

**A STUDY OF
THE CLEVELAND-CUYAHOGA COUNTY PORT AUTHORITY**

**By the
League of Women Voters of the Cleveland Area**

The Port Authority Committee
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January 17, 2006

To the Citizens of Cuyahoga County,

In 2002, voters passed a levy in support of the Cleveland-Cuyahoga County Port Authority (Port Authority). The Port Authority is a special district government that exerts considerable influence on land use planning, use of the waterfront and financing economic development. In 2007, the voters of Cuyahoga County could be asked to approve a renewed or significantly increased tax levy for the Port Authority.

Because it appeared that the community at large knew little about the Port Authority, the League of Women Voters of the Cleveland Area established a committee to study this important body.

Since that time committee members have attended Port Authority Board meetings, studied documents, researched the Ohio Revised Code governing port authorities, and interviewed officials in an attempt to understand the role and functions of the Port Authority. They also interviewed Board members, staff, Cleveland City officials and executives of companies that have direct contact with the Port Authority.

This study attempts to illuminate the workings of the Cleveland-Cuyahoga County Port Authority, its functions within the community, its spending of tax money, its impact on shipping and its plans for the future.

This is the committee's best effort to accurately present complex information to the voting public.

Sincerely,
Barbara Sones, President
LWV Cleveland Area

Penny Jeffrey, Chair
Port Authority Committee

EXECUTIVE SUMMARY

The Cleveland-Cuyahoga County Port Authority (Port Authority) was created in 1968 as a special district government under the laws of Ohio. It is supported by a levy passed by voters in Cuyahoga County, last voted upon in 2002, and by fees for its services. The Ohio Revised Code also allows port authorities to issue bonds for economic development anywhere in Ohio, in adjoining states, and in foreign countries, thus providing a third source of revenue.

A nine-member board governs the Port Authority. The Mayor of Cleveland appoints six of the board members, and the other three are appointed by the Cuyahoga County Commissioners. While the Port Authority property is in Cleveland, almost four-fifths of its tax revenue comes from the surrounding county, creating some friction over the unequal distribution of appointees.

The Port Authority is organized into groups for operating purposes: the Maritime Group, the Strategic Development Group, the Development Finance Group and Administrative Group.

The Port of Cleveland is a larger entity than the Port Authority, including not only the Port Authority waterfront facilities on both Lake Erie and the Cuyahoga River, but also privately owned docks on the Cuyahoga River which are not controlled by the Port Authority. The Port Authority owns 100 acres on the east side of the river including eight ship berths and 417,000 square feet of warehouse space, and the 45-acre Cleveland Bulk Terminal on the west side of the river on Whiskey Island.

Since 1993, Port Authority bonds have become an important source of development funding, including the Rock and Roll Hall of Fame and Museum, the Cleveland Browns Stadium, and many corporate developments. Port Authority bonds, in addition to private funds, would finance the recently proposed Wolstein project on the east banks of the Flats. In return, bond fees provide an important source of revenue for the Port Authority. In 2005, the Port Authority's Development Finance Group, its bond-issuing arm, introduced a major marketing campaign for its financial services.

In December 2004, the Cleveland City Planning Commission adopted Cleveland's new Waterfront District Plan, which proposes changes to the Port Authority's property. The City's plan would include moving the Port Authority's docking facilities to a new port built at the current breakwater, and would replace Docks 20 through 32 with housing, parks and marinas. Such a re-allocation of land, all of it purchased by taxpayers, would require extraordinary cooperation and negotiation. In January 2005, the Port Authority in effect ceded waterfront development planning to the Cleveland City Planning Commission.

The Port Authority's Strategic Development Group is devoting energy to inaugurating ferry service from Cleveland to Port Stanley, Ontario. Ferry facilities have been designed for the Cleveland lakefront, and a company from the Netherlands has agreed to supply and operate a ferry. Negotiations are currently in progress with the City of Port Stanley and provincial and federal authorities in Canada to make this a reality.

Also of interest, the New Market Tax Credit (NMTC) program is a recent federal program. In order to take advantage of the benefits of NMTC, the Port Authority established a private company. This company is not required to hold public meetings but by allowing tax credits, it may decrease public resources.

Interlake and international shipping are an important component of the Cleveland area economy. This report attempts to present the basics of how the Port Authority fits into the economic life of Greater Cleveland.

PORT AUTHORITY TIME LINE

1920s Proposals to establish a Cleveland port authority first surfaced. The Progressives were in charge of city government, and with the city growing rapidly, new ways of governing were widely discussed. A nonpartisan harbor commission was proposed by the PLAIN DEALER in 1924 to “manage and improve the port.”¹

1931 Cleveland City Manager Daniel Morgan appointed a Cleveland Port Advisory Board to study what could be done to improve operations. With the Depression deepening, little action was taken.²

1955 With the expectation of increased maritime activity when the St. Lawrence Seaway opened, the Ohio General Assembly authorized the creation of city, county, or joint city/county port authorities with the power of eminent domain, the power to issue tax-free bonds, and the power to tax real estate. Levies up to .55 mill were permitted with voter approval.³

1958 The St. Lawrence Seaway, a joint Canadian-U.S. project designed to produce hydropower and to bring international shipping into the Great Lakes, opened after many years of competition and conflict between private and public interests, among states and provinces, and between U.S. and Canadian goals. While shipping on the Great Lakes increased substantially in the next 10 years, Cleveland political, business and civic leaders did not see what they considered adequate tangible local results.⁴

1964 The Cuyahoga County Commissioners proposed a joint city-county port authority, governed by a board with majority representation from the city, since the city had developed the existing port facilities.

1967 The port authority proposal became a campaign issue in the mayoral campaign of 1967. Democratic candidate Carl Stokes supported the establishment of a port authority, while Republican Seth Taft opposed it as an over-concentration of power, difficult for the voters to hold accountable.

February, 1968 Under the leadership of newly elected Cleveland Mayor Carl B. Stokes, City Council President James V. Stanton, and county commissioners Frank Gorman, William D. Day and Frank R. Pokorny, the joint Cleveland-Cuyahoga County Port Authority was established as a special district government under the laws of Ohio. On February 6, 1968, Mayor Stokes swore in its first Board, composed of six city and three county appointees.⁵

¹ Encyclopedia of Cleveland History, 1987, p.227.

² Ibid.

³ Ibid, ORC Sec. 4582.06, Sub. SB 193, 126 v 142 (1955).

⁴ Ehle, Cleveland's Harbor: The Cleveland-Cuyahoga County Port Authority (1996), Chap. 6.

⁵ Ibid., pp. 48-49.

May 1968 In the primary election, two important steps were taken. First, Cleveland voters approved a city charter amendment permitting the city to lease or sell city-owned land and docks to the new Port Authority. Secondly, Cuyahoga County voters approved a five-year property tax levy (0.13 mill) to support the new Authority. The campaign was based on the dual goals of helping businesses and providing jobs.⁶

1972 Cuyahoga County voters renewed the Port Authority tax levy, as they would again in 1977, 1982 and 1987, generating about \$1.4 million or about 40% of the Port Authority's annual operating budget.

1978 The U.S. Department of Commerce approved the Port Authority's application to be a grantee under the federal Foreign Trade Zone program that had been created as a New Deal initiative in 1934.

1987 The legislature expanded the operating areas and powers of port authorities in Ohio and brought their contracts within the provisions of the Minority Set-Aside Law. While the jurisdiction of port authorities remained unchanged for taxing purposes, their operating capability was enlarged to include the issuance of bonds for economic development anywhere in Ohio and adjoining states. Authorized purposes of port authority bonds were expanded to include air or water transportation, residential facilities, recreational, educational, cultural or research facilities.⁷

1988 Some years of negotiations between the Port Authority and the City of Cleveland culminated in the signing of a 40-year lease for the use of city-owned waterfront land.⁸

1992 The Port Authority experienced the first defeat of its tax levy renewal at the hands of the voters.

1993 The levy renewal was put back on the ballot and passed. In addition, the Port Authority created its Development Finance Group to promote and expand the use of its bonding authority for economic development activities such as the Rock and Roll Museum and Hall of Fame.

