development support
- The Governor's Regional Director, Ohio Department of Development Regional Economic Development Director, or Regional Workforce Director
- A Business Development Manager, or their equivalent within the Columbus office of the Ohio Department of Development

Conclusions

Local practitioners and businesses find the current structure of Governor's Regional Directors, and Ohio Department of Development Regional Economic Development Directors, Regional Workforce Directors, and Business Development Managers confusing.

Local practitioners and businesses are confused by the regional and central office organization of the Ohio Department of Development and the appearance of a lack of clarity regarding the functions and roles of each of the offices. Local practitioners and businesses complain that they do not know what office to go to, when, and for what.

Businesses and practitioners complain that their confusion over the present organization structure leads to many redundant meetings at which little is resolved other than to have another meeting at another level within the state's organization. Businesses and practitioners complain that no one appears to have any authority to make a decision or provide direction, except for at the very highest levels within the Ohio Department of Development.

Businesses and practitioners contend that they are able to receive immediate response to requests for assistance in other states, but that in Ohio they must go through many levels of authority and attend many meetings before it is made clear what assistance is available.

Businesses consider regional and local economic development (ED) organizations as "First Responders."

Businesses consider regional and local economic development (ED) organizations as "First Responders" to their inquiries concerning the availability of incentives in the state. Businesses say they expect regional and local economic development agencies to be able to provide complete and authoritative information regarding the incentive offering available. Businesses complain that regional and local ED organizations in Ohio often must consult extensively with the Ohio Department of Development before they can provide accurate information regarding the availability of economic development incentives. Businesses complain that often regional and local ED organizations must arrange meetings with Ohio Department of Development Business Development Managers or their higher-ups in the Columbus offices of the Ohio Department of Development to determine the incentives for which the business will qualify.

Businesses complain that in other states, state economic development departments and regional and local ED organizations are more tightly integrated and that the regional and local agencies in effect speak for the state.

Some businesses complain that after receiving commitments from Ohio, they receive insufficient help in actually accessing the assistance promised.

After receiving commitments from the state for assistance, some businesses complain that it is entirely up to them to find out how to actually access the assistance. Businesses complain that in other states a single-point-of-contact is provided and an individual is assigned to ensure that the services committed to be provided are actually delivered upon. Businesses complain that in Ohio, even after obtaining an assistance commitment from the state, they must seek out service providers and coordinate the delivery of the services committed on their own.

Retaining existing industries is the number-one concern of public officials and economic development practitioners throughout the state.

Retaining existing industries is the number-one concern of public officials and economic development practitioners throughout the state. Regional workshop participants said:

- Companies want to grow, but communities can't help
- Current state programs do not address retention
- There are few incentives for expansion projects that do not create new jobs
- Ohio needs to create a statewide early-warning mechanism to identify companies "at risk" of leaving, closing, or downsizing

Recommendations

All economic development incentives provided by the state should be standardized and, where possible, simplified; formulas should be developed to establish economic development incentive benefit levels.

Some interviewees indicated that currently in Ohio, "each deal is like reinventing the wheel." Several interviewees suggest that nearby states have more standardized approaches for determining eligibility for development incentives. The interviews and process maps indicate a variety of "hand-offs" and repeated loops associated with determining qualifications and benefits.

If incentive eligibility requirements were standardized and the measures for determining benefit levels made clearer, fewer face-to-face meetings would be required between a business and the state and local practitioners. This would cut down on meetings needed to obtain information regarding what incentives the business might qualify for and at what benefit levels. It is the complexity of current eligibility requirements, criteria, and terms (as well as the lack of standardization in the determination of benefit levels) that increases the required number of interactions between agencies and the amount of information that must flow through the system.

The lack of standardization increases the risk of miscommunication that might tarnish potential investors' perceptions of Ohio as an investment location. The lack of standardization also increases the cost of individual transactions by requiring more time and attention from more people, including costly professionals and consultants.

The complexity and variability of incentive benefits and determination of eligibility:

- Increases the overall complexity of the system, including the amount of communication required among the participating organizations
- Increases the overall risk and turnaround time experienced by prospect companies
- Places Ohio at a competitive disadvantage to nearby states with less complicated application requirements
- Increases the operating and transaction costs of economic development agencies at all levels

Much confusion, time delay, and transaction cost would be eliminated if incentive eligibility was standardized and the formulas for determining incentive benefit levels were made public.

