Policy Matters Ohio

TESTIMONY
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Revenue and Budget

Testimony on HB 33 before the House Finance Committee

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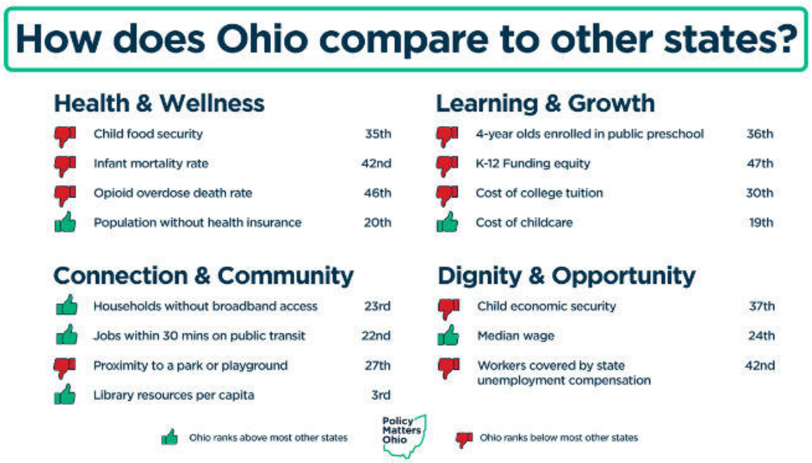
Chair Edwards, Vice Chair LaRe, Ranking Member Sweeney, and members of the Committee. I'm Hannah Halbert, I'm privileged to be the Executive Director of Policy Matters Ohio, a nonprofit, nonpartisan research institute with a mission to make Ohio a more vibrant, equitable, inclusive, and sustainable place for all who live here. Thank you for the opportunity to testify on HB 33, the 2024-25 budget bill.

This general assembly has the good fortune of budgeting in a time of surplus. Smart federal policy drove cash to people and businesses so when the worst of covid passed, the economy could rebound. The federal government has also sent crisis dollars to states, propping up potential shortfalls and funding major investments in many areas of public life—like schools, roads. This recovery is in sharp contrast to the tide of government spending cuts that made Ohio's recovery from the Great Recession such a long slog. Given the context of temporary surplus lawmakers should prioritize enacting a state budget that creates long-term shared prosperity.

All Ohioans generally want the same things: to live and live well in the communities of their choosing. People want strong, safe, and vibrant communities where we can put down roots. Ohioans have pooled our shared resources to build world-class universities, a great state park system, and some of the nation's best libraries. These institutions and many others make Ohio a better place to live. Investment in public institutions, spaces, projects, and services also attracts prosperity and well-being, and can be an instrument to ensure no one is excluded because of race, class, ability, or any other marker of identity.

Ohio should be the best state for families

In his 2022 state of the state speech, Gov. Mike DeWine said, "There is simply no better place to raise a family than Ohio!" Historically, Ohio was the kind of state that people sought out just as so many once did in the great migrations out of the south and Appalachia. The anthem "Reading, Writing, and Route 23," didn't just happen. Ohio had built world class schools, and maintained high standards for work and wages, thanks in part to our great labor unions. Earlier this year, we explored the status of the state by comparing Ohio with the rest of the nation on 15 indicators and found Ohio has work to do to live up to that claim. This state budget should be a vehicle to close gaps and get us closer to being the best state.



Ohio children are more likely than children nationwide to go without food. In our state, 19% of children experienced food insecurity in 2019—a higher share than in 34 other states. Children in Ohio are less likely than children nationwide to live in financially secure households. Nearly 1 in 5 of our children lived in poverty in 2021 — a higher share than in 36 other states.

When children and families don't have enough to eat or lack the healthcare they need, they don't have the secure foundation on which to thrive. Children who grow up in poverty are more likely than their more economically secure peers to do worse in school, have health problems and get involved with the criminal legal system as adults. Neglecting to fully fund the governor's call to be the best state for kids will only hamper Ohio's future sustainability and prosperity.

Portions of HB 33 will help improve the health, education, and well-being of Ohioans
Gov. DeWine's budget makes some significant advances toward his promise of making the state the best place for families by addressing some very long-standing needs of Ohioans, including:

- **Expanding healthcare coverage to pregnant women and babies in Ohio.** H.B. 33 would provide more health coverage for children and pregnant women by increasing eligibility for Medicaid up to 300% of the federal poverty level (a family of three with income just over $74,580 annually).