1997 The Port Authority won a replacement tax levy (instead of renewal), thus basing future revenue from the tax on the updated evaluation of real estate in the county. This increased the annual contribution of tax revenue to the Port Authority from approximately \$1.4 million (1968-1998) to \$3.2 million in 1999 when the updated evaluation was applied.

⁶ Ibid., pp. 49-53.

⁷ Amended Sub. H. B. 350, 117th General Assembly, ORC Sec.4582.17.

⁸ Ehle (1996), pp. 160, 169.

2000 The Ohio legislature again expanded the operating areas of Ohio port authorities, allowing the issuance of bonds for economic development in any state or foreign country. “Trade secrets” and other financial and proprietary information were exempted from the Ohio Public Records Law.⁹

April 2001 The Ohio legislature repealed the statutory requirements that port authority boards prepare a master plan for future development, construction and improvement, and hold public hearings on such plans. Interested persons would no longer be authorized to file written objections to such plans before their adoption as the official plan of the port authority.¹⁰

January 2002 Cuyahoga County Commissioners passed a resolution formally requesting the City of Cleveland to hold discussions with the County to restructure the division of appointments to the Port Authority Board of Directors. The Commissioners submitted data showing that the proportion of Port Authority revenue received from real estate taxes collected in the City of Cleveland had shrunk from 45% of the total in 1969 to 21% in 2001. In contrast, greater benefits had accrued to the City of Cleveland, where 68% of the projects financed by the Port Authority were developed.¹¹ In a subsequent letter to the Cleveland City Council, the Commissioners proposed amending the original agreement to provide “an equal number of appointments by each entity and one appointment with joint agreement.”¹² No action was taken on this request.

May 2002 The Port Authority tax levy was renewed, providing for a portion of its annual operating budget until 2008. Increases in the Port Authority’s budget meant that the proportion of tax revenue to the operating budget fluctuated between 35% and 46%.

June 2002 The Cleveland-Cuyahoga County Port Authority added to its own Rules and Regulations the requirements for a Master Plan, public hearings and comment on the Plan that the Ohio legislature had repealed from the Ohio Revised Code in April 2001.¹³

January 2005 The Port Authority Board deleted from its Rules and Regulations the Master Plan requirements adopted in June 2002, and unanimously approved as its Master Plan the City of Cleveland’s Lakefront Plan that the City had adopted in December 2004. Deletion of the requirements for public hearings and comment from Port Authority Rules and Regulations meant

⁹ Amended Senate Bill 137, 123rd General Assembly.

¹⁰ ORC, Sections 4582.07, 4582.08 and 4582.09 repealed.

¹¹ Data submitted by the Cuyahoga County Commissioners to the Cleveland City Council, Letter dated January 15, 2002.

¹² Letter from the County Commissioners to The Hon. Joseph T. Jones, Cleveland City Council, dated March 8, 2002.

¹³ CCPA Resolution 2002-21, June 7, 2002, adopted by unanimous vote.

that the City's Lakefront Plan became the Port Authority's Plan without further public discussion.¹⁴

¹⁴ CCPA Resolution 2005-05, January 21, 2005, adopted by unanimous vote.

MARITIME GROUP

The Maritime Group Mission is to provide support to the manufacturing base of the region by supplying transportation services that positively impact the area's competitiveness.

The Maritime Group is staffed by a Maritime Vice President, operations/facilities manager, secretary, maintenance foreman, and maintenance crew.

Overview of the Port of Cleveland and the Port Authority

Port of Cleveland

A common misconception is that the Port of Cleveland and the Port Authority are one and the same. By definition, the Port of Cleveland currently includes both the Port Authority's lakefront facilities *and* seventeen (17) private dock operators on the Cuyahoga River.

The private dock operators handle primarily dry bulk (ore, salt, stone, cement, and sand) and fuel oil. Some of the larger private dock operators include Mittal Steel Co. (formerly ISG Steel), Cargill Salt Inc., Marathon Ashland Petroleum LLC, Ontario Stone Corp. and Lafarge Corp. The Port Authority handles break/bulk (steel coils, wire, slabs...) and dry bulk (iron ore, cement and stone).

Over a ten-year period from 1995 through 2004 the Port of Cleveland handled an average of about 14.5 million tons of cargo per year while the Port Authority averaged about 1.97 million tons of cargo per year. The Port Authority currently uses about 14% of Cleveland's lakefront property from Edgewater Park to Gordon Park.

Port Authority Eastside Docks - Operating Facilities

The original Port Authority was composed of Docks 24-34, leased from the City of Cleveland. Later, the Port Authority purchased Docks 20-22 and areas along the south portion of the port, from the river to West 3rd Street. It acquired this property with its revenue from the Port Authority tax levy.

Recently, the Port Authority has released Docks 32 and 34 back to the City of Cleveland for development opportunities. Through a Memorandum of Understanding agreement between the Port Authority and the City of Cleveland, the city has an option to take back Docks 28 and 30 for the purpose of the proposed Ferry Dock and Terminal.

Currently, Federal Marine Terminals Inc. leases Docks 22 through 30 to handle break/bulk and international cargo, and Essroc Italcementi Group and Kenmore Construction Co. lease space on Dock 20 to handle cement and dry bulk.

Cleveland Bulk Terminal (CBT) - Operating Facilities

In 1997, the Port Authority acquired a dock west of the river on Whiskey Island and holds a long-term lease with Oglebay-Norton Marine Services for operating a bulk terminal. In 2000, the Hulett ore unloaders (no longer in use) were removed from the dock to make space for an increase cargo flow from approximately 1.8 million tons to 6 million tons.

In 2002, the Port Authority Board passed a resolution to move the Pellet Terminal facility in Lorain, Ohio to the CBT. It began operations in its new location at the beginning of the 2004 shipping season as a transfer facility to ship iron ore up the river to Mittal Steel. In its first year the terminal handled 2.96 million tons of iron ore.

Maritime Development Plans

Port Authority *Official Plan* for Development

In 1998, the Port Authority adopted the *Cleveland-Cuyahoga County Maritime Master Plan* as its “*Official Plan*,” as mandated by the Ohio Revised Code (ORC). The Port Authority’s Master Plan called for expanding to Whiskey Island for dry bulk and break/bulk facilities and releasing Dock 32 for a ferry dock and public access.

In 2001, the Ohio Legislature repealed the sections in the ORC that mandated port authorities’ development have plans and conduct public hearings. In 2002, the Cleveland-Cuyahoga County Port Authority added the repealed sections of the ORC to its own Rules and Regulations. Then, in 2005, in a sudden reversal, the Port Authority Board deleted those sections without adopting the modifications of its original “*Official Plan*” or conducting a public hearing.

Port Authority and City of Cleveland Memorandum of Understanding (MOU)

During the development of Cleveland’s *Waterfront District Plan*, the Port Authority and City of Cleveland entered into a MOU. The MOU led the Port Authority to file for eminent domain to acquire the Whiskey Island Marina property, to release its Old River property and Dock 32 to the city, and to extend the city leases for Docks 24 and 26 through the year 2053.

Maritime Future Development Plans

As of January 2005, with the deletion of the Port Authority's obligation to produce plans for future development and to hold public hearings, all Port Authority planning is now the responsibility of the Cleveland City Planning Commission. The city’s future development plans include the relocation of the eastside Port Authority operations to Whiskey Island and to the west Cleveland Harbor breakwall. The County’s purchase of Whiskey Island in 2004 for a park and marina appears to preclude that plan. The city’s waterfront plan still includes a 10-acre bulk storage facility on Whiskey Island. The city also proposes that the existing eastside Port Authority facilities be used for housing and mixed-use development.