Standardize how requests for incentive assistance by business should be routed; clarify the roles of Governor's Regional Directors, and Ohio Department of Development Regional Economic Development Directors, Regional Workforce Directors, and Business Development Managers within the agreed-upon "routing" structure.

A standard procedure for the routing of request for incentives would de-mystify much of the current confusion regarding who should be contacted, when, and for what service. Creating a formalized routing process would force clarification of the roles of Governor's Regional Directors, and Ohio Department of Development Regional Economic Development Directors, Regional Workforce Directors, and Business Develoment Managers within the incentive application and contracting process.

Empower appropriately trained Ohio Department of Development staff to tentatively commit the state to provide incentives to businesses meeting the standardized eligibility criteria and at the benefit levels provided under the standardized formula, subject to final approval by the required approval body.

Currently, Ohio Department of Development Business Development Managers and Regional Economic Development Directors are not empowered to make tentative commitments regarding incentive eligibility and benefit terms without approval from supervisors within the Ohio Department of Development central office. This leads to lengthy delays in businesses receiving information regarding their eligibility for incentives and the benefit levels they will receive.

Standardization of incentive eligibility criteria and formulas for determining benefit levels affords the Ohio Department of Development staff clear direction regarding what incentives the state will and will not provide under a given circumstance. Once such direction is available, appropriately trained Ohio Department of Development employees will be able to advise businesses of their eligibility and the likely benefit levels, with a greatly reduced risk that the Ohio Department of Development staff member may misadvise the business. There would be no loss of ultimate oversight and control since ultimate approval authority would still be retained by the appropriate body within state government.

Empower a limited number of appropriately trained and certified economic development practitioners within regional economic development organizations to tentatively commit the state to provide incentives to businesses meeting the standardized eligibility criteria and at the benefit levels provided under the standardized formula, subject to final approval by the Ohio Department of Development and the required state approval body.

As indicated above, businesses complain that when it comes to incentives, regional economic development agencies can do little more than arrange meetings between themselves and the Ohio Department of Development. This leads to lengthy delays in businesses receiving information regarding their eligibility for incentives and the benefit levels they will receive subject to final approval by the appropriate approval body.

Standardization of incentive eligibility criteria and the formulas for determining benefit levels affords the Ohio Department of Development the opportunity to better leverage the staff resources within regional partnership organizations across the state. It is recommended that for each Ohio Department of Development division providing incentives, one or two economic development practitioners within each regional development organization in the state be intensively trained, officially certified, and specifically empowered by the Ohio Department of Development to advise businesses of their eligibility for economic development incentives and the likely benefit levels the business would received. The certification should be on a division-by-division basis within the Ohio Department of Development to ensure no confusion in the ultimate line of authority back to the Ohio Department of Development.

Certified economic development practitioners would be required to participate in regularly convened project management and review meetings convened by the Ohio Department of Development divisions that have issued their certification. Such certifications would require annual renewal at the discretion of the Ohio Department of Development. Certified individuals would be required to file information into the Ohio Department of Development's Pivotal database as if they were employees of the Department, and maintain constant contact with appropriate authorities at the Ohio Department of Development regarding pending commitments to businesses. Regional development organizations would be required to execute agreements with the Ohio Department of Development indemnifying the state against any acts of misfeasance or misconduct committed by the certified individuals.

Co-locate Governor's Regional Directors, Ohio Department of Development Regional Economic Development Directors, and Regional Workforce Directors in the offices of the primary regional economic development agencies in each region of the state.

To encourage greater interaction and coordination between regional economic development agencies and Governor's Regional Directors, and Ohio Department of Development Regional Economic Development Directors and Regional Workforce Directors, it is recommended that their offices be co-located in the offices of the primary regional economic development agencies or their appropriate equivalent in each of the economic development regions of the state.

The Ohio Department of Development should task its regional representatives and partnership organizations with launching a vigorous statewide initiative to identify and address the needs of Ohio and its existing businesses.

