



Ohio rewires tax code in attempt to spark advanced energy development

Tax burden had state lagging region in crucial field — and jobs

by Ohio Sen. Chris Widener (SD10@senate.state.oh.us)

Ohio is competing in a global marketplace for jobs and economic development in the renewable and advanced energy industries. In recent years, several states have passed renewable-energy standards, adapted their tax codes, initiated building and zoning rules, and altered development incentives to attract these growing industries.

Ohio had been aggressive on many of these fronts, but was significantly out of step with neighboring states with regard to its tax code.

The state addressed this situation with Senate Bill 232, which was signed into law last June. SB 232 temporarily altered Ohio's tax code for alternative energy projects, making Ohio more economically competitive with surrounding states and creating and retaining much-needed jobs.

In 2008, the Ohio General Assembly passed one of the most aggressive alternative-energy portfolio standards (AEPS) in the nation, requiring that 12.5 percent of Ohio's electricity be generated from renewable sources, such as wind and solar power, and 12.5 percent from advanced energy sources, such as clean coal and nuclear power.

Despite progress, taxes an obstacle

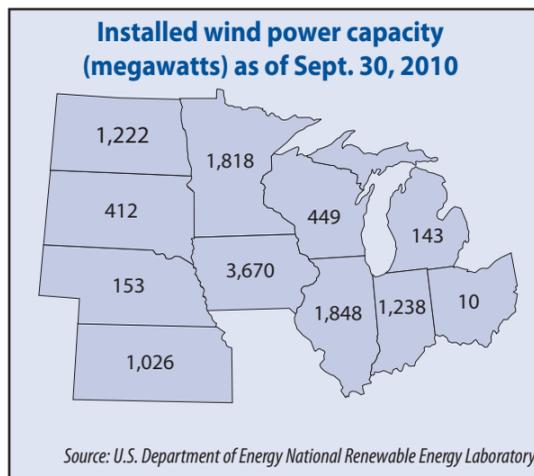
These requirements laid the foundation for a robust energy market in Ohio, and fostered a growing manufacturing sector involving renewable-energy supply chains. Yet, despite passage of the AEPS, developers encountered a significant obstacle when assessing the tax responsibility for projects such as wind farms or solar installations.

In the early 2000s, Ohio had phased out tangible personal property taxes for all Ohio businesses except public utilities. By definition, wind and solar projects were "public utilities" despite the fact that they looked and acted very little like large, traditional utility companies with set service territories. The end result was that Ohio's tax burden for renewable-energy projects was four to 10 times higher than that of surrounding states.

Taxes for renewable-energy projects are best compared state-to-state, on a dollar-per-megawatt (MW) basis. Prior to passage of SB 232, the tax burden for such projects exceeded \$40,000 per MW, while neighboring states' figures ranged from \$4,000 (Pennsylvania) to \$11,000 (Illinois) per MW.

The impact of this disproportionate tax treatment is evident when comparing generating capacity in Ohio to that of nearby states. In terms of renewable energy, Ohio has the lowest capacity and the fewest generating facilities in the Midwest. Looking at wind energy alone, Ohio has only 10 MWs of capacity installed, whereas Illinois and Indiana are producing over 1,200 MWs, Pennsylvania over 700, West Virginia over 400, and so on.

On the other hand, Ohio is in an exceptional position to build a market for advanced energies.



The state is the fourth-largest manufacturer in the renewable-energy industry's supply chain. From casting ball bearings for wind turbines to research and development of new photovoltaic materials, Ohio is on the cutting edge of one of the fastest-growing industrial sectors in the world. But those materials and knowledge are leaving the state for projects elsewhere in the Midwest and abroad.

Jobs and local economic-development opportunities come with the construction of wind farms, and Ohio was clearly missing out. The solution seemed simple — make it economical to build renewable-energy projects in Ohio by restructuring the code so Ohio's tax burden would be in line with other states. The question was "How?"

A new idea needed

In an uncertain economy where unemployment lines had, and continue to, become far too long, Ohio needed a unique idea to push job creation in a new field. The goal for SB 232 was to create jobs by streamlining the tax code for companies willing to build new generating facilities in Ohio.

SB 232 allows companies seeking to build both renewable and advanced energy generation facilities in Ohio to make an annual payment in lieu of taxes (PILOT) based on the amount of energy the facility generates instead of paying tangible personal property taxes.

The PILOT taxing structure is only available to renewable energy projects that are operational by 2013 and advanced energy projects that are operational by 2017. Instead of the onerous tangible personal property tax, which can be up to \$40,000 per MW, generators would pay an annual fee of up to \$9,000 per MW for the life of the facility. The calculation is simple and transparent: for example, a new 100-MW clean-coal power plant would pay up to \$900,000 in annual taxes, which would be divided between the local government and school districts just as the property tax is today.

To be eligible for this tax treatment, the company must have approval from the board of

county commissioners where the project is located. The board then has two options: It can approve or deny PILOTs on a project-by-project basis; or it can declare the county a Renewable Energy Zone, thereby making PILOTs automatic for any qualifying advanced or renewable project.

To date, three counties have declared themselves Renewable Energy Zones, sending a clear signal that their county would welcome any new development of this type. By limiting the approval to the county government, the county's executives can manage the tax approval process and the companies have a clear understanding of who must be involved in the development process.

Further, qualifying projects must adhere to numerous state and local directives. First, the majority of jobs created by the projects must go to Ohioans. Secondly, each developer, with a partnering state college or university, must establish an apprenticeship program to train the next generation of clean-energy workers. Developers are also required to sign road use and repair agreements with the county and purchase special equipment and/or provide special training for emergency and first-responder departments in the area. Each requirement intentionally directs developers to accomplish the legislature's goals for the bill.

SB 232 was a bipartisan measure to encourage industry development and job creation in a sector that has been absent from our state's economy. After the bill was passed and signed, a new solar energy project in eastern Ohio announced that it expected to create more than 300 jobs in both manufacturing and energy production. This fall, about 200 Ohioans were put to work constructing two wind energy projects totaling 400 MWs, and we will see more with the additional 600-700 MWs currently in the certification process.

SB 232 will meet and exceed its job creation and economic development goals by implementing an updated, streamlined and transparent tax structure for alternative energy projects built in Ohio. ★

Ohio Sen. Chris Widener, a Republican from Springfield, sponsored SB 232. He serves as chair of the Senate Finance Committee.

Submissions welcome

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