The 2002 Port Authority Tax Levy Campaign

The language of the tax levy states that it is “for the benefit of the Cleveland-Cuyahoga County Port Authority for the purpose of providing funds necessary for the Port Authority.” The language of the ballot is much broader than Port Authority President Gary Failor has stated as its purpose. He has repeatedly stated that the tax revenues are used to support capital improvements and acquisitions in the Maritime area only. (See Administration section.)

Attempts to estimate the number of jobs created by the Port Authority activity have been made in recent years, with widely differing results. These projections are always nebulous. In the most recent levy campaign (2002), the Port Authority literature stated, “10,000 workers rely directly on our Port.” This figure is close to one in an economic impact study of the 16 Seaway Port Authorities, commissioned by the St. Lawrence Seaway Development Corporation¹⁵ⁱ, which did not provide an explanation of how it arrived at that number.

In contrast, a study done by Cleveland State University of the *entire* Port of Cleveland stated that “in 1998, the Cleveland port industry generated a total of 4813 jobs in Northeast Ohio.... 2,615 of these jobs are attributed to direct impacts and 2,198 are created by indirect and induced impacts.¹⁶ Its estimate is based on a formula supplied in the report. As noted earlier, the Port Authority handles only 13.5% of the cargo that enters the Port of Cleveland.

The wide disparity between these estimates raises questions for the public when it evaluates tax levy campaign literature. It is noteworthy that the higher estimate of 10,000 workers is for the smaller entity--the Port Authority itself--while the lower estimate is derived from a wider range of activities, including both the Port Authority and the private docks. If such job estimates are to be used in a public tax issue campaign, their limitations need to be carefully explained.

¹⁵ Economic impact study of the Great Lakes St. Lawrence Seaway System, prepared for the Saint Lawrence Seaway Development Corporation, August 1, 2001, Martin Associates, Lancaster, PA.

¹⁶ The regional economic impact of the Port of Cleveland’s maritime operation: an update. Prepared for The Cleveland-Cuyahoga County Port Authority by Economic Development Program, Dr. Ziona Austrian, Adina Wolf, Charlie Post, November 3, 1999. The Maxine Goodman Levin College of Urban Affairs at Cleveland State University; Cleveland, OH.

STRATEGIC DEVELOPMENT GROUP

The Strategic Development Group (SDG) defines its mission very broadly: to carry out the Port Authority Board's policies and to manage special projects that implement those policies. Within the scope of the SDG fall relationships with other governments at all levels. The SDG is also responsible for community outreach to prepare the voters for the next tax campaign.

A Vice President with a three-person staff heads this group.

Among the special projects managed by the SDG are:

- Conclusion of the Ore Loader project at the Cleveland Bulk Terminal (CBT) and its Roadway project
- Implementation of the City's Lakefront Development Plan
- Development of the proposed ferry between Cleveland and Port Stanley, Ontario
- Continuation of the Great Lakes ports' initiative on ballast water, and
- Oversight of the federal Foreign Trade Zone program.

Each of these projects has its unique set of intergovernmental relationships as well as its connections with the private sector. Given the complexity of these "strategic" projects, it is not surprising that the Strategic Development Group uses consultants, lobbyists and lawyers to facilitate achievement of its goals.¹⁶

For example, Cuyahoga County bought Whiskey Island property from its former private owner, following the County Planning Commission's plan for lakefront park development. The Port Authority, however, has adopted the City of Cleveland's (significantly different) plan for lakefront development, and sought to gain control of the property either by buying it from the county or by eminent domain action. The Port Authority Board voted on July 15, 2005 to end its efforts to buy Whiskey Island and to drop its eminent domain action. On July 20, 2005, the City of Cleveland and the County Commissioners agreed to negotiate with the Cleveland Metroparks to acquire and manage the parkland and marina, and to take over the 62 acres of Whiskey Island, thus establishing the area as park and recreation land.

Another project managed by the Strategic Development Group that illustrates intergovernmental complexity is the proposed Trans-Erie Ferry. This project requires decisions on the U.S. side of Lake Erie by the Port Authority, the City of

¹⁶ Cleveland-Cuyahoga County Port Authority, Strategic Development Group, 2005 Business Plan.

Cleveland, Cuyahoga County, the State of Ohio, and such federal offices as Customs, the Coast Guard, the Departments of State, Transportation, Treasury and Homeland Security, as well as the U.S. Congress for funding. On the Canadian side, a similar array of national, provincial and local governments shares responsibility for this project. The private operator of the proposed service, a Dutch corporation headquartered in The Netherlands, introduces an additional decision-making dimension.

The Great Lakes ports' ballast water initiative, to prevent invasive species of aquatic life from damaging the environment, involves both federal and interstate decisions and funding, and private shipping operators. The Port Authority, with the American Great Lake Ports Association (AGLPA), is working toward federal legislation to protect the lakes from ecological damage.¹⁷

The Port Authority is also seeking federal funding for the CBT roadway project. The Foreign Trade Zone program is a federal activity, administered locally by the Port Authority (see next section).

In 2005, in order to manage these diverse projects effectively, the SDG planned to "re-evaluate" the organizational structure of the Port Authority, staff roles and responsibilities, and reporting channels within the Authority.¹⁸

Outreach efforts to enlist the community in favor of future tax levies involve a multi-faceted plan. The tax levy renewal could appear on the ballot in 2007, and the SDG expects to conduct a survey of county residents to ascertain levels of information about the Port Authority and popular gaps in knowledge. Since public money cannot be used to support tax issue campaigns, the Authority plans to seek foundation support for the survey. Resulting information would provide a basis for planning the public relations campaign for the tax levy.

The figure under discussion would be a nearly eight-fold increase from the current .13 mill to 1.0 mill. The current annual total collection of \$3.2 million would jump to \$24.6 million. Such a move would expand the customary purpose of the levy from maritime acquisition and capital improvements to include economic development finance.¹⁹

¹⁷ Telephone conversation with Penny Jeffrey, March 27, 2006.

¹⁸ CCCPA, Strategic Development Group, 2005 Business Plan

¹⁹ Hollander, Sarah and Breckenridge, Tom. "Port authority looking at development ideas," *The Plain Dealer*, Feb. 18, 2006, p. B1+.

THE FOREIGN TRADE ZONE PROGRAM

Foreign Trade Zones (FTZs) are created under a federal program initiated as part of the New Deal to encourage foreign trade by counteracting the effects of high tariffs enacted in 1930.²⁰ The U.S. Departments of Commerce and Treasury administer the program through an FTZ Board, chaired by the Commerce Secretary. In 1978 the Board approved the Cleveland-Cuyahoga County Port Authority's application for status under the program, and granted it the designation of FTZ No. 40. Its local administration is a responsibility of the Strategic Development Group.

The Port Authority's role in this program is to evaluate the applications of private companies to operate in this Foreign Trade Zone and to forward locally approved applications to the FTZ Board in Washington for final ratification. Certain review criteria are applied under a "public interest" standard. For manufacturing, the Port Authority assesses an application by the proposal's "net economic effects, taking into account potential impact on other domestic plants." Measures applied include the number of jobs to be created and all types of taxes that would be generated by a proposed activity.²¹

Companies operating in international commerce gain customs advantages from the federal government and tax advantages from states by shipping in and out of FTZs. In 1950, Congress permitted manufacturing in these zones as well. In 1980, the U.S. Customs Service ruled that zone manufacturing could be integrated into the U.S. economy by allowing the same tariff treatment of its value-added activity as applied to manufacturing outside the zones. Such goods, whether domestic or foreign, are treated as part of the stream of international commerce.²²

In Ohio, FTZ goods have historically been exempt from the state inventory tax and excise taxes. This has lowered the cost of doing business, increased company profits, and created an incentive for a private company to stay in the community. At the same time, the exemptions have lessened the revenues that would otherwise have been distributed through the state's Local Government Fund. For this reason, an applicant for FTZ status in Ohio has usually met with affected local councils and school boards to seek their approval of an application. Companies would conclude "side agreements" with local communities for payments in lieu of taxes or other benefits, a process in which the Port Authority is not involved. The inventory tax was phased out in 2005.