The Ohio Department of Development should task its regional representatives and partnership organizations with launching a vigorous statewide initiative to identify and address the needs of Ohio and its existing businesses by:

- Establishing a statewide business retention visitation program and early-warning system to reach out to Ohio businesses
- Create regional networks of professionals and volunteer organizations to provide early warning of and rapid response to companies "at risk" of relocating, "in crisis," or facing barriers to growth
- Networks would be comprised of:
  - Banks, law firms, accountants, utilities, and other business partners
  - Regional and local economic development agencies and training providers
  - Team Ohio, the Ohio Economic Development Association, and the Ohio Commodores
  - Labor unions, trade and professional associations, and volunteer groups

Minimize multiple rounds of meetings and trips to Columbus by businesses, and their advisors and local development officials, by leveraging information technology to enable video and teleconferencing between Ohio Department of Development offices and each of the primary regional partner locations.

Standardization of incentive eligibility criteria and benefit formulas along with empowerment of Ohio Department of Development staff and certified regional practitioners to make tentative economic development incentive commitments to business will go a long way toward reducing the number of meetings businesses currently must have with Ohio Department of Development officials in Columbus to secure an economic development incentive commitment. Once Governor's Regional Directors, Ohio Department of Development Regional Economic Development Directors, and Regional Workforce Directors are co-located in the offices of the primary regional economic development agencies in each region of the state, video and teleconferencing capabilities can be established that connect the Ohio Department of Development Columbus office and the offices of regional economic development agencies in each part of the state. This in turn, will further reduce the need for companies to travel to Columbus to conduct business with the Ohio Department of Development.

Speed & Predictability

Representative Workshop and Interviewee Comments

> *"I asked for a tax breakdown from both Ohio and Kentucky on a project. Kentucky responded with accurate information within one day. Ohio took several days and three or four separate tries before providing accurate data."*

> *"Recently a company needed immediate action by Ohio Department of Development or else the company would lose its eligibility for an abatement. Its representative called the Lt. Governor and the problem was resolved in a matter of hours. The service was great (but) why wasn't this matter dealt with in a routine manner rather than require intervention by the Lt. Governor?"*

> *"Company wanted assistance from the state but found the paperwork too complex ... The questions this raises are why does the paperwork have to be so complex, and if it must, why can't the Department provide help to companies in completing the paperwork?"*

Analysis

An internal assessment of the operation of the Strategic Business Investment Division, the Workforce and Talent Division, and related incentive administrative processes was undertaken as part of this study. The assessment included interviews of Ohio Department of Development customers, staff, and related stakeholders as well as development of detailed process maps for selected internal economic development incentive work flow processes within the Ohio Department of Development, specifically:

- Development and approval of project commitment letters
- Job Creation Tax Credit approval, servicing, and management process
- 166 Direct Loan approval, closing, servicing, and management process
- Ohio Enterprise Bond Fund approval, closing, servicing, and management process
- Ohio Investment in Training Partnership Grant approval, contracting, servicing, and management process

TechSolve used a mapping technique known as "swim lane" flow charting. "Swim lane" flow charts are particularly useful in the analysis of service functions involving multiple "hand-offs" of tasks and information between work units within organizations. The technique uses stacked, horizontal rows (i.e., "swim lanes") to represent individual subunits within an organization. Work flows are then "mapped" over the horizontal rows to reflect the sequential work tasks and the "hand-offs" that occur between organizations depicted on the maps.

Schematic drafts of the maps were developed during the direct interviews with Ohio Department of Development staff members. Subsequently, the schematic drafts were redrawn in publishable form by TechSolve and submitted to the Ohio Department of Development. Because of their extreme detail, the maps cannot be legibly reproduced as an appendix to this report. Instead, multiple copies of the maps have been submitted to the Ohio Department of Development under separate cover.

In reviewing the Ohio Department of Development's processes, TechSolve observed that the current system has many strong areas. The Ohio Department of Development successfully processes or monitors approximately 12,000 projects per year. This work is performed within a challenging operating environment in which Ohio Department of Development staff is routinely over-tasked and under-resourced. Moreover, internal processes are necessarily legally complex. While numerous improvement opportunities exist, it will take much time and effort to harvest them. There are opportunities for improvement, but there is no "free lunch."

Conclusions

The Ohio Department of Development processes are not standardized; staff members improvise their own process steps, resulting in communication breakdowns, confusion, and rework.

Until recently, many of the key processes within the Ohio Department of Development were not documented or standardized. Personnel acquired knowledge regarding required process steps through experience and by questioning more experienced staff members. The lack of process documentation has made it impossible to standardize processes within the Department or to make and deploy process improvements.

