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Testimony to the House Finance and Appropriations Committee
on Substitute House Bill 153
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Good morning, Chairman Amstutz, Ranking Member Sykes, and members of the committee. Thank you for the opportunity to testify today on House Bill 153. I am Wendy Patton, senior associate at Policy Matters Ohio, a nonprofit, nonpartisan research institute with offices in Cleveland and Columbus.

We remain concerned with House Bill 153 and the numerous and drastic cuts that it makes to education, local governments and a wide range of public services. While the committee has restored funding for some important services, others have been reduced. This will be a zero sum game unless the General Assembly takes the necessary step of including new revenues.

This does not require a 46 percent increase in income taxes for all Ohioans. That is a classic straw man. The Kasich Administration estimate last month showed that the current tax system would produce $2.8 billion in additional revenue during the FY2012-2013 biennium. That number is likely to grow further. Thus, some of the budget hole will be made up by the natural growth in revenue.

Revenue is badly needed to make up the shortfall that still exists because of the 2005 tax cuts and the weak economy. But this can and should be made up most of all by those who did the best in recent years and who can afford it: Upper-income Ohioans.

We should maintain last year's income-tax rates for all Ohioans, while reinstating the 7.5% rate for income over $201,800 and creating a new, 8.5% rate for income over $500,000. This would generate $872 million a year, according to the Institute on Taxation and Economic Policy. But Ohioans in the middle fifth of the income spectrum, those making between $31,000 and $48,000, on average would only pay another $35 a year. Those lower down on the income scale would pay less than that. Nearly three-quarters of the total would be paid by those making at least $132,000 a year. Yet even for the wealthiest 1% of Ohioans, the extra tax would only amount to 1.3% of their annual income.

At the same time, we should attack unnecessary tax exemptions, credits and deductions. The bill should include a 10 percent cut from the $7.4 billion in foregone revenue from exemptions, credits and deductions in FY2012. The General Assembly should appoint a group to make recommendations and approve at least that amount in specific changes in the tax code. Finally, we should restore some of the business tax cuts from 2005, which have not produced the promised improvement in Ohio's economy.

Together, these changes would produce revenue to avoid most of the huge cuts to schools, local governments and other vital programs – and the associated job losses. Our research shows that cuts to K-12 and higher education originally proposed by Gov. Kasich would lead to a reduction of more than 31,000 direct jobs—teachers, lunchroom workers, bus drivers, maintenance workers, and others—and almost 16,000 additional jobs at suppliers or at local businesses where educational workers spend their money. These numbers would be reduced only slightly by the additions in education funding made in the current bill.

Instead of adding needed revenue, the bill would repeal the estate tax. While putting this off until 2013 may allow us to escape immediate budgetary implications, they will be no less severe, particularly to local governments. Numerous local-government representatives testified in the Ways & Means Committee on the harm this would cause. Together with cuts to the Local Government Fund and reimbursements for Tangible Personal Property Tax and other taxes, the repeal of the estate tax will be a triple whammy for local governments.

The estates of more than nine out of ten Ohioans will never have to pay the estate tax. Nor is the Ohio estate tax causing large numbers of small businesses and family farms to be sold. Many farm estates do not have to pay the tax because of an additional exemption available to those passed on to blood relatives who continue to farm. In addition, Ohio law permits up to a 15-year extension for payment of the estate tax in cases of "undue hardship." The state taxation department said earlier this year that fewer than two dozen estates remain open under such extension.

Large numbers of Ohioans are not heading out of state because of the estate tax any more than the lack of such a tax in Michigan is keeping many residents of that state at home. Joe Honerlaw, trustee of Springfield Township in Hamilton County and a self-described "fiscally conservative Republican" told the Ways & Means Committee in February that in his 27 years as a lawyer he had had many clients write six-figure estate-tax checks in his office."I have yet to have one client say, 'I'm leaving Ohio because of the tax,'" he said. According to Mayor Sue Lesch of Norwalk, "the estate tax does not drive people out of my community."

The estate tax also makes Ohio's tax system fairer. Lower- and middle-income Ohioans pay a greater share of their income in state and local taxes than more affluent Ohioans do. According to the Institute on Taxation and Economic Policy, Ohioans in the top 1 percent of the income spectrum pay an average of 7.8 percent of their income in state and local taxes. By contrast, the fifth of Ohio families in the middle pay 11.0 percent. The estate tax is one of the few taxes partially offsetting a tax system that falls more heavily on less affluent families

We are glad to see that the substitute bill has stricken the wide-ranging authority for the administration to privatize anything the state owns or service it provides. However, we still question providing authority to privatize the Ohio Turnpike and other state assets, especially the prisons slated for sale.

Policy Matters Ohio hired veteran journalist Bob Paynter to review Ohio's current record on prison privatization. He found in a report last month that cost calculations performed over a number of years by the State of Ohio have not reliably demonstrated the private-prison savings required under Ohio law. Paynter's detailed examination of those calculations shows them not only to be riddled with errors, oversights and omissions of significant data, but also potentially tainted by controversial accounting assumptions that many experts consider deeply flawed. Once past errors in the state calculations are corrected and revisions made, the private-prison savings computed by the state over the years appear to shrink dramatically.

We have distributed this study to your offices and hope you will study it. There is little reason to be confident that selling the prisons will achieve the promised 5% savings. While there are other reasons to oppose the sale, this alone should give you pause.

Thank you very much for the opportunity to testify.