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# POLICY MATTERS OHIO

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To: Members of the Economic Development  
& Environment Committee

Ohio House of Representatives

November 22, 2005

We are greatly concerned about continued cutbacks in the automotive industry and the possible shutdown of Delphi and other automotive plants in Ohio. However, we do not believe that the policy response contained in House Bill 414 is the best course of action for the state. H.B. 414 will drain state revenue and subsidize companies that reduce their Ohio workforce without providing real assurances that it will retain additional jobs in Ohio. There are numerous flaws in the bill as written, which would make five companies in the state – General Motors, Ford Motor, DaimlerChrysler, Honda and Delphi – eligible for credits based on their employment of at least 7,500 Ohio workers. For example:

- It would allow healthy companies such as Honda to participate without making additional commitments beyond what they have already planned to do anyway. Given the company's investment of \$1.77 billion in its Ohio facilities between 1999 and 2003, the investment requirements of \$125 million over three years and \$10 million at each project site are weak.
- It would further erode the newly created Corporate Activity Tax, which was supposed to be a fair tax applied at very low rates without loopholes. According to the Ohio Department of Taxation, the General Assembly already has approved tax exemptions and credits that will reduce CAT collections by more than \$200 million a year when it is fully implemented. If H.B. 414 generates another \$100 million in annual credits, as one news report has indicated, it would mean that fully one-fifth of all prospective new CAT revenues will have been eliminated before one cent of this new tax has been collected. As it stands now, the CAT is not an adequate revenue replacement for the taxes it is replacing. This new credit is unfair to other taxpayers, including the many other automotive suppliers in Ohio, and is a recipe for state fiscal problems.
- While healthy companies such as Honda are able to take advantage of the new credit, it is far from clear that Delphi will be able to do so. Under the proposed bill, the Ohio Tax Credit Authority must determine that, "The taxpayer is economically sound and has the ability to complete the proposed capital investment project." (O.R.C. Section 122.171(D)(2)) The authority also must find that, "The taxpayer intends to and has the ability to maintain operations at the project site for at least twice the term of the

credit.” Delphi’s bankruptcy filing and questions about its long-term future suggest it would be difficult for the authority to make such determinations.

- It is possible that the program could become a job *reduction* tax credit. Should Delphi manage to qualify, it could shut down most of its Dayton-area operations, and still receive substantial credits at its other Ohio plants. While it would not collect credits at the shuttered plants, it could continue to do so at the others, as long as it retained over half of the employees originally covered under the credits at each site. In fact, it could move operations out of the country, and those operations could benefit from the credit if they shipped product to Ohio. While there is a “clawback” clause for plants that do not maintain operations in Ohio, it requires only that *a portion* of the credit be refunded to the state. Ford and General Motors could reduce Ohio employment by thousands of workers and still receive millions of dollars in tax credits under this bill.

In short, we believe this is a flawed bill that should not move forward in its current form. The state should find better ways to support automotive jobs and workers. One example might be expanded initiatives to support the development of high-value-added products for a more diversified customer base at plants that are clearly threatened. Others might include targeted assistance for other local firms that expand to employ laid-off auto workers at good pay and benefits, and retraining for workers who lose jobs because of the likely shutdowns.

We hope that you will keep these points in mind as you consider H.B. 414. Thank you very much for your attention.

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