



## Tax & Budget

### Testimony on House Bill 194 before the House Finance Committee

Wendy Patton

Good morning, Chairman Oelslager, Ranking Member Cera and members of the committee. My name is Wendy Patton and I am a senior project director of Policy Matters Ohio, a nonprofit, nonpartisan organization with the mission of creating a more prosperous, equitable, sustainable and inclusive Ohio. Thank you for the opportunity to testify.

The state of Ohio has cut income taxes in most years since 2005, taking \$6 billion dollars a year out of the state revenue system.<sup>1</sup> This has contributed to the state's many unmet needs, including in public education. On a statewide basis, foundation funding for Ohio's schools is lower than in 2006, adjusted for inflation and changes in enrollment.<sup>2</sup> Nationally, 33% of 4-year-olds from low-income families are enrolled in a state public preschool but in Ohio, only about 11% are.<sup>3</sup>

Ohio needs to invest more in education. Sufficient, sustainable and equitable revenues for education should come from the state's progressive income tax. That said, the Lottery Profits Education Fund (LPEF) has been an important funding source for public education.<sup>4</sup> Tax revenues from sports betting can supplement this.

If legalized sports betting is authorized in Ohio, we agree it should be administered by the Ohio Lottery Commission, which was established to raise funds for public education, with sports gaming rules enforced by the Ohio Casino Control Commission, which enforces the laws governing casino gaming and skill-based amusement machines.

We encourage legislators to establish a tax rate that maximizes revenues for public education. The table below shows tax rates in states that have legal sports betting. The proposed rate of 10% is lower than in eight of the 13 states with sports betting (nine if you count New Jersey, with an on-line sports betting tax rate of

<sup>1</sup> Schiller, Zach and Wendy Patton, "Overhaul: A plan to rebalance Ohio's Income Tax," Policy Matters Ohio, June 26, 2018 at <https://bit.ly/2RVhMDL>

<sup>2</sup> Ohio Legislative Service Commission spreadsheets, "Inflation-Adjusted Foundation Funding and TPP Reimbursements., 2005-2021" and "Nominal Foundation Funding and TPP Reimbursements, 2005-2021." These spreadsheets include formula funding (including to Joint Vocational Districts), Student Wellness and Success Funds, enrollment supplement, Tangible Personal Property Tax (TPP) reimbursements, TPP supplement (in 2016 and 2017), and federal stimulus dollars (in 2010 and 2011). Student enrollment based on National Center for Education Statistics Table 203.20. "Enrollment in public elementary and secondary schools, by region, state, and jurisdiction: Selected years, fall 1990 through fall 2023." Estimates of enrollment for 2016-19 and 2021 adjusted using proportional annual change based on projections for 2020 and 2023.

<sup>3</sup> The State of Preschool 2018, The National Institute for Early Education Research, Rutgers Graduate School of Education at <https://bit.ly/2kRb5rD>

<sup>4</sup> Total state-source General Revenue Fund expenditures for primary and secondary education grew by \$316.4 million (3.1 percent) between 2006 and 2018, adjusted for inflation. This includes money from the LPEF, which grew by almost exactly the same amount - \$316.1 million, adjusted for inflation - over the same time period.

14.25%.) We urge you to consider options to maximize revenues, like a progressive tax rate structure with a higher rate on big operations (Arkansas) or different products (New Jersey).

How states raise revenues through sports betting	
HB194 should maximize revenues for public education	
Arkansas	13% on first \$150 million, 20% >\$150 million
Delaware	43.75%
District of Columbia	D.C. Lottery collects revenue minus expenses. Private operators are taxed at 10%
Indiana	9.50%
Iowa	6.75%
Mississippi	12%
Montana	Montana Lottery collects revenue minus expenses.
Nevada	6.75%
New Jersey	9.75% in-person; 14.25% online
Pennsylvania	36%
Rhode Island	51%
Tennessee	20%
West Virginia	10%

*Source: Policy Matters Ohio based on data in Tax Policy Center's "States Learn to Bet on Sports: The Prospects and Limitations of Taxing Legal Sports Betting," May 14, 2019*

House Bill 194 would expand a constitutionally authorized lottery in a manner that replaces a black market. That said, the Institute on Taxation and Economic Policy points out risks of increased reliance on revenues raised from gambling:<sup>5</sup>

- Gambling is a regressive source of revenue, in that individuals with lower incomes contribute a larger share of their income than those with higher incomes.
- When consumers spend more money on gambling they will spend less on other items subject to state sales taxes, which may decrease state and local sales tax revenue.
- Over-reliance on gambling revenue can drive states to advertise gambling products, encouraging behaviors that can lead to harmful addiction.

These warnings further reinforce why lawmakers need to strengthen, not weaken, our progressive income tax; that the rate for sports betting needs to be higher than 10%, to help offset loss to the sales tax; that the Ohio Lottery Commission should neither advertise nor promote sports betting and that sufficient funds must be set aside to increase programs to combat gambling addiction.

<sup>5</sup> Hill, Misha, "All Bets are Off: State-Sponsored Sports Betting Isn't Worth the Risk," Institute on Taxation and Economic Policy, June 13, 2018 at <https://bit.ly/32Dwaq7>

Thank you for this opportunity to testify. I will be happy to take questions.