In the absence of documentation, staff members improvise their own process steps. This creates process variation that results in communication breakdowns, wasted time, confusion, and rework.

Because work processes are not standardized, work flow is irregular. This produces variation in the time required to complete the various steps in each process. As a result, there is great variation in the time required to complete specific tasks. Because the variation is so large, staff cannot provide accurate information to customers and stakeholders regarding the time required to complete an application or an agreement. As a result, deadlines are not achieved, and Ohio Department of Development customers and stakeholders complain. Staff then attempt to expedite projects through the system to resolve customer complaints. This, in turn, disrupts the other work in process, actually lengthening the average turnaround times on all projects and increasing error rates.

There is under-investment in staff training, continuous improvement, information technology, and support services.

Lack of process documentation and standardization makes staff training in processes execution and management difficult. Moreover, there has been systematic under-investment within the Ohio Department of Development in staff training, information technology, and support services. This leads to high error rates, waste, lengthened turnaround times, and client dissatisfaction.

Many customers and stakeholders of the Ohio Department of Development complain that the number and variety of programs and services provided is extremely complex and difficult to understand.

Participants in interviews and at regional workshops consistently complained that the sheer number of programs and services provided by the Ohio Department of Development was in itself a source of confusion for the public. These participants frequency stressed the importance of reducing and, at a minimum, not increasing the numbers of programs provided.

Turnaround time on the processing of incentive applications and agreements by the Ohio Department of Development can be highly impacted by the processes of other state agencies.

The Ohio Department of Development checks with Ohio Department of Taxation and the Ohio Environmental Protection Agency (EPA) to determine whether an applicant has any outstanding delinquent tax obligations or any environmental legal actions in process. If any are discovered, the Ohio Department of Development places the pending application on hold until the delinquent tax obligation or environmental issues are resolved. The process of checking with these agencies can add significant additional time to the processing of applications even when there are no delinquent taxes or unresolved environmental issues.

Turnaround time on many Ohio Department of Development processes is highly impacted by the State Controlling Board calendar; many projects must be presented again to the State Controlling Board due to post-approval changes in terms.

Legislative oversight of incentive agreements originated by the Ohio Department of Development is not only mandated by the Ohio constitution, but it is essential to providing appropriate public disclosure of Ohio Department of Development activities and maintaining public confidence in the state's economic development program.

That understood, many of the economic development incentives agreements developed by the Ohio Department of Development require approval by the State Controlling Board. Process maps prepared by TechSolve suggest that the State Controlling Board review process may add an average of 30 days to the Ohio Department of Development incentive contracting process. Internal Ohio Department of Development staff time dedicated to preparation of reports to the State Controlling Board is immense. There is uncertainty within the Ohio Department of Development regarding the circumstances under which projects must be "re-approved" by the State Controlling Board when changes in terms are regarded after initial State Controlling Board approval. As a result, minor changes in deal terms are presented for "re-approval" by the State Control Board, creating rework, lengthening average turnaround times, and increasing the variance.

Recommendations

Standardizing eligibility criteria and formulas for determining benefit levels as recommended above will significantly increase the predictability of incentive decision-making.

Much confusion, time delay, and transaction cost would be eliminated if incentive eligibility was standardized and formulas for determining incentive benefit levels were made public.

Standardization, along with empowering Ohio Department of Development staff and certified economic development practitioners to make tentative incentive approvals commitments, will reduce overall processing times.

Currently, Ohio Department of Development Business Development Managers and Regional Economic Development Directors are not empowered to make tentative commitments regarding incentive eligibility and benefit terms without approval from supervisors within the Ohio Department of Development central office. This leads to lengthy delays in businesses receiving information regarding their eligibility for incentives and the benefit levels they will receive. Empowering Ohio Department of Development staff and certified economic development practitioners to make tentative incentive approvals commitments will reduce overall processing times.

The terms and conditions contained in the Ohio Department of Development incentive application forms and project agreements should be standardized across programs to the greatest extent possible.

Most Ohio Department of Development and local incentive contract agreements contain provisions addressing the following issues:

- Non-relocation provisions specifying the penalties that a business will incur should it relocate jobs or make investments prior to the expiration of an incentive agreement
- Relocation notice provisions addressing the obligation of a company to notify its resident community where it is contemplating moving to another community in Ohio with the support of economic development incentives

- "Clawback" provisions, specifying the obligation of the company to compensate the state if the company should breach the incentive agreement.
- Performance metric data reporting processes to both ensure compliance with agreements and enable the Ohio Department of Development to evaluate program results and report them to the public.