- **Preparing more kids for kindergarten and helping parents stay in the workforce.** H.B. 33 will help an estimated 15,000 children get the child care they need by expanding eligibility for publicly funded child care to more working parents. An additional 11,525 3- and 4-year-old children in families with low incomes will have an opportunity to get high-quality early childhood education.

- H.B. 33 appropriates $150 million in SFY 2024 from one-time American Rescue Plan Act (ARPA) funding to establish a **child care scholarship program for critical occupations and direct-service professionals** who make up to 200% of the federal poverty level ($49,720 for a family of three), expanding access to child care, including infant and toddler care.

- It also continues implementation of the **Fair School Funding Plan** — although some key elements of the formula are out of date. And it makes investments in literacy, school-based healthcare, and school safety — although the SRO proposal needs greater local input, flexibility, and accountability measures.

- The executive budget calls for an **increase in spending for need-based college tuition aid (OCOG)**, estimated at $112.5 million for FY 23, to more than $216 million in FY 24 and $346 million in FY 25 (year-to-year boosts of 92% and 60% respectively). This long-overdue and much-needed investment in need-based aid for students going to both public and private four-year colleges and universities in Ohio would more than erase the cuts made in the grant program since 2006, even adjusted for inflation.

Unfortunately, and despite a near record revenue surplus, H.B, 33 allows many essential services to be eroded by inflation. For example, if legislators accept Governor DeWine's proposed k-12 funding allocations, when adjusted for inflation the net aid would remain nearly 3% below spending in the FY 2021-22 biennium.[1] Ohio policymakers have cut nearly 12% from the State Share of Instruction (SSI) since 2006 — a loss of approximately $200 million. Even if inflation were to average 3% over the next two fiscal years, the governor's proposal would not reverse that trend, and we would still end FY 2025 at nearly 12% below 2006 SSI funding in inflation-adjusted dollars.

Lawmakers have an opportunity in this state budget to make transformational investments in Ohio's people. From ensuring child care and home care workers are paid at least $20 an hour by reimbursing providers to getting food to all school kids, to enacting tax credits designed to support families, Ohio has all the resources we need to make the state and the economy one that pulls people into the middle class.

Ohio's future depends on today's priorities

But over the past two decades Ohio has steadily turned our tax code upside-down: The Ohioans with the lowest incomes pay far more of their income in state and local taxes than the most affluent do, and as a result, the state cannot equitably meet Ohio's basic needs, nor can it begin to lay the foundations for the types of communities we would all love to live in.

H.B. 33, unlike previous budgets, does not include significant cuts or structural changes. However, the budget would reduce GRF revenues by over $200 million per fiscal year. These policy changes, added to the effects of forecasted inflation, outweigh expected economic growth in FY 24, leading to a 1.5% decline of inflation-adjusted GRF revenues, and only a slight increase in revenues the following fiscal year: an increase of 2.7%.[2]

Most of the tax provisions included in the budget are poorly targeted and worryingly inefficient. While the impulse to support young families with a sales tax exception on infant products is commendable, this provision will not help the families that most need it. The sales tax exemption will benefit those who can afford top of the market infant products. Meanwhile the of Ohio parents who can only buy the cheapest diapers or acquire infant clothes second-hand will see little benefit from this exemption.

The homeowners' savings account deduction suffers from a similar flaw. Depending on how it is designed, it could be a break that provides more to higher-income Ohioans who don't need such

[1] The Governor's Budget contains very modest inflation forecasts of 2.7% in FY 2024 and 2.2% in FY 2025. Actual inflation figures likely will be higher

[2] It is likely inflation will be higher than forecasted in the governor's budget and these revenue figures will be lower.

assistance. Ohioans who are in most need of housing assistance do not have the disposable income to take advantage of this type of policy.

The more concerning provision in terms of tax revenues is the budget bill's proposed child tax deduction. The $2,500 per child state tax deduction is an expensive, poorly designed policy that will have no impact on families who most need support and will provide only modest benefits to most others. For example, under this policy families who do not pay taxes because they fall into the lowest state income tax bracket — those with taxable incomes of $26,050 and below — would not see a dime from this policy. A single mother of one making $40,000 per year would see a reduction of her tax liability by $69: not nearly enough to make a significant impact on that mother's capacity to provide for her child. Nevertheless, the policy's price tag to the state adds up to more than $135 million per year.

