

# OMAC MuniNews

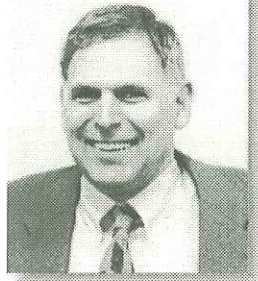
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News & Views About the Ohio Municipal Finance Industry

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[www.ohiomac.com](http://www.ohiomac.com)

from the Director



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## CONTINUING DISCLOSURE FILINGS – How are we doing?

In a past issue of *The Bond Buyer*, it was reported that “there is ‘pervasive and widespread noncompliance’ with the Securities and Exchange Commission’s secondary market disclosure rules...” Statistics cited in the article reported that, according to DPC, a Nationally Recognized Municipal Securities Information Repository, only 42% of all issuers that did municipal securities offerings in 1998 had filed annual financial or operating data as of October 18, 1999.

OMAC, as Ohio’s SID, is responsible for the collection of the continuing disclosure documents required to be filed with respect to the SEC requirements. To help ensure that the Ohio issuers of municipal securities file the required documentation in a timely fashion, OMAC sends letters to those issuers who have not filed any documentation 30 days prior to the date they have established in their continuing disclosure agreement. As evidenced by the following, we believe this service is extremely helpful. According to our records, in

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## Local Tax Implications of Public Utility Deregulation

by Donald C. Berno

*President, Ohio Public Expenditure Council*

Ohio, and many other states, have historically used public utilities as enormous revenue collectors. Ohio public utilities collect nearly \$1.6 billion of state and local tax revenue. About \$700 million of this money goes to the state General Revenue Fund, and the balance, collected through the tangible personal property tax, goes to local governments.

There are two ways to look at these tax revenues. One could compliment the state for establishing a very efficient tax collection process. Or, one could say that the state is deceiving taxpayers by hiding a \$1.6 billion revenue stream from all but the most sophisticated taxpayer. Regardless of your view, federal data shows that Ohio has one of the highest public utility tax burdens in the country. As an official of the Ohio Tax Department once stated, “We tax utilities heavily because they do a better job of knowing where people live than we do.”

The economic and regulatory changes surrounding public utilities present a number of challenges to Ohio state and local policy makers. These changes may be the result of federal regulatory actions, judicial decisions, or legislative actions. The following discussion reviews these changes, Ohio’s response to date, and the possibilities for the future.

The federal actions usually occur through the Federal Energy Regulatory Commission (FERC). In 1992, FERC issued Order 636, which required natural gas companies “unbundle” the pricing of their services for storage, transmission and sales of natural gas. Before 636, the taxable value of the gas stored in these fields was 88% of cost. When the gas storage became “unbundled”, the stored gas became inventory of a general business and was taxed at 25% of cost. Nine school districts saw an immediate drop in tax revenues. The legislature provided additional state aid to these districts for several years to help transition to their new fiscal structure.

The FERC has issued orders which are starting to restructure the electric utility industry.

In 1996, FERC issued orders No. 888 and No. 889. While these Orders don’t require transmission companies to divest or unbundle their assets, they are now required to act as if their transmission systems are divested. These Orders in effect encouraged the utilities and states to push for deregulation of their industry.

The legal decisions, which affect local taxes, are *United Telephone Company of Ohio v. Tracy* (1999),

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# Local Tax Implications

Continued from page 1

MCI Telecommunications Corp. v. Limbach (1994), Texas Eastern Transmission Corp. v Tracy (1997) and Duquesne Light Co. v. Tracy. All of these decisions impacted the local property tax base.

The major legislative change, which affects the local property tax base, is electric deregulation.

The table below shows the changes in tangible personal property values and taxes paid for the calendar years 1993 through 1997.

Class of Utility	Number of Taxpayers 1997	Assessed Values				
		1993	1994	1995	1996	1997
Electric	13	\$7,947,618,200	\$8,018,798,960	\$ 8,109,170,030	\$ 8,083,160,490	\$8,158,462,140
Telephone*	507	4,417,948,630	4,652,223,460	4,582,915,130	3,391,740,380	3,176,308,180
Natural Gas	31	1,383,200,570	1,494,194,020	1,591,867,720	1,604,488,940	1,692,036,890
Railroad	42	289,726,520	295,043,370	307,403,850	344,478,190	396,314,610
Pipeline	20	757,051,560	689,324,410	715,356,780	740,849,180	633,074,530
Rural Electric	29	202,789,410	213,248,700	225,995,940	236,461,870	247,461,560
Waterworks	28	65,095,800	71,053,640	73,222,370	76,373,460	81,111,280
Other**	11	8,087,630	7,852,690	11,484,870	12,365,760	12,831,610
<b>Totals</b>	<b>681</b>	<b>\$15,071,518,320</b>	<b>\$15,441,739,250</b>	<b>\$14,618,416,690</b>	<b>\$14,489,918,270</b>	<b>\$14,397,600,800</b>
% Change			+2.456%	-5.33%	-0.9%	-0.6%
<b>Taxes Levied</b>		<b>\$ 980,165,658</b>	<b>\$ 1,026,775,088</b>	<b>\$ 983,387,775</b>	<b>\$ 991,221,097</b>	<b>\$ 985,948,671</b>
% Change			+4.75%	-4.22%	+0.8%	-0.5%