These and similar provisions have been developed ad hoc for each of the Ohio Department of Development's incentive programs, as well as local tax abatement and tax increment financing programs. The complexity and variation of incentive program terms places an added burden upon Ohio Department of Development staff to advise a business of the unique terms of each incentive. The variance in terms among programs increases the likelihood of miscommunication of incentive requirements, dissatisfaction by a business with the information provided (leading ultimately to rework), higher transaction cost, and longer lead times in completing transactions.

Standardizing these provisions across programs reduces complexity, the probability of errors, lead time, and transaction cost. Moreover, it enables the Ohio Department of Development to develop standardized application forms, commitment letters, and incentive agreements reducing the time-consuming customization of forms, letters, and agreements that occurs currently.

Avoid the need to create "new programs" by modifying eligibility requirements of existing programs and creating and implementing an "Assistance Scorecard" or "Calculator," enabling preference to be given to new priorities as they arise without requiring the need to create whole new programs.

The Ohio Economic Development Strategy identifies specific priority investment targets, including:

- Modernization of manufacturing operations to retain businesses that may actually be reducing employment
- Research and development investments in the development or deployment of new technologies or targeted industries: advanced energy, biomedical, bioproducts, etc.
- Urban and brownfield development
- Entrepreneurship, small business, and disadvantaged business development
- Other socially desirable investments: "green" buildings, environmental protection or remediation, and urban redevelopment

Rather than create "new incentives" for each of these targets, preferential terms and benefit levels should be developed within the context of the state's existing incentive offerings. For example:

- Modify matching fund rates on all grant programs to favor targeted investments
- Modify the percentage amount and term of all tax credits, as well as the interest amount and terms on all loan programs to favor targeted investments
- Modify qualification requirements for local tax incentives to favor targeted investments

Further, an "Assistance Scorecard" or "Calculator" should be developed to facilitate project evaluation and ranking processes to give priority eligibility qualification and benefit awards to targeted investments. The development of such a scorecard and its periodic adjustment will enable the state to address new priorities as they arise, without requiring the development of whole new programs. The "Grant Calculator" under development by the Ohio Department of Development is a prototype for the project evaluation and ranking process.

Collaborate with the Ohio Department of Taxation and the Ohio EPA to determine whether turnaround time on checks for outstanding delinquent tax obligations and environmental legal actions can be reduced – and if so, determine how.

As discussed in the workforce section above, the Ohio Department of Development checks with the Ohio Department of Taxation and the Ohio EPA to determine whether an applicant has any outstanding delinquent tax obligations or any environmental legal actions in process. If any are discovered, the Ohio Department of Development places the pending application on hold until the delinquent tax obligation or environmental issues are resolved. The process of checking with these agencies can add significant additional time to the processing of applications, even when the check reveals that there are no delinquent taxes or outstanding environmental disputes. The Ohio Department of Development should collaborate with these agencies to determine how turnaround times on these checks can be reduced.

Engage the State Controlling Board in a collaborative discussion to identify opportunities to streamline State Controlling Board incentive review processes while ensuring appropriate legislative oversight, and to clarify the authority of the Ohio Department of Development to negotiate modifications of project terms subsequent to State Controlling Board approval.

Legislative oversight of incentive agreements originated by the Ohio Department of Development is not only mandated by the Ohio constitution, but is essential to providing appropriate public disclosure of Ohio Department of Development activities and maintaining public confidence in the state's economic development program. As indicated above, many of the economic development incentives agreements developed by the Ohio Department of Development require approval by the State Controlling Board, and the current State Controlling Board process adds an average of 30 days to the incentive agreement turnaround times. Further, there is uncertainty within the Ohio Department of Development regarding the circumstances under which projects must be "re-approved" by the State Controlling Board when changes in terms are regarded after initial State Controlling Board approval. As a result, minor changes in deal terms are presented for "re-approval" by the State Controlling Board, creating rework, lengthening average turnaround times, and increasing the variance.

It is recommended that the Ohio Department of Development engage the State Controlling Board in a collaborative discussion to identify opportunities to streamline State Controlling Board incentive review processes while ensuring appropriate legislative oversight, and to clarify the authority of the Ohio Department of Development to negotiate modifications of project terms subsequent to State Controlling Board approval.

