

Testimony on HB 49 before the Senate Finance Committee Zach Schiller and Wendy Patton

Good morning, Chairman Oelslager, Ranking Member Skindell and members of the committee. My name is Zach Schiller and I am research 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. For more than a decade, Ohio lawmakers have focused on income-tax cuts that overwhelmingly benefit the wealthiest at the expense of adequate investment in communities and people. Shown below is a list of critical investments that would benefit all. This list is far from complete, but provides an overview of needs that could and should be addressed in a state budget.

Essential investments for Ohio

Maintain Medicaid expansion [without premiums](#) and other barriers to health care, like [work requirements](#), which hurt the poorest and sickest the most.

Ensure stability in the funding of Medicaid, [the largest single insurer](#) in Ohio, by removing Controlling Board oversight of Medicaid funds included in the House budget.

Fight the growing [drug epidemic](#) by retaining the House's commitment of \$170 million a year for treatment beds, community mental health and addiction services, education and prevention.

Boost initial eligibility for [public childcare](#) assistance to 200 percent of poverty and reimburse childcare providers at a rate closer to private market charges, boosting quality and increasing providers.

Restore the Community Services Block Grant to serve the growing number of elderly Ohioans. Increase funding for Adult Protective Services: an estimated 115,000 Ohio seniors are [at risk](#).

Increase funding for [school](#) districts by making changes to the foundation funding formula: Further increase per pupil amounts, maintain guarantee funding for districts that lose more than 5 percent of enrollment, and increase the maximum gain to 7.5 percent.

Boost funding for college classroom instruction and need-based financial aid so more can access post-secondary education and training. Fully fund the SNAP E&T skills training [program](#), bringing in millions of federal dollars to help people get back to work.

Invest the \$120 million a year in public transit, as per the Ohio Statewide [Transit Needs](#) study.

[Restore](#) the Local Government Fund. Replace the \$200 million a year public transit agencies and counties lose in starting in 2019 because of removal of the [MCO tax](#) from the sales tax base.

Restore the \$1 million cut to the Ohio Association of Foodbanks and increase funding to help fight hunger.

In 2015, we appeared before this committee and said: More income-tax cuts are not the prescription for prosperity in Ohio. A decade of tax cuts has further shifted the weight of state and local taxes from the rich to middle- and lower-income families, but it has not boosted the economy. Ohio still lags the nation in job creation. The forecast used in developing the Kasich administration budget proposal, from IHS, shows that Ohio will trail behind the United States in output, personal income, nonfarm employment, unemployment rate and retail and food service sales during the next budget (see page B-4 of the governor's proposal). We were pleased to see that the House rejected another round of income-tax cuts Governor Kasich proposed. However, the revenue shortfall underlines that steps need to be taken to produce the funds we need.

College in Ohio remains unaffordable. Nationally, Ohio is ranked [45th highest](#) in college costs with community colleges and public universities costing [11.5 percent and 14.5 percent more than the national average](#), respectively. We remain \$150 million a year below the target for need-based college financial aid set under Governor Taft's administration. Our ranking among states in overall health indicators is [near the bottom](#) but today we rank near the [top for deaths](#) due to the drug epidemic. That scourge has swollen the caseload of children's services, yet Ohio remains [last](#) among the states in funding this critically important public service. Investment in children remains [inadequate](#) for childcare and early education. Just [8 percent](#) of four-year-olds from low-income families are in public pre-school, while nationally, 32 percent are enrolled. Our infant mortality rate is [high and rising](#).

[Local governments](#) throughout Ohio work with a billion dollars less every year, due to the state's elimination of tax authority and phase-out of tax reimbursements and revenue sharing. That figure includes revenues from casino taxes, motor fuel taxes and auto licenses and registration. Starting in 2019, HB 49 takes another \$200 million a year from local government as the state changes the Medicaid Managed Care Organization provider tax ([MCO tax](#)) by taking it out of the sales tax base, without restoring funding for the counties and transit agencies that piggybacked a local sales tax on the state base. Ohio is not close to meeting the targets outlined in the state's study of [transit needs](#).