\* Includes local exchange, long distance and re-sellers of telephone service

\*\* Includes water transportation and heating

SOURCE: Ohio Department of Taxation. Percentage change calculations by the Ohio Public Expenditure Council.

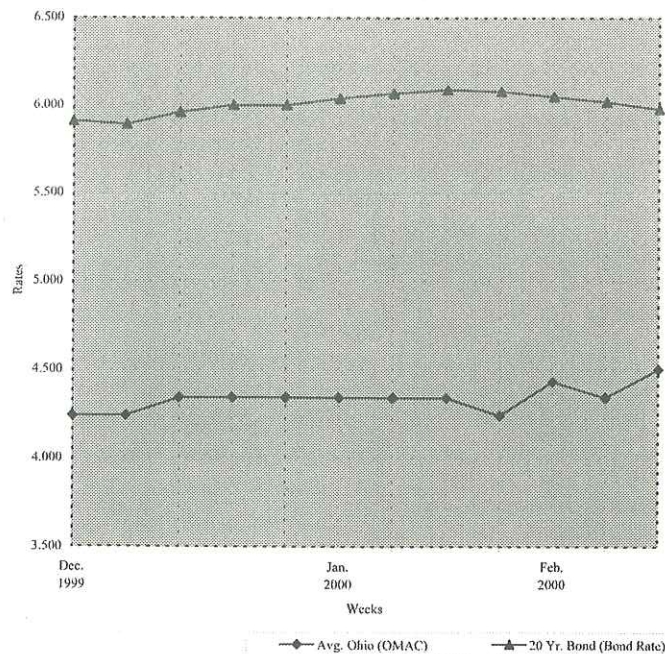
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## MARKET UPDATE

### General Obligation

The following graph compares Ohio short-term note rates with the Bond Buyer's 20 year bond index. The short-term rates represent actual rates reported to OMAC by Ohio purchasers and reported on OMAC's weekly calendar.

**NOTE: Actual rates paid may vary due to the inclusion of various issuing expenses.**





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From the perspective of the local official, this is not a pretty picture. Overall, public utility taxes are, at best flat, and depending on the district, may even be declining due to the previous regulatory orders and legal decisions.

To date, the Ohio legislature has either held harmless or provided transition monies for the affected local government entities most directly impacted by the changes discussed above. As far as the electric deregulation issue is concerned, the legislature has created an excise (sales) tax, which will be earmarked to provide monies to local governments. Through a fairly complicated formula, the local governments will be held harmless from the tax base changes resulting from the deregulation of the electric industry.

The future however, may not be as bright. There will be continual changes in the telephone and natural gas industries. The electric and gas companies are already becoming merged, and international boundaries are becoming meaningless to ownership.

For the short term, the best advice would be to not anticipate very much growth in this previously reliable revenue stream. Once the industries adapt to their new competitive environment, and the state's economy reaps the benefits of utility deregulation, the local tax base will begin to grow again.

The Ohio Public Expenditure Council is the leading authority on Ohio's economic condition and state comparative data. It is a non-partisan, non-profit, independent organization that provides integrated information on the economy, tax climate and government spending for Ohio and comparable states. They can be contacted at (614) 221-7738 or through [www.ohiopolicy.org](http://www.ohiopolicy.org).

## DISCOUNTED RATE FOR S&P's RATINGS-DIRECT SERVICE

OMAC and Standard & Poor's have come to an agreement to offer Standard & Poor's RatingsDirect Public Finance at a discounted rate. This is a leading web-based service for the public finance community, offering credit analysis and ratings information. OMAC members will receive a special rate of \$5,000 per year, compared to the regular annual rate of \$12,600 per year for the first user. The RatingsDirect service provides over 60,000 current Standard & Poor's Public Finance credit ratings, rating actions and their associated analyses in real-time. It provides a customizable, online source of the most comprehensive credit analysis and ratings information available today. After just over one year since its startup the service has over 5,500 users.

