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## **Mid-Biennium Review gets criticism, some praise** Tax cut to wealthiest is problematic, severance tax worth expanding

Ohio should have a stronger tax on the depletion of the state's natural resources. For that reason, Policy Matters Ohio found merit in the severance tax portion of Ohio Gov. John Kasich's Mid-Biennium Review (MBR), released in a news conference today. The non-partisan, non-profit research group cautioned, however, that the governor's proposal was too timid. Policy Matters also praised the promotion of combined heat and power, but urged that this technology should not come at the expense of wind and solar development.

Policy Matters raised serious concerns about other aspects of the governor's MBR proposal, including his plan to link the mineral-extraction tax to an across-the-board income tax cut that will go mostly to affluent Ohioans. Such an approach is not likely to boost our economy. States without income taxes don't perform any better on a number of key measures of economic performance, such as median household income growth, than those with the highest top income-tax rates; in fact, they often do worse.

In K-12 education, the MBR seems to focus on new ideas that are heavy on assessment and accountability, but come with no apparent funding for new mandates.

### **Taxes**

We applaud the governor's proposal for a new tax on oil and gas fracking in Ohio shale. However, the proposal to link it with an income tax cut is a step in the wrong direction.

"We need to restore state support for public education, aid to local governments and libraries, and other services," said Zach Schiller, research director at Policy Matters. "An across-the-board income-tax cut will go mostly to affluent Ohioans, making our state tax system less fair than ever to lower- and middle-income Ohioans."

Ohio's severance tax, one of the nation's weakest, should be set at least as high as in neighboring Michigan and West Virginia (5 percent). The governor's proposal to impose a 4 percent severance tax not only should be stronger, it should be simpler. In particular, we encourage the elimination of incentive rates in the first 12 to 24 months as this might encourage producers to maximize pressure when fracking the wells during that time, risking cracked cement well casings and environmental harm. In addition to restoring slashed services, this important revenue stream should be used to assist communities in rapid development, to provide resources in case of environmental damage, and to invest in clean energy. For more information, see our recent reports on severance and income taxes, online at [www.policymattersohio.org](http://www.policymattersohio.org).

We remain seriously concerned about the environmental and community impacts of fracking to

produce oil and gas. As this industry develops, stringent regulations around production, transmission and processing must be enacted, monitored and enforced. It is critically important that the industry be held accountable for environmental remediation that becomes necessary despite regulations.

## **Energy**

We strongly support the governor's proposal to make combined heat and power technology a priority.

“Ohio lags behind other states in energy productivity, which means we’re not getting enough bang for our energy bucks,” said Amanda Woodrum, a researcher at Policy Matters. “Combined heat and power technology will move us in the right direction.”

Rather than including CHP in the renewable energy tier, as the governor's proposal does, we recommend creating a CHP/Waste Heat Recovery "carve out" in the advanced energy tier of Ohio's alternative energy standard, with annual benchmarks.

“Using this approach means CHP development will not have to come at the expense of wind and solar, as it would with the governor's proposal,” said Woodrum. More information is available in our recent report on combined heat and power, available on our website.

Policy Matters also supports a workforce-training approach that results in recognized credentials and makes concerted effort to offer opportunities to historically disadvantaged populations.

## **Education**

During a biennium that has seen a loss by school districts of \$1.8 billion compared to the previous two-year budget, the MBR appears to be proposing new investments without finding the money to pay for them.

For example, the governor wants to strengthen the 3<sup>rd</sup>-grade reading guarantee by requiring intervention and monitoring for students who fail reading assessments during their first three years of school. “An effort to boost reading skills for Ohio's youngsters is clearly important, but it will surely require training and new structures, and cannot be done well on the cheap,” said Piet van Lier, education researcher. Also worth noting: the Ohio Supreme Court ruled in 2000 that the 4<sup>th</sup>-grade reading guarantee, passed in 1997, was an unfunded mandate.

We have similar concerns about the potential drain on funds that would result from allowing third-party evaluators to conduct teacher evaluations, rather than relying on in-school staff such as teacher evaluators, as the Cincinnati school district does, to supplement assessment by principals. The continued call for re-testing of struggling teachers also seems misplaced – more attention should be put on ensuring that appropriate training is available for all teachers who need it.

## **Ongoing research**

Policy Matters Ohio will examine these and other initiatives, including proposed changes in taxes on financial institutions, and provide additional commentary and research as the General Assembly considers them.