²⁰ Federal Trade Zone Act of 1934, 19 U.S.C. 81a-81u.

²¹ Foreign Trade Zones Board, Information Summary. www.ia.ita.doc.gov/ftzpage/info/summary.html (Feb. 2005).

²² Foreign Trade Zone Corp., FTZ Resource Center, "A Brief History of the U.S. Foreign Trade Zones Program," www.foreign-trade-zone.com/link01p.htm (Jan. 2005).

The presumption of the FTZ program is that increased local economic activity associated with Foreign Trade Zones will provide compensating benefits to local communities in the form of increased revenues from income, sales or real property taxes. This assumption is difficult either to prove or to disprove because so many variables are involved.

Zones may be either “general purpose” (GPZ) or sub-zones. A GPZ has more than one user, as would be the case in an industrial park. An example would be the Cleveland Industrial Park at Cleveland-Hopkins Airport. A sub-zone is created for a single user, such as the Lincoln Electric Co. in Euclid, or Ford Motor Co. in Lorain. An FTZ can be expanded to include a new, even non-contiguous site, as occurred in 2004 in Oakwood Village. A 42-acre industrial park, Broad Oak Business Park, was approved by the Port Authority Board as an expansion of FTZ #40 at a developer’s request to accommodate a warehousing and distribution company that expected eventually to manufacture at the site. The Mayor of the Village supported the application; the School Board had yet to act. The Port Authority approved the application as part of a general effort “to make every community ‘small business friendly,’ to promote an environment in which small businesses can grow and prosper,” and “to help retain and create jobs.”²³

With varying degrees of enthusiasm, the League’s interviewees generally supported the FTZ program. It is viewed as helpful to companies competing in the world market and therefore a positive force in the Northeast Ohio economy. One public official called it “a fancy form of tax abatement,” but conceded the importance of retaining jobs and industry in the region. Some concern was expressed that the program is not well known or understood.

The Port Authority Board appears to recognize marketing as a challenge in need of attention. Its 2005 Business Plan includes development of a marketing plan in cooperation with the Development Finance Group to reach potential users and to streamline internal processes in order to expand international trade activity in the region.²⁴

²³ Cleveland-Cuyahoga County Port Authority Board of Directors’ Meeting, *Agenda*, March 12, 2004, pp. 46-47.

²⁴ Cleveland –Cuyahoga County Port Authority, Strategic Development Group, 2005 Business Plan, pp. 5-6.

THE DEVELOPMENT FINANCE GROUP

The Development Finance Group of the Port Authority was established in 1993 to assist both private and public entities with financing tools that enable them to create and retain jobs and that enhance the economic competitiveness of the area. Although projects were initially tied to port facilities and their immediate surroundings, both the geographical reach of the Authority's financing services and the types of projects that could be funded have been expanded through "cooperative agreements."

The Development Finance Group implements its broad mission by issuing both tax-exempt and taxable bonds to finance the construction or renovation of buildings, the acquisition of equipment and inventory for manufacturing, and the purchase of land. In addition to the bond program, the Authority's financing tools include fixed-rate financing, off-balance sheet financing and leasing, and financing of infrastructure projects for mixed-use developments (see Glossary for definitions).

Projects may be financed solely by the Port Authority, or jointly in cooperation with the Port Authority's two parent bodies (the city and the county), the Ohio Department of Development, other port authorities, state and local governments, foreign governments, and private sector groups involved with economic development in and beyond the region.

In the decade between 1993 and 2003, the Port Authority reports that it funded 26 projects for over \$518 million, or two-thirds of the \$775 million total project costs. The Authority estimates that these projects have retained almost 1600 jobs and created over 2000 new jobs. Its largest participation in a project to date was for the Cleveland Browns Stadium (\$159 million of the total project cost of \$250 million). The second in magnitude, a Cleveland Clinic Office and Garage, was a far smaller undertaking, but the Port Authority financed the entire \$48 million cost of the project.²⁵

Some projects yield operating income for the Port Authority beyond normal fees. For example, the Cleveland Bulk Terminal (CBT) Project purchased an ore loader operating in Lorain, moved it to Cleveland and installed it at the CBT on Whiskey Island. In anticipation of additional rent to be paid when tonnage shipped for Mittal Steel increases, the Port Authority expects to show a positive return on investment. In 2003, Development Finance generated \$1,352,447 in revenue and incurred \$496,494 in expenses, resulting in \$855,953 in net income for the calendar year.²⁶

In 2004, the Port Authority Board established a Development Finance Reserve, initially funded with \$500,000, and planned to make it grow to \$2,000,000

²⁵ See Appendix, Table I

²⁶ Board of the Cleveland-Cuyahoga County Port Authority, Financial Reports, March 12, 2004

through annual allocations. The purpose of the Reserve is to be available in case of a Bond Fund default. It was noted in Board discussion that the increasing number of projects being undertaken by the Port Authority increases the risk of default.²⁷

A little-known function of the Port Authority that falls under the Development Finance Group is responsibility for the operations of the North Coast Harbor under the Common Area Maintenance (CAM) Agreement among the City of Cleveland, the Great Lakes Science Center, the Rock and Roll Hall of Fame and Museum, the Browns and the Port Authority. Each of these institutions contributes its share of the cost, creating a total 2005 operating budget of \$208,426 for maintenance of the common Harbor area.

The state government has vastly expanded the geographical scope of the Port Authority's financing activity. Moving beyond the original city-county taxing jurisdiction (1968), the Port Authority gained operating power in 1987 to finance projects through the use of "contracts and arrangements" anywhere in Ohio and adjoining states.²⁸ This operating capability was again expanded in 2000 to encompass projects in any state and foreign countries.²⁹

Among the objectives listed in its 2005 Business Plan, the Development Finance Group plans to "aggressively" market its financial services to private and public entities, nonprofits and municipalities, and to develop new partnership opportunities with potential clients in the public and private sectors, especially in the small business and minority communities.

In 2004 a new federal tax benefit program offered an additional financing tool to the Development Finance Group.³⁰ Under the New Markets Tax Credit (NMTC) Program, the Port Authority received an allocation of \$47 million in tax credits for private companies located in low-income neighborhoods of Cuyahoga County. To implement the program, the Port Authority created the Northeast Ohio Development Fund LLC (NEODF), a private company. This company will use these tax credits as incentives for investment by lowering the interest rate on transactions it funds in "distressed communities."³¹

The creation and retention of jobs are goals of this program, as they are of the other activities of the Development Finance Group. In its Policy Statement for implementing (NMTC) projects, the Board of the Port Authority included among eligible communities both neighborhood and downtown locations. Retail, commercial and industrial projects will be considered; specifically bio-medical,

²⁷ Board of the Cleveland-Cuyahoga County Port Authority, Res. 2004-29, adopted at the Meeting of September 10, 2004, and Minutes of the Meeting as approved on October 15, 2004.

²⁸ Amended Sub. H.B.350, 117th General Assembly.

²⁹ Amended S.B.137, 123rd General Assembly.

³⁰ This program became available through the Community Development Financial Institution Fund of the U.S. Treasury.