The governor's budget also includes a permanent increase in the motion picture tax credit: from $40 million to $75 million. This is an expansion of an already wasteful tax expenditure. A study of Ohio's motion picture tax credit done by Cleveland State University in 2015 found that between 2011 and 2015, the state spent $32 million on the tax credit, which generated just $6.7 million in state and local tax revenue.[3] As the NCSL explains: "The states that have performed evaluations of their film tax incentive programs have commonly found that, despite the positive anecdotal evidence that accompanies big film projects, such programs do not provide a substantial return on investment and, if economic development is the goal, other policy avenues might be more productive."[4] Ohio's motion picture tax credit does not pay for itself and should be abolished.

The motion picture tax credit expansion will add to the long list of existing state tax expenditures. Tax expenditures are policies that forgo tax revenue to benefit a target population. They can be beneficial: providing support for those who need it most. The low-income housing tax credit seems likely to spur the construction of more low-income housing, which would help alleviate Ohio's severe shortage of affordable housing stock. However, the lack of oversight and the fact that tax expenditures do not sunset mean that most tax expenditures are likely wasteful handouts to special interest groups. The list in the tax expenditure report has ballooned to 154 tax expenditures accounting for $11 billion of foregone revenue every year or 37% of state revenues. Fifteen new tax expenditures by themselves account for an additional $200 million of foregone revenues.

The current proposal does not include a flat tax—such as the one proposed by HB 1—or an elimination of the income tax. We encourage the committee to ensure that these provisions remain absent from the state's operating budget, and we've submitted separate testimony to this committee detailing the reasons why. These shortsighted ideas will ultimately erode the state's ability to fulfill the promise of being the best place for people and families.

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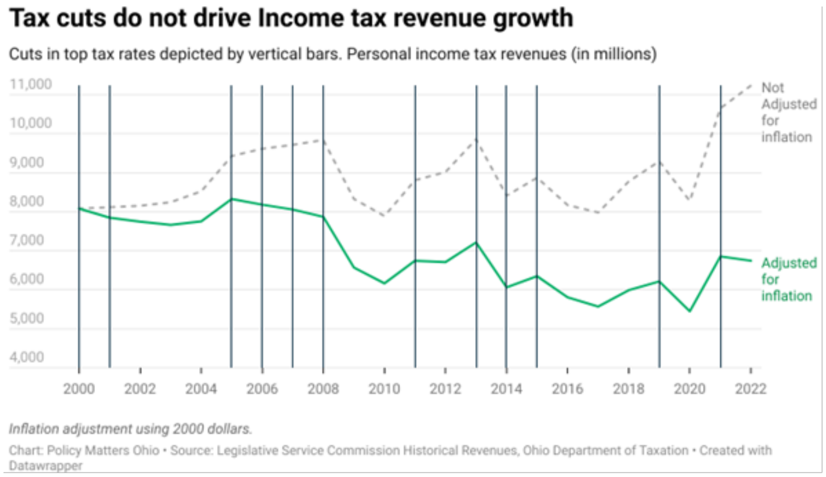
[3] Candi Clouse and Nikki Glazer, Box Office Ohio: Analysis and Economic Impact of the Film Industry in Northeast Ohio and Ohio, Center for Economic Development, June 2015 at https://engagedscholarship.csuohio.edu/cgi/viewcontent.cgi?article=2335&context=urban_facpub

[4] Jackson Brainerd and Andrea Jimenez. Film Tax Incentives Back in the Spotlight. May 05, 2022. https://www.ncsl.org/fiscal/film-tax-incentives-back-in-the-spotlight



Ohio has been steadily cutting taxes for decades and the stories of growth and prosperity have yet to materialize. In fact, because of the business income deduction—also known as the LLC loophole—Ohio already has a flat tax, or no tax at all, on business income. Yet over the past two decades, Ohio's share of employment and number of business establishments have steadily declined relative to the rest of the country. In a typical year, Ohio grows slower than the national average. And when recessions hit, they hit harder and last longer than the national average. Moreover, the very simple exercise of adjusting historical state revenues for inflation (see graph) dispels any notion that there may be a relation between tax cuts and increased tax revenue.