"RatingsDirect allows you to search Standard & Poor's entire database of municipal issues in seconds using a wide variety of criteria, including your pre-set portfolios, issuer or obligor, six- or nine-digit CUSIP, state, sector, security type and rating" says Sarah Eubanks managing director of Standard & Poor's Public Finance Ratings. "There's no faster or easier way to locate specific municipal issues."

OMAC members interested in subscribing to RatingsDirect at the special OMAC member rate should contact John Liston, director of Standard & Poor's Investor Services, phone 312-669-9280, e-mail [john\\_liston@sandp.com](mailto:john_liston@sandp.com).

### *f*rom the Director (continued)

1998, 183 Ohio subdivisions, including the State agencies and authorities, were required by their continuing disclosure agreements to file annual financial and operating data with the State SID. Of these, more than 93% filed continued disclosure documentation in 1998. While this percentage is extremely good, and well above the figures cited by DPC, OMAC believes that anything less than 100% compliance is unsatisfactory and possibly detrimental to those issuers failing to comply.

With the filing dates once again approaching, OMAC urges anyone who has issued debt since July 1995 to review their continuing disclosure agreement, if one exists, to see what documents you are required to file and the date by which they must be filed. If you have any questions as to your continuing disclosure responsibilities do not hesitate to call OMAC for assistance.





**Ohio Municipal Advisory Council**  
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 Twinsburg, OH 44087-2445

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## CALENDAR

### *Calendar of Issuer Conferences & Outings for 2000*

NAME	EVENT	DATE	LOCATION
GFOA	National Conference	June 11 - 14	Chicago, Illinois
	Ohio Golf Outing	July 10	Sawmill Creek Resort - Huron, Ohio
	Annual Fall Conference	September 20 - 22	Radisson Hotel - Cincinnati, Ohio
MFOA (OML)	Spring Conference	May 10 - 12	Holiday Inn - Worthington, Ohio
	Annual Conference	September 12-14	Hyatt Regency Hotel - Columbus, Ohio
	Northeast Golf Outing	To Be Determined	
	North-Central Golf Outing	To Be Determined	
CCAO	Summer Conference	June 4 - 6	Radisson Hotel - Toledo, Ohio
	Winter Conference	December 10 - 13	Hyatt Regency - Columbus, Ohio
	Midwest Conference	September 5 - 7	Maumee Bay State Park - Oregon, Ohio
	Annual Golf Outing	August 9	Wooldridge Golf & Swim Club - Mansfield, Ohio
OASBO	Annual Workshop	March 26 - 29	Hyatt Regency - Columbus Convention Center
OMCA	Spring Conference		Holiday Inn French Quarters - Perrysburg, Ohio
OSBA	Conference	November 5	Hyatt Regency - Columbus Convention Center
NACO	National Conference	July 14 - 18	Charlotte, North Carolina
	Winter Conference	December 10 - 14	Hyatt Regency - Columbus, Ohio
OPFOTP	Ohio Public Finance Officers Training Program	June 19 - 23	Holiday Inn - Hudson, Ohio
	CMFA Maintenance Program	June 22 - 23	Holiday Inn - Hudson, Ohio
	Golf Outing	June 21	Boston Hills Golf Course - Hudson, Ohio
OMTA	Annual Conference	October 4 - 6	Salt Fork State Lodge - Cambridge, Ohio
CAAO	Summer Conference	June 5 - 7	Saw Mill Creek Lodge - Huron, Ohio
	Winter Conference	December 5 - 7	Hilton Easton - Columbus, Ohio
OPEC	Annual Meeting	November 8- tentatively	Columbus, Ohio

CCAO - County Commissioners Association of Ohio - (614) 221-5627

GFOA - Government Finance Officers Association - (614) 221-1900

MFOA - Municipal Finance Officers Association of Ohio - (614) 221-4349

NACO - National Association of Counties - (614) 221-5627

OASBO - Ohio Association of School Business Officials - (614) 431-9116

OMCA - Ohio Municipal Clerks Association - (614) 221-4349

OSBA - Ohio School Boards Association - (614) 540-4000

OMTA - Ohio Municipal Treasurers Association - (440) 885-8812

CAAO - County Auditor's Association of Ohio - (614) 228-2226

OPFOTP - Ohio Public Finance Officers Training Program - (330) 672-7148

BMA - Bond Market Association - (212) 440-9429

OPEC - Ohio Public Expenditure Council - (614) 221-7738

*If you would like your event highlighted, contact Chris Scott at 1-800-969-6622, or by email at [Chris@ohiomac.com](mailto:Chris@ohiomac.com)*