³¹ Board of the Cleveland-Cuyahoga County Port Authority, Resolution 2004-30, adopted Sept. 10, 2004.

health care, research and development, and high technology industries are encouraged to apply. The elastic scope of these specified activities is confirmed by the addition of the phrase, “but not limited to....”³²

Unlike the other Development Finance projects, the NEODF Board does not provide public access to meetings, and does not report to the public. Port Authority President Gary Failor considers this board a private entity, although a majority of its members are Port Authority staff and board members.³³

Both the scope of activities and the virtually unlimited operating capability of the Port Authority appear to define a powerful economic development engine. While its staff members demur to such a description, among our interviewees were businessmen who affirmed its accuracy. In fact some, such as Joseph Roman, Director of the Greater Cleveland Partnership, would urge the Port Authority to “do more of it.”³⁴

Businessman Dan T. Moore III advocated “dramatically enhancing the economic development aspect of the Port Authority,” especially with micro loans to encourage entrepreneurship. “No one else is doing it,” he said.³⁵

In the public sector, Anthony Coyne, Chairman of the Cleveland Planning Commission, argued that the Port Authority is actively financing private and public projects *because* “there’s no regional economic development entity in Northeast Ohio.”³⁶

In its 2005 Business Plan, the Development Finance Group acknowledged increasing pressure for regional action on economic development. The Group states its intent to differentiate its activities from maritime operations of the port by “re-marketing” itself as “the Development Finance Authority (a division of the Port Authority).” This step should “better align us with the Greater Cleveland Partnership’s goal to have a regional development authority” in order to “finance the assembly, holding and clean-up of parcels of land for development of scale.”³⁷ In March 2005 a new position, Vice President of Regional Development, was created on the Port Authority staff to carry out this ambitious agenda.

This agenda will move forward if discussions in 2006 lead the Port Authority to expand the purpose and amount of its property tax.³⁸

³² *Ibid.*, Exhibit A, New Markets Tax Credit Program Policy Statement.

³³ Zach Schiller, “Steelyard Secrets,” Report from Policy Matters Ohio (Sept. 2005), p. 15.

³⁴ Joseph Roman, Interview, April 16, 2004.

³⁵ Dan T. Moore III, Interview, April 7, 2004.

³⁶ Anthony Coyne, Interview, February 25, 2004.

³⁷ Development Finance Group, 2005 Business Plan, pp. 3, 7.

³⁸ Hollander, Sarah and Tom Breckenridge, *Op.cit.*

ADMINISTRATION GROUP

The Administration Group (AG) is the basic management unit of the Port Authority. It is headed by the Chief Financial Officer of the Port Authority and includes a Communications Manager, a Project Manager, and an accountant and support staff. The AG manages the accounting function of the Port Authority, the audit process, compliance with state laws, and professional staff development. It also monitors the Bond Fund. Responsibility for public relations and marketing is shared between the AG and the Strategic Development Group.

Port Authority Finances

The scope of the Port Authority's operations may be seen in its Operating Budget, which for 2005 showed \$9,171,750 expected in total revenue, and \$7,865,530 in total expenses, leaving a net revenue or surplus of \$1,306,220. The Port Authority's President, Gary Failor, reports that its practice is to operate with a surplus.³⁹

However, the Port Activities operated at a loss: -\$1,328,911 in 2003⁴⁰, and a lesser amount, -\$445,939 in 2004.⁴¹ In fact the 2003 Audit states "Port Activities have historically shown an operating loss."⁴² The surplus, then, is the result of income from fees charged by the Port Authority's development finance activities, including closing fees on "stand-alone" or "conduit" projects, bond service fees, and Bond Fund application and acceptance fees. In 2004, the Port Authority ended the year with about \$42 million in net assets.

A major question for the public is what role tax revenues play in this very complicated financial structure. In the 2005 Operating Budget, tax revenues accounted for 35% of the total revenues or \$3,200,000. In recent years, the tax share of total Port Authority revenue has fluctuated between 35% and 46% of the Operating Budget, depending on total tax collections and other sources of revenue that also fluctuate from year to year.

President Failor assures taxpayers that the Authority uses tax revenues only for maritime improvements and acquisitions, which are capital expenses.⁴³ But since the Port Authority does not provide a separate capital budget, it is not possible to track the tax revenues in the Audit to see how they are expended. Many tax-supported bodies do account for capital expenses in a Capital Budget, which

³⁹ Telephone interview with Gary Failor by Kathleen Barber, May 6, 2005.

⁴⁰ *Cleveland-Cuyahoga County Port Authority Single Audit Report for the year ended December 31, 2003*, p. 9-10.

⁴¹ *Cleveland-Cuyahoga County Port Authority Single Audit Report for the Year Ended December 31, 2005 and independent Auditors' Reports*, p. 14.

⁴² *Op. cit.*, p. 10.

⁴³ Interview of Gary Failor by Lynn Tick, March 12, 2004.

makes it easier for the public to track how taxes are used. Since the Port Authority is not required to do project auditing, it is not possible to determine which projects make money and which result in a loss.

In its Development Finance activities, the Port Authority is both a borrower and a lender. Once a tax levy is passed, the Authority can issue Tax Anticipation Notes (TANs), by which it borrows money for its operations in anticipation of the tax receipts for the next five years. For example, in December after passage of the 2002 levy, the Port Authority issued \$6 million of TANs. The principal on the notes is \$6 million; the notes mature in November 2006, and bear an interest rate of 1.755%-2.5% per annum. Through the life of the notes, it is estimated that the total interest payments by the Authority will include \$392,804 in debt services.⁴⁴

Owing to a major change in accounting methods applied in the 2004 Audit, the Port Authority is no longer showing conduit debt obligations on its balance sheet, thus removing about \$150 million in net assets and liabilities from its previous reports.⁴⁵ The term “conduit debt” (previously referred to as “stand-alone bonds”) is used when the Authority acts as an agent in arranging financing for third parties, such as private corporations, non-profit organizations, or governmental entities. Examples of participants in such conduit debt transactions through the Port Authority include Applied Industrial Technologies, Inc., the Rock and Roll Hall of Fame and Museum, and MetroHealth. In these cases, the Authority is not responsible for the debt, and it receives fees that cover the cost of its financial services.

⁴⁴ *Cleveland-Cuyahoga County Port Authority Financial Statements and Supplemental Schedules Years Ended December 31, 2002 and 2001 and Independent Auditors Report*, p. 22.

⁴⁵ *Op.cit.*, p.4.

2007 UPDATE

Since the committee completed the main text of this report, the Cleveland-Cuyahoga County Port Authority has announced that it is setting aside \$850,000 to "...finally determine whether, and where, to move downtown shipping docks to clear the way for lakefront redevelopment."⁴⁶ The *Plain Dealer* reports that the following options for moving would be considered in the study:

1. To an island built outside the breakwall
2. Inside the breakwall near Whiskey Island
3. Inside the breakwall near the Cuyahoga River mouth
4. On Port land west of Cleveland Browns Stadium
5. A port built between Burke Lakefront Airport and the breakwall
6. A port built East of Burke Lakefront Airport near Lakeside Yacht Club
7. At Dike 14 near Gordon Park.

The *Plain Dealer* had reported earlier on a study for which the county earmarked funds: "...the county commissioners approved spending \$100,000 to hire a company to study cargo flow through the port and economic trends in the shipping industry. The study would draw conclusions on how much land the port authority needs and where it should be located in the future."⁴⁷ The county then decided not to pursue a separate study, but to "...work with the port."⁴⁸

This again endangers public plans for Whiskey Island because three of the options include using the area around it, eliminating the marina and the park.

In October 2006, the U.S. Army Corps of Engineers announced that it needs to create a new site for disposal of material dredged from the bottom of the Cuyahoga River and Cleveland Harbor. The best choice among their options, according to the Corps, would be creation of an island "...along the stone breakwall just to the east or west of the mouth of the river."⁴⁹ This is the same area where the 2004 City of Cleveland Waterfront Plan had proposed to build docking facilities. No plans have been announced for public hearings on these options.

The Port Authority has also begun sponsoring TV commercials that extol its importance for job development and the economic health and of the area.

⁴⁶ Hollander, Sarah, "Study will assess options for port relocation," *Plain Dealer*, July 22, 2006, p. B4.

⁴⁷ Hollander, Sarah, "Is port the gateway to a vital lakefront?" *Plain Dealer*, April 16, 2006, p. B1.

⁴⁸ Hollander, Sarah, *Op.cit.*, July 22, 2006.

⁴⁹ Kuehner, John C., "U.S. wants to build a lake island," *Plain Dealer*, October 19, 2006, p. A1.