Transparency

Representative Workshop and Interviewee Comments

> *"(The) incentive process itself needs improvement. Make (it more) transparent"*

> *"Tax expenditure and incentive data need to be captured and reported in a manner that is conducive to a unified state economic development budget."*

Analysis

As stated above, legislative oversight of incentive agreements originated by the Ohio Department of Development is not only mandated by the Ohio constitution, but it is essential to providing appropriate public disclosure of Ohio Department of Development activities and maintaining public confidence in the state's economic development programs. Likewise, there are specific legislative mandates in incentives authorizing legislation that obligate the Ohio Department of Development to regularly report selected program activities and outcomes to the public.

The obligation to proactively inform the public of the actions of its government is a foundation of democratic government. Responsible stewardship of the public purse demands not only that government disclose its actions, but that it examine and report the impacts of its actions to the public in a manner that enables the public to determine whether or not it is being well-served.

The Ohio Department of Development has attempted to meet its obligation or actions and enable the public to make judgments on the effectiveness of its programs when responding to requests for information. Persons knowledgeable in the practices of state's economic development programs affirm that the Ohio Department of Development's disclosures are more extensive and provide more detailed program information than most other states.

State government has become larger and more integrated. As a result, facets of Ohio's overall economic development mission are increasingly being advanced by cabinet departments other than the Ohio Department of Development. Today, almost all Ohio cabinet departments play a role in the execution of Ohio's economic development mission.

As a consequence, stand-alone program reports issued annually by the Ohio Department of Development no longer provide the public with sufficient information to fully comprehend or take measure of how effectively its state government is working to advance the state's economy.

To address this issue, many have called for (and the Strickland/Fisher Administration has promised to provide) a "Unified Economic Development Budget" for the State of Ohio. This document will provide comprehensive disclosure of all measures the state is taking to advance the Ohio economy in a form that maximizes the ability of the public to evaluate the effectiveness of the state's actions on its behalf.

To fulfill this promise, it is necessary that the Ohio Department of Development (and eventually all other relevant cabinet departments) develop a systematic, standardized process for gathering, integrating, and reporting economic development activities and their associated costs and impact measures. A robust data collection, integration, and reporting process will enable theOhio Department of Development to fulfill its obligation to adequately inform the public of its activities. The Ohio Department of Development system will also provide other cabinet departments with a model design for the collection and reporting of similar data required to construct a comprehensive "Unified Economic Development Budget" for the entire state.

Conclusions

The Ohio Department of Development's information management system (Pivotal) does not yet enable accurate performance tracking.

Pivotal is a highly regarded customer relationship management system (CRM). Pivotal CRM is in widespread use across the country. One of Ohio's Edison Technology Centers, MAGNET, has been using the Pivotal CRM system very successfully for many years.

Pivotal has been in use by the Ohio Department of Development for approximately four years; however, full deployment of the system to each operating division of the Ohio Department of Development has not yet been completed. As currently installed and in use within the Ohio Department of Development, Pivotal does not yet enable accurate, discrete performance tracking and cross referencing by client, project, engagement, incentive, or assistance event. This leads to a number of reporting problems.

For example, Pivotal enables the same company and the same project to be entered into the database separately by each of the Ohio Department of Development's operating divisions and, potentially, multiple times by the same division. When information is aggregated for reporting purposes, this leads to double- and triple-counting of the numbers of companies assisted and the number of projects. The same applies to performance information. If multiple divisions provide a different type of assistance to a company resulting in a certain total amount of new investment or employment, the total amount of new investment or employment will be attributed to each assistance event and counted multiple times.

The underlying problem is that rigorous, standardized procedures and definitions are not in place to ensure that data is entered into the database in a consistent fashion. Even so simple an issue as how to enter a company name into the database can lead to confusion unless a standardized procedure is used. For example, a project with Honda might be entered in Pivotal multiple times under the name of "Honda," "Honda Manufacturing," "Honda Manufacturing of North America," or "Honda Marysville." A word search of the Pivotal database under the name "Honda" would generate a list of each of these entries as if they were separate projects.

A fundamental deficiency is the lack of a consistent coding methodology that provides a discrete cross-referencing numeric identifier for:

- Each company served
- Each establishment of the company served
- Each individual project or engagement with an establishment of the company served
- Each type of assistance or incentive provided to a company in connection with a specific project or engagement

Data field definitions and input procedures are not standardized.