As an example of how these tax changes would impact people, we looked at the Chair's district (District 94), which is part of Appalachian Ohio. In this district, 21% of people are living at or below the poverty line.[5] This includes nearly 26% of children under 5 years old. A typical household in this district has an income of just $47,326, which is less than 200% of the federal poverty guidelines for a family of three. Based on Census data, just under 30% of households in this district are earning less than $25,000. At that income they are not likely to see any benefit from the dependent deduction proposed in HB 33, and many will be looking at tax savings closer to $69.

Flat taxes disproportionately benefits the wealthy

ITEP estimates of HB1 impact by household income

	Bottom 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Richest 1%
Income range	< $23,000	$23,000 - $47,000	$47,000 - $75,000	$75,000 - $124,000	$124,000 -$244,000	$244,000 - $617,000	> $617,000
Avg income in group	$ 12,000	$ 34,000	$ 61,000	$ 97,000	$ 159,000	$ 347,000	$ 1,534,000
Tax change as a % of income	0%	0%	–.04%	–.16%	-0.4%	-0.57%	-0.73%
Avg Tax Change	$0	-$1	-$24	-$155	-$628	-$1,974	-$11,166

Table: Policy Matters Ohio • Source: Institute on Taxation and Economic Policy • Created with Datawrapper

Separate modeling of the proposed flat tax in HB 1 shows that taxpayers with incomes less than $124,000 will receive minimum benefits. Even those in the upper-middle class, earning between $75,000-$124,000 will see on average a tax benefit of just $155.

According to Census data more than 80% of households in Dist. 94 earn less than $99,000. Meaning on income alone, this tax change will likely have little benefit for majority of people in this region. Modeling shows that 89% of the value of the tax cut will go to the richest 20% of households (those making more than $124,000 per year) and 35% will benefit the richest 1% of households (those that make more than $617,000), which will receive an average tax cut of more than $11,000. That does not reflect most people and families in Ohio, and certainly not the majority in Dist. 94.

[5] U.S. Census Bureau, American Community Statistics, 5-year estimates, 2021, Dist. 94 (2022)

In contrast, the Thriving Families Credit, proposed below would send about $1,000 back to households, on average, with incomes under $85,000. An estimated 57.1% of families in this district would be eligible for the credit. While these are general estimates and comparisons, it's clear a Thriving Families Credit would be more targeted to put money in the pockets of people in this district. Given these estimates it's no surprise that modeling suggests 77% of likely voters in this district support a state level child tax credit, like the Thriving Families Credit, and 70.5% support adding tax brackets back into the code, one additional for those earning over $250,000 and another on people making over $500,000.

CONCLUSION AND RECOMMENDATION

Designing a tax code build on low-road, interstate competition to lure multi-national corporations, or a system to deliver more and more money into the pockets of the very well-to-do will shortchange our future. Long-term prosperity is built from the ground up, by investing in people, places, and institutions that will create the next great innovator.

Legislators are in a very fortunate position to be able to restore and reinvest in Ohio. Researchers in partnership with community-based organizations have identified many high priority areas that need real investment. A portion of this list is included here, but the recommendations are also reflected in Ohio's People's Budget (available at https://www.allinforohio.com/peoples-budget). **The future of Ohio depends on a fair, equitable, and people-centered budget that cares for all of us — no exceptions.**

Recommendations for a people-centered budget:[6]

Boost the economic security of children and families. A Thriving Families Tax Credit would help nearly 986,000 families and 1.8 million children with an average tax refund of roughly $1,000 a year. This tax credit would help more families pay for groceries and reduce hunger and insecurity. State lawmakers can amend H.B. 33 to include the Thriving Families Tax Credit.

Provide healthy school meals for all Ohio children. When students get regular healthy meals, they have more energy and focus in the classroom. Like textbooks, transportation, and supportive teachers, school meals are a critical part of a child's education and future success. State lawmakers can provide funding to supplement federal meal reimbursement to make sure all students at public schools in Ohio have access to healthy meals during the school day.

Make sure older adults can live with dignity and get enough to eat. Older adults reported that Supplemental Nutrition Assistance Program (SNAP) emergency payments provided relief, improved people's mental and physical health, and helped people afford healthy food. State lawmakers must make sure older adults dealing with financial insecurity can get enough to eat by making sure older adults who participate in SNAP get at least $50 a month for groceries they need. This is estimated to cost the state $21 million per year and assist nearly 70,000 older adults.

Fund Ohio's emergency food relief network. Four of the 10 most common jobs in our state don't pay enough to feed a family of three without food assistance. State lawmakers can help meet the needs of families and food banks across Ohio by allocating $50 million per year to support the Ohio Association of Foodbanks' hunger relief efforts across the state.