In December, the CCCPA announced the appointment of a new President, Adam Wasserman, to replacing retiring President Gary Failor.⁵⁰

In their 2007 Business Plan, the Port Authority reports that it will seek a levy in 2007, and has directed their Columbus lobbying firm to "...gain support for the change to Port Authority code to allow for a 30-year, multi purpose levy. Provide information to other port authorities of the proposed legislative change and acquire support for the changes."⁵¹

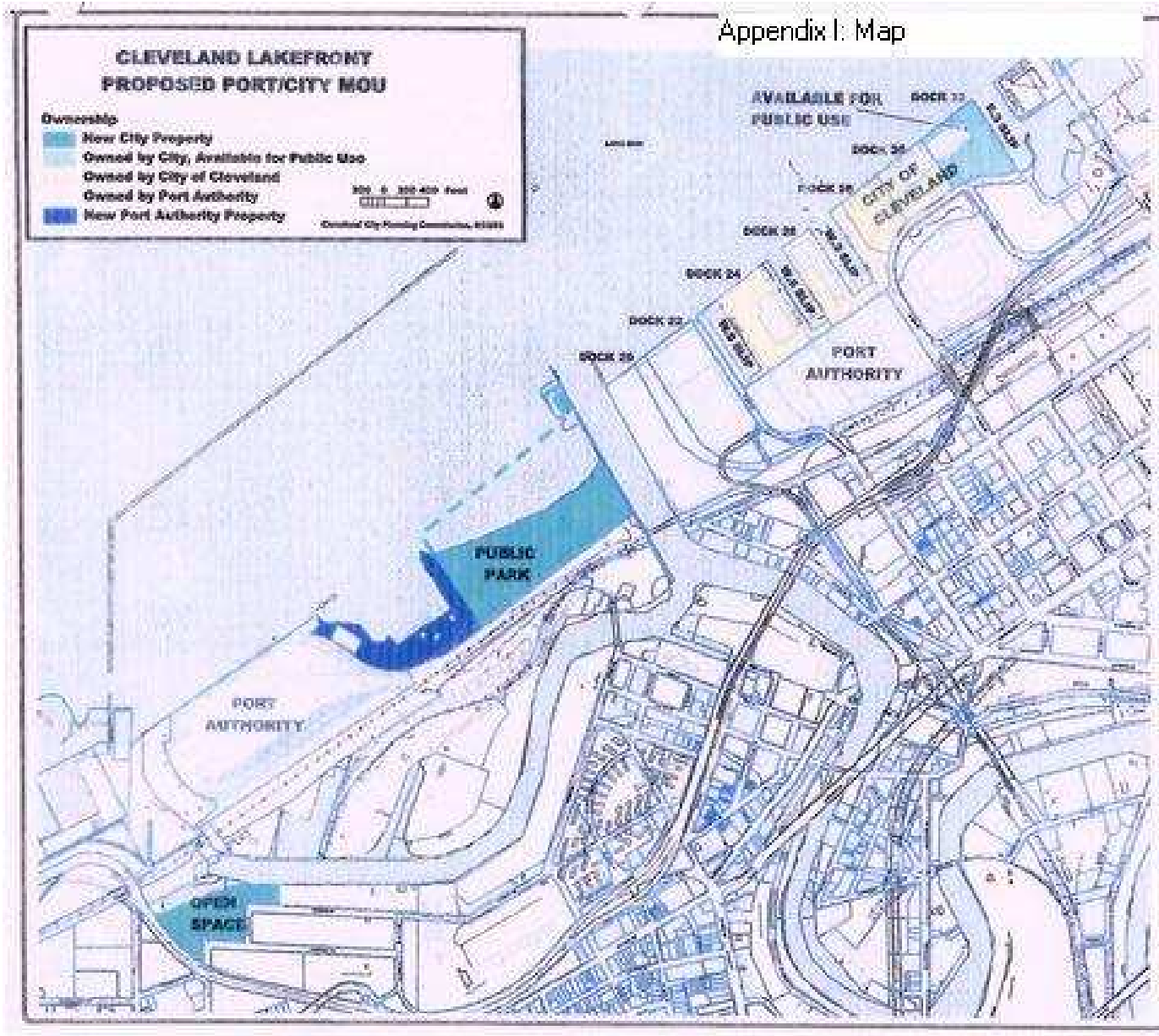
This would be a major change in the length of the levy; current law provides for five-year levy terms.

⁵⁰ Mazzolini, Joan. "New port president has economic development background," *Plain Dealer*, December 16, 2005, p. 2B.

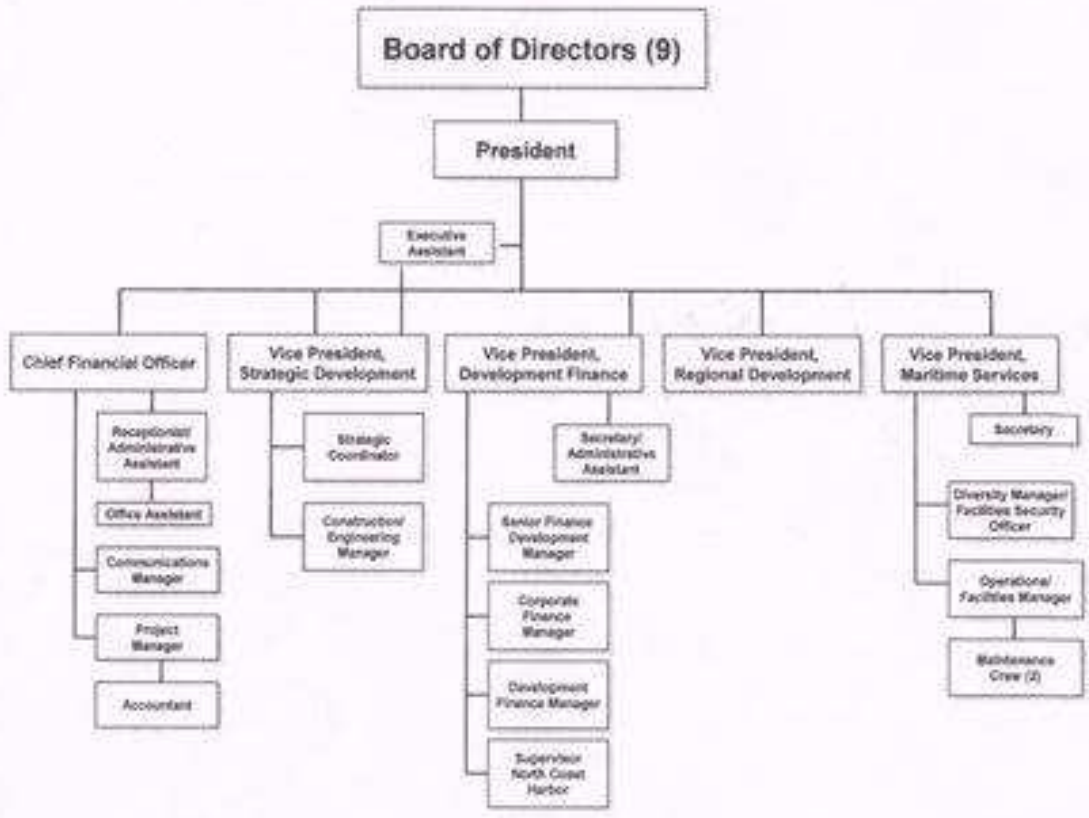
⁵¹ Port of Cleveland, Cleveland-Cuyahoga County Port Authority, "Strategic Development Group 2007 Business Plan," 3rd Draft 10/26/06, p.5-6.