Each division of the Ohio Department of Development has independently developed its own definitions for various data entry fields within the Pivotal database. The terminology used is often not intuitive. As a result, reports issued by a division cannot be accepted at face value and can only be interpreted by referring to the unique definitions used by the division issuing the report.

Currently, cross-divisional reports cannot be generated automatically by the report writer within Pivotal because each division uses different definitions for fields within Pivotal. Instead, individual reports must be collected from each division and then manually reconciled to produce cross-divisional reports. Because of the variation in the definitions used by each of the divisions, the individual division reports cannot readily be reconciled even through manual manipulation. As a result, there are many types of performance reports that cannot be accurately produced on a Department-wide basis.

Moreover, input procedures are not standardized. Each business representative enters information in Pivotal at a time of his or her own choosing. Some enter information at the time of first contact with a business, others at the time an application for assistance is received, and others when a commitment is issued. The time from first contact to the issuance of a commitment may take years in some cases. The lack of consistency in the timing of entries into the database means that reports drawn from the database at any point do not accurately and consistently indicate the volume of work actually in process.

Reporting periods are not standardized, which leads to inconsistencies within and between calendar and fiscal years.

Some annual reports produced by the Ohio Department of Development for economic development incentive programs are produced on a calendar-year basis, while other reports are produced on a biennium or federal fiscal-year basis. It is currently not possible to accurately reconcile these reports into a comprehensive department-wide report on either a fiscal- or calendar-year basis. At a more granular level, the lack of standardized data entry procedures makes it problematic whether or not individual divisions within the Ohio Department of Development can accurately convert their data into both a calendar- and fiscal-year format.

Different performance metrics are collected for each economic development incentive program at different times in the annual operating cycle of the Department and in different ways.

Because different performance metrics are collected from companies for each incentive program, it is not possible to produce an accurate department-wide performance report against a common set of measures. Moreover, metrics are obtained from companies in different ways and at different times in the operating cycle. This introduces a high degree of potential variability into the accuracy, quality, and comparability of the data obtained.

Information system maintenance and quality assurance is under-resourced.

Internal technical support for the Ohio Department of Development's Pivotal CRM system has been under-resourced, causing lengthy delays in the installation of various Pivotal modules and bringing more Ohio Department of Development divisions and potential users onto the system. Moreover, day-to-day maintenance including support to Ohio Department of Development personnel in the use of the system has been under-resourced. Likewise, no personnel have been dedicated on a full-time basis to assure that data entered into and extracted from the system is consistent and accurate.

Recommendations

The Ohio Department of Development management should formally commit to an internal information system and process improvement plan.

The culture of the Ohio Department of Development values satisfying its external stakeholders sometimes to the neglect of its own internal systems. For the Ohio Department of Development to meet emerging demands from stakeholders for transparency and higher levels of performance, it must establish a balance between the urgent demands of its external stakeholders and the important need to improve its information systems and internal processes. The biggest challenge the Ohio Department of Development faces in implementing the recommendations contained in this report is to restore this balance.

A common set of high-level performance measures should be established and gathered for all projects across all programs in a consistent manner.

A common set of high-level performance measures – namely new investment, wage and salary income, and jobs retained or created – should be collected in a consistent manner for all projects across all programs. While some customized metrics may need to be collected for some programs, collection of a common set of high-level metrics will enable the Department to report at least some of the common metrics across all programs.

Company and project cross-reference codes, data definitions, reporting periods, and input procedures should be standardized across all projects and programs.

Standardization of company and project cross-reference codes, data definitions, reporting periods, and input procedures across all projects and programs will enable the Ohio Department of Development to present accurate and consistent cross-divisional performance reports for all projects and programs, while eliminating double counting.

The Ohio Department of Development should dedicate more resources to data system maintenance, quality assurance, and operator training.

Information systems, no matter how automated, do not manage or maintain themselves. Such systems must be closely monitored to ensure quality and accuracy. Department personnel must be constantly trained and retrained in data input procedures. One or more positions need to be created within the Ohio Department of Development, and these positions must be assigned responsibility and provided appropriate authority to ensure that data is being maintained consistent with the standardized procedures and definitions adopted.