[6] See, "Ohio's family Budget," Policy Matters Ohio, January 2023, available at https://www.policymattersohio.org/research-policy/quality-ohio/revenue-budget/budget-policy/ohios-family-budget

Boost the financial security of Ohio workers. Adding a 10% refundable option to Ohio's Earned Income Tax Credit (EITC) would put more money back in the pockets of workers who are paid low wages. State lawmakers can re-write the tax code to help stabilize families, give children more opportunities for a better life, and build a more equitable Ohio.

Expand opportunity: Help more parents get the child care they need. State lawmakers must ensure all Ohioans can support their families and participate in the economy. The proposed budget takes a step in making child care more affordable by boosting initial eligibility for publicly funded child care from 142% to 160% of the federal poverty level. Lawmakers can make child care affordable and accessible for more families by increasing initial eligibility for publicly funded child care up to 200% of the federal poverty level (a family of three making $49,720 or less would be eligible for publicly funded child care). This would help more parents participate in the workforce.

Prepare more children for a bright future: Provide public preschool to all 4-year-olds. State lawmakers can also do more to make public pre-k available to more children. The Fair School Funding Plan put forward by Reps. Cupp and Patterson recommended providing every 4-year-old living in poverty an opportunity for at least one year of high-quality preschool. Lawmakers can follow through on that recommendation.

Make sure workers who have been laid off have the support they need to get back into the workforce. Ohio makes it more difficult to qualify for unemployment compensation based on pay than all but three other states. State lawmakers can protect more Ohioans in times of crisis, not less. That means 1) not creating new onerous ID requirements to qualify for unemployment compensation; 2) retaining the governor's ability to accept federal assistance on an emergency basis, and 3) ensuring Ohioans keep the money they earned on the job by not using bonus or vacation pay as an offset against unemployment compensation owed. My colleague, Michael Shields, has submitted written testimony outlining how lawmakers can protect working people and preserve access to unemployment compensation.

Make sure parents have options for child care and pay child care professionals a living wage. According to an October 2022 survey of child care providers from the National Association for the Education of Young Children, roughly 54% of Ohio child care center directors reported that they are serving fewer children than they would like to serve. The most common reason reported was "not enough staff." 62% of Ohio respondents reported that their program is currently experiencing a staffing shortage. A November 2022 Action for Children report came to a similar conclusion. Four out of five center-based child care providers reported staff shortages and trying to hire more early educators.[1]

Include 2-year schools in post-secondary need-based aid.
Policy Matters has long advocated that students attending community colleges and regional university campuses be allowed to access the grant. Our position has not changed on this issue: Students attending these most affordable public options should be able to use OCOG to pay for their education. To do so, OCOG would need to be made a first-dollar award so students attending these schools would be able to cover tuition, general fees and other expenses with OCOG and use the more flexible federal Pell Grant to cover other education-related costs. In the interests of equity and expanding access, for the benefit of students, their communities, and the state, we encourage this committee to consider allowing more Ohio students to access this increased OCOG funding.

Establish drug courts in every county. Research shows that drug courts help keep people with substance use disorders from recommitting crimes by connecting them with treatment and other supports. Ohio has drug courts in about 78% of counties. In the last budget, lawmakers prioritized increasing drug courts and specialized court dockets. Lawmakers should establish drug courts in every county to divert people struggling with addiction from doing time in prison or jail. Lawmakers allocated $10.25 million in each fiscal year of the current budget to support specialized dockets. Lawmakers should increase funding in FY 2024 and 2025.

Expand MAT access. Medication Assisted Treatment (MAT) is a proven strategy for preventing overdose and death in people with substance use disorder. The Ohio Department of Mental Health and Addiction Services (OhioMHAS) allocated $2 million in FY 2022 and 2023 to reimburse counties for providing MAT in county jails. Ohio MHAS is also working with the Ohio Department of Rehabilitation and Correction to expand MAT to all state prison facilities. State policymakers should work with MAT providers to reach Ohioans in every county and expand treatment in state prisons and county jails. The less people travel for treatment, the more they can focus on getting their lives on track. Additionally, not all drug courts provide MAT. The state should work with the drug courts to ensure that all people have access to the same life-saving treatments.

