

ODOT Rule Could Spell the End for Blast Furnace Slag, Potentially Costing the Steel Industry \$55 Million Annually

The Ohio Department of Transportation (ODOT) has adopted a new construction specification that could prohibit the use of more than two million tons of Ohio blast furnace slag in ODOT projects each year.

There is little or no demonstrated environmental benefit to Supplemental Specification 1027.

With four additional requirements, Supplemental Specification 1027 is the most stringent slag specification of all Midwestern steel-producing states. Most air-cooled blast furnace slag – a byproduct of the steelmaking process – would not pass the test requirements, which include a pH test.

The steel industry questions not only the need for the new requirements, but also the accuracy of the test methods as predictors of leachate. Ohio steel and slag producers are asking to work with ODOT to develop a more meaningful and accurate slag specification.

The new ODOT specification affects slag products used as a sub-base for road surfaces, as fill material for embankments and pipe-backfill and more.

Many engineers and local governments follow ODOT's specifications and will likely adopt Specification 1027 for use in most construction projects.

In terms of lost slag sales, Supplemental Specification 1027 could cost Ohio steel companies about \$2.3 million a year.

In addition, the specification could create an unnecessary wastestream. If alternate uses for slag cannot be found, the specification could require disposal in landfills at an estimated cost of \$55 million a year, even though slag is exempt from Ohio's statutory definition of "solid waste" (R.C. 3734.01(E)).

The steel companies would shoulder much of the expense for cleaning pits and extracting slag, which in the past has been picked up by slag processors. In all, the costs to steelmakers could be as high as \$87 million per year.

ODOT previously used the Illinois Leachate Determination Test (Illinois Test), which involves soaking slag in water for a period of time to determine whether the slag would leach in the field.

But now ODOT's specification requires the Illinois Test for water quality. To pass, the

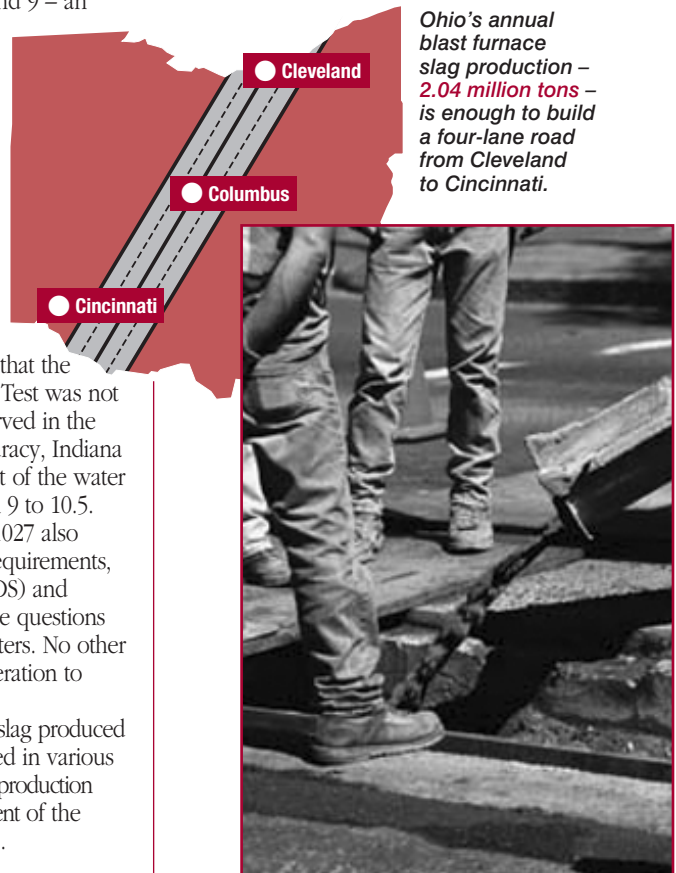
pH level must fall between 6.5 and 9 – an extremely aggressive margin for any air-cooled blast furnace slag leachate.

Indiana is the only other state in the Midwest to require a pH test and does so only with adjustments to the Illinois Test.

A study conducted by the Levy Indiana Slag Company, in conjunction with the Indiana Department of Transportation, found that pH is not an accurate predictor of leachate quality, and that the sample obtained from the Illinois Test was not representative of conditions observed in the field. To accommodate the inaccuracy, Indiana increased the upper most pH limit of the water sample from the Illinois Test from 9 to 10.5.

Supplemental Specification 1027 also requires slag to meet two more requirements, one for Total Dissolved Solids (TDS) and another for conductivity. There are questions about the testing of these parameters. No other state in the Midwest gives consideration to TDS or conductivity.

Until now, virtually all of the slag produced by the steel industry has been used in various construction applications. Ohio's production accounts for approximately 25 percent of the total slag sold in the United States.



Stark County State Representative Appointed to Ohio Steel Council

The Ohio Steel Council welcomes a new member, State Rep. John P. Hagan (R-Marlboro Township).

Appointed by Ohio House Speaker Larry Householder in March 2003, Hagan will serve as one of two state assembly representatives to the Council. The other is State Sen. Jeffrey Armbruster (R-North Ridgeville, District 13).

Hagan serves on the House Economic Development and Technology Committee, the Homeland Security, Engineering and Architectural Design Committee, and the Human Services and Aging Committee. He is vice chair of the Public Utilities Committee. As a member of a key House economic development panel, he helped craft the most substantial jobs package approved by the Ohio General Assembly in more than five years.

Prior to being elected to the 56th District House seat in 2000, he ran a family-owned heating and plumbing business that his father started in 1976, and served as a Marlboro Township trustee for 11 years.

Ohio House Passes Up Opportunity to Reform Tax Structure

The Ohio House of Representatives recently passed up two opportunities to reform Ohio's tax structure and introduce a tax code that would more fairly assess taxes on the capital-intensive steel industry.

Now, Ohio's steel industry will continue to pay a larger share of state taxes than businesses in less capital-intensive industries.

Furthermore, Ohio's steel industry is at a national competitive disadvantage because of the state's personal property tax, which applies to both machinery and inventory. Manufacturing equipment is not exempt from the tax, as it is in several other states, and Ohio is one of only 16 states that taxes inventory as personal property.

House Bill 58 (H.B. 58), sponsored by Rep. Sally Conway-Kilbane (R-Rocky River), called for the elimination of the personal

property tax. In its place, the bill proposed a "business activity tax" that would tax Ohio businesses equally, based on a predetermined percentage of Ohio-based sales, assets and payroll.

Also included in H.B. 58 was a proposal to eliminate the "net worth provision" of the Ohio franchise tax. This provision requires a company to pay taxes based on its net worth, with a maximum tax of \$150,000. As a result, a company must pay taxes even if it is breaking even or losing money and operating in the red.

Unfortunately, H.B. 58 was not included in the House budget bill (H.B. 95) passed April 9.

"We had two opportunities for the Ohio House to strengthen the competitiveness of Ohio manufacturing on a global basis and, in

both cases, they were not pursued. The personal property tax issue is particularly disappointing because it requires the steel industry to pay a disproportionately high amount of state taxes simply because it is capital intensive," said Bob Lapp, vice president, government affairs at **The Timken Company**, Canton.

"The tax code is clearly antiquated. It does not treat all businesses equitably, and it is not in line with standards set by other states. We hope this is not the last attempt by the House to address the issue. On the other hand, we do thank those who are trying to achieve responsible tax reform, among them Rep. Conway-Kilbane," Lapp said.

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