The Ohio Department of Development should develop a process to aggregate performance data across all projects and programs and publish an accurate, comprehensive annual performance report on a fiscal-year basis.

The improvements recommended above will enable the Ohio Department of Development to collect and aggregate accurate and consistent performance data across all programs and projects. This capability will enable the Ohio Department of Development to prepare a comprehensive departmental performance report across all programs. Preparing such reports on a fiscal-year basis will enable the Ohio Department of Development to report performance data to the public in a unified budget format. This process, once stabilized, should be deployed across other relevant cabinet departments to enable development of a statewide "Unified Economic Development Budget."

Other Areas for Additional Analysis

Over the course of this study, three additional kinds of tax credits were frequently mentioned as potential incentives to foster economic development in the State of Ohio. Because these credits do not deal directly with Ohio's competitiveness on interstate capital investment projects, this study did not examine them in detail. However, because they deal with tax credits to encourage economic development, it is appropriate to provide a brief summary of these ideas in this report.

Film Tax Credits

In recent years, several states, including Michigan, have put into place very aggressive film tax credit programs. These tax credits typically provide a transferable credit based on the expected expenditures from qualified film productions in a state. These credits can be up to 40 percent of a film's production costs in a state.

In December 2007, the Ohio Department of Development re-established the Ohio Film Office, which has the mission of promoting Ohio as a premier location for film and video production, and to provide assistance to the film and video industry for optimal production experiences in Ohio. In addition, the Ohio Department of Development established the Ohio Film Advisory Group, comprised of a diverse and creative assembly of film and video production experts. This group assists the Department in stimulating and advancing Ohio's production industry.

Ohio's traditional grant and loan programs are not attractive to this industry, and industry advocates contend that we need a targeted tax credit to encourage investments by film and media companies. Ohio's existing economic development incentives concentrate on projects that make multi-year fixed asset and job creation/retention commitments. The nature of the media production industry in states such as Ohio is focused on temporary, on-site shooting for which our existing incentives are not applicable.

The potential benefits of attracting additional film and television production to Ohio must be weighed against the potential budgetary impacts, particularly given the generousness of credits in other states. Any such credit must be carefully crafted to ensure that the demands on the state treasury are limited and the development of the film industry does have a positive impact on state revenues.

Technology Investment Tax Credits

Ohio's Technology Investment Tax Credit (TITC) program was created in November 1996 to stimulate the formation of new Ohio ventures that utilize technology to create new products, services, and new processes for commerce in global markets. The program provides a 25 percent tax credit for taxpayers who invest in emerging, Ohio-based research and development and technology-based companies. This tax credit program ensures a leverage ratio of three private dollars to every one public dollar to support the growth of early-stage technology companies. The tax credit serves as an incentive to assist companies in raising up to $1.5 million of private, early-stage capital. Even though the investment is "subsidized" by the tax credit, the investors still put substantial funds at risk, ensuring that smart investors will continue to take due diligence to validate the merits of the company. In this way, private investors – not government – make the ultimate investment decision. Total tax credits used by all taxpayers investing in any one company are limited to a maximum of $375,000; therefore, any one company is limited to $1.5 million.

The program has a ceiling of $30 million of authorized tax credits. Since program inception in 1996, $24.9 million in tax credits have been approved for eligible investments in Ohio businesses, with $2.2 million in tax credits pending investment. If all pending tax credits are claimed, $27.1 million in tax credits will have been issued, leaving $2.9 million remaining in tax credits.

If the individual investments in the companies continue at the same rate that it has been over the past four years, the remaining tax credits will run out by the end of calendar year 2009. The implications of allowing this program to sunset should be carefully considered. One of Ohio's economic weaknesses is the challenge that technology entrepreneurs face in finding early-stage capital locally, and this program has proven helpful in leveraging additional early-stage capital for new Ohio companies.

New Markets Tax Credits

As with Ohio's Technology Investment Tax Credit, the federal government's New Markets Tax Credit seeks to incentivize investors to put additional capital into entrepreneurial businesses. In the case of the New Markets Tax Credit program, that investment capital is focused on low-income communities.

The Ohio New Markets Tax Credit could be an important tool for communities seeking to attract capital to distressed communities, particularly as credit markets tighten in Ohio and around the world. Funds raised by community development organizations through an Ohio New Markets Tax Credit program, if modeled on the federal program, could be used to provide capital for businesses and fund critical business services by community agencies.