APPENDICES

Appendix I: Map



Cleveland-Cuyahoga County Port Authority Organizational Chart



DRAFT/May 3, 2005

Appendix III. Development Finance Table

Draft dated 11/21/04

| TABLE I CLEVELAND-CUYAHOGA COUNTY PORT AUTHORITY DEVELOPMENT FINANCE PROJECTS FUNDED MAY 1993 TO NOVEMBER 2003 | | | | |
|---|----------------------------------|-------------------------------|--------------------------|-------------------------|
| | <u>Transactions Financed</u> | <u>Total Project Cost</u> | <u>Jobs Retained</u> | <u>Jobs Created</u> |
| Fixed-Rate Financing Program | | | | |
| Esroe | \$3,795,000 | \$4,215,754 | 0 | 2 |
| Jorgens, Inc. | 5,720,000 | 9,056,673 | 155 | 25 |
| Northeast Ohio Area-wide | | | | |
| Coordinating Agency | 3,345,000 | 3,790,994 | 45 | 0 |
| Port Improvements | 5,230,000 | 5,230,000 | 135 | 0 |
| Universal Heat Treating | 1,480,000 | 1,553,847 | 50 | 10 |
| Playhouse Square | 2,825,000 | 3,107,500 | 0 | 0 |
| Regional Income Tax Agency | 5,000,000 | 5,000,000 | 0 | 0 |
| Council for Economic Opportunities | | | | |
| in Greater Cleveland | 4,440,000 | 6,454,031 | 0 | 30 |
| Cleveland Bottle & Supply Co. | 1,500,000 | 1,900,146 | 15 | 25 |
| Community Assessment | | | | |
| Treatment Services, Inc. | 2,090,000 | 2,472,856 | 54 | 10 |
| Cleveland Christian Home, Inc. | 5,130,000 | 5,607,712 | 130 | 0 |
| International Steel Group, Inc. | 6,000,000 | 22,900,000 | 0 | 1,200 |
| Heldman Steel Products, Inc. | 4,250,000 | 17,300,000 | 0 | 100 |
| Subtotal | <u>50,805,000</u> | <u>83,594,513</u> | <u>584</u> | <u>1,402</u> |
| Synthetic Lease | | | | |
| OfficeMax | 20,330,000 | 20,330,333 | 330 | 120 |
| MetroHealth | 10,973,006 | 10,973,006 | 10 | 0 |
| MTD Consumer Products Inc. | 20,500,000 | 20,500,000 | 350 | 40 |
| Parma Community General Hospital | 23,222,064 | 23,222,064 | 0 | 125 |
| True Lease | | | | |
| Applied Industrial Technologies | 18,835,000 | 37,701,145 | 311 | 0 |
| Capital Lease | | | | |
| Rock & Roll Hall of Fame and Museum | 17,850,000 | 92,000,000 | 0 | 130 |
| Subtotal | <u>167,710,070</u> | <u>204,726,215</u> | <u>971</u> | <u>415</u> |
| Other | | | | |
| Cleveland Browns Stadium | 159,345,000 | 250,000,000 | 28 | 260 |
| Cleveland Bulk Terminal | 6,640,000 | 7,730,949 | 0 | 15 |
| Port Improvements | 6,840,000 | 6,840,000 | - | - |
| Cleveland Bulk Terminal Ore Loader | 6,000,000 | 6,000,000 | - | - |
| University Heights Public Parking Garage* | 40,600,000 | 128,525,900 | TBD | TBD |
| Cleveland Clinic Euclid/95 th Office and Garage | 48,415,000 | 48,415,000 | TBD | TBD |
| Cleveland Clinic Carnegie/96 th Stem Research Facility | 32,000,000 | 39,000,000 | TBD | TBD |
| Subtotal | <u>299,840,000</u> | <u>487,211,849</u> | <u>28</u> | <u>275</u> |
| Total | <u>\$18,355,070</u> | <u>775,532,577</u> | <u>1,583</u> | <u>2,092</u> |

* Total Project Cost includes Parking Garage and Retail Development

Appendix IV

Glossary

Ballast water

Fresh or salt water, sometimes containing sediments, held in tanks and cargo holds of ships to increase stability and maneuverability during transit. Release of ballast water often causes negative environmental impact such as invasive species of aquatic life. Ballast water releases are now regulated by legislation in many countries. The Port Authority is a member of the American Great Lakes Port Association, which is working for protective legislation.

<http://globallast.imo.org/index.asp>, <http://www.pbs.org/strangedays/glossary/B.html>

Bond Issue Default

Failure of a bond issuer to repay **principal** and **interest** in a timely manner. Bonds issued by the federal government, for the most part, are immune from default. Bonds issued by **corporations** are more likely to be defaulted on, since companies often go **bankrupt**. Municipalities occasionally default as well, although it is much less common. Also called credit risk.

<http://www.investorwords.com/>

Capital improvements

Physical development projects or initiatives funded by means of a specific financial commitment or allocation from the institutions' planned budget. www.uvm.edu/~plan/masterplan/glossary.html

Also, repair or alteration to a property that increases its value, lengthens its life, or adapts it to a different use. www.iowaexchange.com/glossary.htm

Cleveland Bulk Terminal (CBT)- Port of Cleveland

The automated iron ore loader system on the west side of the Cuyahoga River. The CBT operation benefits three Cleveland companies:

Cleveland-Cliffs - the iron ore pellets supplier

Mittal Steel (formerly International Steel Group)

Oglebay Norton Co. - CBT operator and materials transporter

<http://www.portofcleveland.com/maritime/terminals.asp>

Conduit Loan

A financing arrangement involving a government or other qualified agency using its name in an issuance of fixed income securities for a large capital project. The government or other qualified agency is not responsible for paying the required cash flows to investors.

<http://financial-dictionary.thefreedictionary.com/Conduit+Financing>

Eminent domain

The right of the government to take property from a private owner or other public body for public use by virtue of the superior dominion of its sovereignty over all lands within its jurisdiction. The Fifth Amendment to the U.S. Constitution requires the government to compensate the owner of property taken by eminent domain, stating "nor shall private property be taken for public use, without just compensation." State constitutions contain similar provisions requiring that the property owner receive just compensation for the property taken. Source: *The American Heritage® Dictionary of the English Language*, Fourth Edition Copyright © 2000 by Houghton Mifflin Company.

Excise Tax

A tax paid when purchases are made on a specific good, such as gasoline. Excise taxes are often included in the price of the product. There are also excise taxes on activities, such as on wagering or on highway usage by trucks.

<http://www.irs.gov/businesses/small/article/0,,id=99517,00.html>

Fixed-rate bond

In finance, a Fixed-rate bond is a security issued by a government or a business corporation that pays a fixed amount of interest (coupon rate) on the face value (principal/par value) of the bond periodically (often every six months or annually) to the owner until a date certain, called the maturity date. At that time the principal amount (and any outstanding interest) of the bond is paid off to the bondholder and the bond cancelled.

<http://www.investordictionary.com/definition/fixed-rate+bond.aspx>

Fixed-rate financing

Fixed-rate debt securities have the cash flow schedule clearly laid down at the time of issue, because their coupon rate does not change throughout their life.

http://www.vernimmen.com/html/glossaire/definition_fixed-rate_debt_security.html

Greater Cleveland Partnership

The Greater Cleveland Partnership (GCP) was created in March 2004 by the consolidation of Cleveland Tomorrow, the Greater Cleveland Growth Association, the Greater Cleveland Roundtable and their primary affiliates—the Council of Smaller Enterprises (COSE), the Northeast Ohio Technology Coalition (NorTech), and the Commission on Economic Inclusion. The GCP is a membership association of companies in Northeast Ohio, with approximately 16,000 members. The GCP mission is to mobilize private-sector leadership, expertise, and resources to help create jobs and wealth and improve the economic vitality of the region.

Infrastructure

An underlying base or foundation especially for an organization or system.

Also, the basic facilities, services, and installations needed for the functioning of a community or society, such as transportation and communications systems, water and power lines, and public institutions including schools, post offices, and prisons.

