Policy Matters Ohio

PRESS STATEMENT
NOVEMBER 28, 2017

Contact: Wendy Patton
wpatton@policymattersohio.org
614.221.4504

Rural growth tax credit should be sent to the scrap heap

The rural growth tax credit made it into the corrections bill for the 2018-19 Ohio budget among the final amendments added in Conference Committee. The provision would create a quasi-public investment fund backed by $45 million in tax breaks. Similar programs have been expensive and unproductive in other states. Governor Kasich vetoed an earlier version in the 2018-19 budget bill, and should do so again if the General Assembly approves the measure this week.

The proposal would give tax credits to insurance companies for contributing to a rural business growth fund that provides capital to small businesses in the 74 Ohio counties with a population of less than 200,000. Jobs may be created, but they don't have to be; penalties may kick in only when a business that received funding actually ends up with fewer jobs than it had before.

Evaluations of similar programs in other states found economic development horror stories. In Missouri, a 2004 report found 14 of 37 investments went out of business. Reporters found in 2003 that the outcome of Florida's program was the loss of 174 jobs. Washington D.C.'s 2009 evaluation found the $76 million program created just 31 jobs. The program is expensive for the state and lucrative for program administrators. An evaluation of Colorado's program found that after operational costs, less than half of the original investment pool remained to invest in qualified businesses. Wisconsin had a similar experience.

The rural growth tax break in Senate Bill 8, the corrections bill, is the fourth attempt to move this proposal forward. It first emerged as the Rural Jobs Act in 2015 legislation, but failed to garner support. Legislators slipped it into House Bill 49, the 2018-19 budget bill, but Governor Kasich vetoed it, calling for improvements. There have been some: a floor of 150 percent of minimum wage for job creation; better definition of what constitutes a small business; and a broader, less complicated definition of "rural." But the version in Senate Bill 8 retains the same structure as earlier versions, which yielded poor outcomes at high costs elsewhere.

This $45 million tax break would add to the rapidly growing $9 billion Ohio already spends through the tax code. These revenues should instead be invested in Ohio's schools, communities, public transit, infrastructure and other public services, many of which were inadequately funded in the 2018-19 budget bill. Ohio's rural areas would benefit more from those investments than from this new tax break.

###

Policy Matters Ohio is a nonprofit, nonpartisan state policy research institute with offices in Cleveland and Columbus.