

## **House Ways and Means Committee**

### **HB 218 Testimony**

**June 24, 2009**

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Chairman Letson and Members of the Committee, my name is Howard Fleeter and I am here representing the Education Tax Policy Institute (ETPI). Thank you for the opportunity to share with you some information collected through our work on issues related to electricity power generation.

I have been researching issues related to the tax treatment of electricity generators in Ohio since 1997. Currently, Ohio taxes electric generating equipment on an equal basis. No type of electricity generation has been given a preference over any other. This principle was established in S.B. 3 in 1999 (utility deregulation legislation) and was reaffirmed when the entire state tax system was examined and restructured in H.B. 66 in 2005.

Competition was the force behind the changes that occurred in S.B. 3 when tangible property used by power generation providers were successful in reducing the listing rate for such property from 88% to 25%. This was reduced further to 24% in H.B.66.

That tax policy balanced the need to improve the competitiveness of Ohio electric generators with the revenue requirements of schools and local governments. The tax structure continues to treat all electric generators equally, but the revenue prospects for schools and local governments have worsened significantly under current economic conditions. If the current assessment rate qualified as appropriate under the much better economic conditions when the current tax policies for electric generators were developed, further reductions when schools and local governments struggle to make ends meet do not look realistic or justified.

While some may argue that certain types of electricity generation should be given more favorable tax treatment than others, the American Recovery and Reinvestment Act (commonly known as the Federal stimulus package or ARRA) passed in February 2009 provides just that. It includes an extension of the renewable energy production tax credit (PTC) first created under the Energy Policy Act of 1992. This extension allows wind developers the option of choosing a 30% Investment Tax Credit (ITC) in place of the PTC for generating facilities placed in service by the end of 2012 provided that construction begins before the end of 2010. An additional feature of the ARRA provision is that the ITC can be easily converted to a grant from the US Treasury Dept instead of a tax credit. When Congress enacted the 30% tax credit/grant for wind power investments, it did not make this subsidy contingent upon additional state or local subsidies. The federal subsidy does not require matching local contributions.

The proposed local tax benefit for Ohio wind generators would provide a subsidy in addition to the federal subsidy. For a wind generation facility with an estimated cost of \$200 million, using the industry prototype already presented through testimony, the federal investment tax credit or grant has

a value of \$60 million.

The proposed local tax benefit for wind generators would amount to an additional subsidy on a \$200 million facility approximately equal to an average of \$1 million per year based on current law, or roughly \$30 million over 30 years. Based on estimates about the amount of power actually sold by the wind generators, a local tax subsidy of this magnitude would mean a reduction of one-half cent (\$.005) per KWH if it were passed on to consumers. ETPI calculations showing how these figures were arrived at is attached to this testimony.

In asking for this additional subsidy wind generator industry officials have relied upon comparisons of taxes in Ohio with taxes imposed by other states on wind generation equipment. However, we have seen no objective comparisons of such taxes. The comparisons that were presented in committee last week require closer analysis. For example, the estimated Ohio taxes used statewide tax rates when the location of wind turbines would occur almost exclusively in rural areas with lower tax rates.

Differences of 15 mills to 20 mills can exist between state average tax rates and lower tax rural jurisdictions. A second issue is that all tax analysis presented by the wind industry is based only upon the first year of operation of the facility, when the depreciation rate applied to the property is only 1.7%. In fact, depreciation falls steadily by 3.3% per year for the first twenty years and ends up at 85% by year 30. Consequently, these tax comparisons significantly exaggerate the extent to which Ohio taxes wind generation equipment more heavily than nearby states.

Furthermore, the enactment of a tax break for one type of electric generating equipment will invite claims for equal treatment by the owners of other kinds of generating equipment. At stake for Ohio's schools and local governments is a total of more than \$100 million in current taxes on generating equipment.

Turning to the issue of economic development, advocates for wind turbine generators have presented no objective economic analyses to show the viability of wind turbine generation in Ohio with or without additional local subsidies. In addition, no guarantee exists that the power generated by large-scale wind turbines would be sold or consumed in Ohio.

Finally, no evidence exists that the wind turbines will be manufactured in Ohio. The turbines themselves are the single largest component of wind generation facilities, amounting to 65% of the construction cost in the example provided by the industry. As a consequence, other than short-term construction activity and a modest amount of annual maintenance, the installation of these wind turbines would have no documented, positive impact on the Ohio economy.

In summary, the proposal to reduce taxes on electric generating equipment in the form of wind turbines offers Ohioans a bad bargain. Wind turbine operations will provide little benefit to the state. The manufacture of the turbines will occur elsewhere. No evidence exists that the power generated by the turbines will be sold in Ohio.

At the same time, the proposal has significant costs. It would cost local governments the opportunity

to receive property taxes charged against the turbines. Of even greater concern, the enactment of preferential treatment for wind generators will destabilize the existing tax structure for electric generating equipment. The potential costs in lost revenue from the inevitable round of general tax reductions for generating equipment will impose enormous losses on schools and local governments.

Not only do the costs outweigh the benefits, they would occur on top of costs already incurred by taxpayers when Congress enacted a 30% credit for investments in alternative electric generation. No evidence shows the necessity for local tax breaks in addition to substantial federal tax incentives.

Thank you for the opportunity to provide testimony this afternoon. I would be happy to answer any questions that you may have.