<http://dictionary.reference.com/search?q=infrastructure>

Inventory tax

An inventory is a detailed list of articles of property. In the true accounting sense, and for income tax purposes, it refers only to a list of articles comprising stock in trade—articles held for sale to customers in the regular course of a trade or business. The cost of goods sold during the year is determined by adding to the inventory at the beginning of the year the purchases during the year, and subtracting from this sum the inventory at the close of the year.

Source: *CCH Federal Tax Guide Reports*, “2001 Tax Terms.”

The Ohio legislature phased out this tax in 2005.

http://tax.ohio.gov/divisions/communications/cat_other_tax_law_changes.stm

Mixed-use development

A project that combines several different functions, such as residential space above a commercial establishment or an entire development combining commercial, residential and public accommodations.

www.boise-idahos-real-estate.com/real-estate-definitions-m-168.html

New Markets Tax Credit Program

The New Markets Tax Credit (NMTTC) Program permits taxpayers to receive a credit against federal income taxes for making qualified equity investments in designated Community Development Entities (CDEs). Substantially all of the qualified equity investment must in turn be used by the CDE to provide investments in low-income communities. NMTTCs are allocated annually to CDEs under a competitive application process. These CDEs then offer the credits to taxable investors in exchange for stock or a capital interest in the CDEs. To qualify as a CDE, an entity must be a domestic corporation or partnership that: 1) has a mission of serving, or providing investment capital for, low-income communities or low-income persons; 2) maintains accountability to residents of low-income communities through their representation on a governing board of or advisory board to the entity; and 3) has been certified as a CDE.

<http://www.cdfifund.gov/programs/programs.asp?programID=5>

Off-Balance-Sheet Financing and Leasing

A form of financing in which large capital expenditures are kept off of a company's balance sheet through various classification methods. Companies will often use off-balance-sheet financing to keep their debt to equity (D/E) and leverage ratios low, especially if the inclusion of a large expenditure would break negative debt covenants. Contrast to loans, debt and equity, which do appear on the balance sheet. Examples of off-balance-sheet financing include joint ventures, research and development partnerships, and operating leases (rather than purchases of capital equipment). Operating leases are one of the most common forms of off-balance-sheet financing. In these cases, the asset itself is kept on the lessor's balance sheet, and the lessee reports only the required rental expense for use of the asset. Generally Accepted Accounting Principles in the U.S. have set numerous rules for companies to follow in determining whether a lease should be capitalized (included on the balance sheet) or expensed.

<http://www.investopedia.com/terms/o/obsf.asp>

Ohio Ethics Commission (OEC)

Promotes ethics in public service to strengthen the public's confidence that Government business is conducted with impartiality and integrity. The OEC has jurisdiction over Ohio's public officials and employees at the state and local levels of government, except legislators, judges, and their staffs. <http://www.ethics.ohio.gov/ethicshome.html>

Ohio Ethics Law

Effective January

1, 1974, this law created new ethical standards for public officials and employees by: requiring personal financial disclosure; creating new restrictions upon unethical conduct with criminal sanctions; and establishing uniform review of ethics issues by statewide commissions of the three branches of government. Citizens can contact an Ethics Commission Special Investigator at (614) 466-7090 to determine whether or not an allegation falls within the authority of the Commission, as defined in

[Ohio's Ethics Law. http://www.ethics.ohio.gov/ethicslawrevisedcode.html](http://www.ethics.ohio.gov/ethicslawrevisedcode.html)

Ohio Public Records Law

This law generally requires every "public office" to promptly prepare all public records and make them available for inspection at all reasonable times during regular business hours. Upon request and within a reasonable period of time, a public office or person responsible for public records generally must make copies available at cost. Public records must be maintained in such a manner that they can be made available for inspection and copying.

<http://www.lsc.state.oh.us/membersonly/125publicrecordslaw.pdf>

Ohio State Tax Audit Report

The Auditor of State is the constitutional officer responsible for auditing all public offices in Ohio, including cities, villages, schools, universities, counties, township and state agencies, boards, and commissions. The office strives to ensure that public funds are spent appropriately and lawfully, in accordance with state and local law. The office is made up of three major divisions – The Audit Division, the Legal Division, and the Administration Division.

<http://www.auditor.state.oh.us/AboutAos/>

Performance Audit

This type of audit entails an objective and systematic examination of evidence to provide an independent assessment of the performance and management of a program against objective criteria as well as assessments that provide a prospective focus or that synthesize information on best practices or cross-cutting issues. Performance audits provide information to improve program operations and facilitate decision-making by parties with responsibility to oversee or initiate corrective action, and improve public accountability. Performance audits encompass a wide variety of objectives, including those related to assessing program effectiveness and results; economy and efficiency; internal control; compliance with legal or other requirements; and objectives related to providing prospective analyses, guidance, or summary information. Performance audits may entail a broad or narrow scope of work and apply a variety of methodologies; involve various levels of analysis, research, or evaluation; generally provide findings, conclusions, and recommendations; and result in the issuance of a report.

<http://www.gao.gov/govaud/yb/2003/html/chap25.html>

The Auditor of the State of Ohio can perform a performance audit upon request.

<http://www.auditor.state.oh.us/Publications/GeneralPublications/PerformanceAudits.pdf>

Special District Government

Sometimes called a "Special purpose district," this type of entity applies to any geographic or political jurisdiction that is created by statute to perform a limited and specific function, and includes, but is not limited to schools, library districts, conservancy districts, metropolitan housing authorities, park districts, port authorities, regional airport authorities, regional transit authorities, regional water and sewer districts, sanitary districts, soil and water conservation districts, and regional planning agencies. They may be created by act of the Ohio General Assembly, by Constitutional amendment or by local governments. They each have separate policy boards, either appointed or elected, and also have sources of financing.

http://www.legislature.state.oh.us/bills.cfm?ID=126_HB_104

Sunshine Laws

U.S. federal and state laws requiring governmental meetings, decisions and records to be made available to the public. There are specific exemptions for discussion of litigation, personnel decisions or real estate transactions. <http://www.investopedia.com/terms/s/sunshinelaws.asp>

For a tri-fold brochure on Ohio Sunshine Law, see the following.

<http://www.auditor.state.oh.us/Publications/GeneralPublications/OhioOpenGovernmentLaws.pdf>

For a 185-page document on Ohio Sunshine Laws from the Attorney General (2005), see the following. http://www.ag.state.oh.us/legal/pubs/2005_sunshine_law_book.pdf

Tax Anticipation Notes (TANs)

These are short-term debt securities issued in anticipation of future tax collections.

TANs are generally issued by state and municipal governments to provide immediate funding for a capital expenditure, such as highway construction. <http://www.investopedia.com/terms/t/tan.asp>

Tax Free Bonds

These are bonds issued by a state, city, or local government. Municipalities issue bonds to raise capital for their day-to-day activities and for specific projects that they might be undertaking (usually pertaining to development of local infrastructure such as roads, sewerage, hospitals etc). Interest on municipal bonds is generally exempt from federal tax. In the case that the bond is bought by a resident of the state that issued the bond, the interest payments are also exempt from state tax. Interest payments are further exempt from local tax if they are bought by residents of the locality that issued the bond. Capital gains however are taxable. Some municipal bonds can also be insured by outside agencies. These companies will promise to pay the interest and principal if the issuer defaults.

There are two common types of municipal bonds: general obligation and revenue. General Obligation (GO) bonds are unsecured municipal bonds that are simply backed by the full faith and credit of the municipality. Revenue bonds are used to fund projects that will eventually create revenue directly, such as a toll road or lease payments for a new building. The revenues from the projects are used to pay off the bonds. Municipal bonds usually come in \$5,000 par values and usually require a minimum investment of \$25,000 in order to get the best price.

http://www.investorwords.com/3162/municipal_bond.html

Tax Levy

A ballot issue that imposes, repeals, or materially alters a State or local tax.

Tax Renewal

A tax renewal levy is based on the pre-existing valuation of property.

Tax Replacement

A tax replacement levy bases future revenue from the tax on the updated valuation of property.