Strengthen Ohio's crisis response with additional federal funds from Medicaid. The American Rescue Plan Act (ARPA) has a community mobile crisis intervention services provision. Ohio has already pursued a model focused on adolescents through its Mobile Response Stabilization Services (MRSS) program. ARPA includes $15 million in grants to develop a state plan amendment or waiver request to build more capacity for mobile crisis intervention. This option includes additional federal dollars from Medicaid to pay for health-related services for individuals in crisis, including transportation to treatment for Medicaid-eligible people. State lawmakers could work with the Ohio Department of Medicaid to support and expand mobile crisis response for adults at the local level.

Make sure children from birth to age 6 have the health care they need to thrive. Continuous early childhood Medicaid eligibility would enable children from birth through age 6 to maintain Medicaid coverage regardless of their parent's income changes. This would allow children to have consistent pediatrician visits, vaccinations, and specialty care.

Prioritize enrollment and education over debt collection. Ohio can change how it addresses the hundreds of thousands of students and former students who are stuck educationally and in their jobs because of outstanding debt. Allowing schools more flexibility and requiring them to release transcripts when students and former students need them to apply for jobs was a good first step, but Ohio must do more to build a stronger Ohio.

Build stronger communities by replacing state support for the Local Government Fund. In the current state budget for FY 2022-2023, the LGF accounts for 1.66% of GRF tax revenue. That amounted to $459.9 million in calendar year 2021, not much more than half what it was in 2008, adjusting for inflation. In the 2024-25 state budget, lawmakers should restore state revenue-sharing through the Local Government Fund to its previous level of 3.68% of GRF tax revenue.

Stabilize workers who are paid low wages or work part time when they get laid off. Lawmakers should modernize UC so it covers workers who work part time and are paid low wages. By reducing the minimum pay threshold to $1,500 per year with $1,000 in one quarter, lawmakers can bring more economic security to some 482,000 Ohio workers who lack protection now.

Make sure Ohioans who get laid off get unemployment benefits on time. State lawmakers should direct state resources to unemployment administration, so Ohioans receive benefits on time. Ohio has appropriated $172 million in federal funds for UC administration in FY 2023, down from $217 million for FY 2021. ODJFS Director Damschroder noted recently that these funds fall short of the need, so to have a well-functioning UC system, Ohio lawmakers must allocate state resources. State lawmakers allocated $14.6 million in GRF revenue to UC benefits administration in state FY 2022 and $27.7 million in state FY 2023 as part of general operations funding for the Ohio Department of Job and Family Services.

Restore the Voinovich-era 7.5% tax rate on incomes above $250,000 and add a new rate of 8.99% on incomes above $1 million. This reform would have no impact on 98% of Ohioans. The personal income tax is the only state-level tax that is based on the ability to pay: Those who have more resources contribute more. An increase in the rate of taxation of the wealthiest households can fund significant social programs that benefit everyone and is broadly popular in polls of likely voters. This modest contribution by the wealthiest Ohioans by itself could raise about $1.7 billion per year, enough to fully fund the Fair School Funding Plan and have an enormous impact on families and children across the state.

Close the LLC loophole. The LLC loophole is a state tax provision that allows individuals who make money from a specific form of business ownership — such as through the ownership of a limited liability company — to avoid paying taxes on their first $250,000 of income and to pay a low flat tax rate on income above that. This subsidy is a handout to those who can maneuver their income into a specific legal form. It is among Ohio's most expensive tax breaks; it disproportionately rewards a small number of high-income individuals; its benefits to small business owners are marginal at best; and it has negligible overall economic impact. Eliminating the LLC loophole would affect less than 10% of tax filers. According to estimates by the Institute on Taxation and Economic Policy, a Washington, D.C., nonprofit with a sophisticated model of state and local tax systems, 82% of the revenue raised by eliminating this wasteful loophole would be paid by the richest 5% of Ohioans. If the loophole were closed in conjunction with the strengthened personal income tax proposed above, it could generate an additional $1 billion in revenue.

Reinstate an 8.5% state-level corporate income tax that works in concert with the existing CAT tax. Ohio corporations that report substantial and growing profits are not contributing commensurately to public services that make their profits possible. In 2005, the General Assembly phased out two major business taxes, including the franchise tax that covered corporate profits, and replaced them with the new Commercial Activity Tax (CAT) on gross receipts. This legislature should reinstate the 8.5% corporate income tax, requiring corporations to pay the higher of the two.