We are overdue for investment in communities, opportunities for children and infrastructure needed by businesses and individuals alike.

In today's testimony, we will address just a handful of key issues. Overall, Ohio has reduced taxes by \$3 billion a year through income-tax and other reductions since 2005. Policy Matters Ohio has outlined [elsewhere](#) some of the steps that should be taken to reform our tax system and provide the revenue needed to make needed investments. Here, we cite just one: The need to repeal the deduction which eliminates the income tax on the first \$250,000 in income - and lowers the rate on additional income - for owners of passthrough entities like partnerships and S Corporations.

This deduction is costing us about \$1 [billion](#) a year despite no evidence that it has boosted employment in general or new-business employment in particular. Though it is often called the "small business deduction," it is available to many who are not small business owners; in fact, more than half of it goes to those with at least \$100,000 in business income. Most of those who receive it don't get nearly enough to make a sizeable investment, much less hire a new employee. Yet it could encourage taxpayers to reclassify their earnings as business income just to get the tax advantage. Ohio legislators should realize what a bipartisan majority of the Kansas legislature has concluded: That such tax breaks don't work, and need to be repealed.

The House budget moves the state's share of Medicaid expansion funds out of the budget, which also takes billions of matching federal dollars leveraged by those funds out of the budget. Appropriation authority for Medicaid funding is moved from the General Assembly to the Controlling Board, which has the power to move (or not move) state dollars in lieu of General Assembly action. If they vote 'no' on release of Medicaid funds, the 722,000 Ohioans who rely on

Medicaid expansion for health coverage may lose their care and hospitals and health care providers lose billions of dollars. People will suffer and jobs will be lost.

New Medicaid eligibility requirements favored by the House would hurt the working poor, with the most harmful effect on the poorest, sickest and most vulnerable Ohioans. Premiums of any level have been found to cause [up to 15 percent](#) of people earning less than 150 percent of poverty to drop out of coverage – not because they are making bad choices, but because choices are much, much harder for people with little money. Preventative health care – or even health care for chronic illness – takes a back seat to paying rent, getting gas to drive to work, or paying a fee for a child’s school. Work requirements are specifically harmful for job seekers, people taking care of ill family members, and people with disorders like autism, who may be unable to work or limited in the kind of jobs they can perform.

The budget takes \$40 [million](#) a year out of public transit as the state chooses to comply with changing federal rules pertaining to an element in the sales tax base by removing that piece from the sales tax, narrowing the base upon which local transit authorities levy a piggyback tax. A permanent replacement for this revenue, not just a partial replacement, is needed. This loss essentially offsets the entire annual state appropriation of \$40 million a year. State support of public transit is now at its lowest level since 1976 and 43 states do [better](#) than Ohio on a per-capita basis in support of local transit services. In 2015, the Ohio Department of Transportation produced a study of Ohio’s public transit needs: It was recommended the state provide \$120 million a year, rising to \$185 million a year by 2025, to replace an aging fleet, meet market demand and expand public transit services to the 27 counties with no public transit whatsoever.

The House budget increases total funding for schools by 3.2 percent from the last budget, which is not enough to keep pace with inflation. School districts at a minimum need funding to keep up with increasing costs. Despite the minimal increase in total K-12 funding, the House has increased funding for the EdChoice Expansion voucher by 57 percent over the past budget. Students who attend private schools using vouchers do [not](#) perform as well academically as their peers who stay in public school. State funding for education should be invested in public schools not used to pay for private school tuition.

There are some positive elements in the administration’s tax proposals. The governor’s budget bill appropriately recognizes that it is past time for us to raise the severance tax on oil and gas drilling to be more in line with other producing states. It also takes a step toward broadening the sales-tax base, a needed move when services make up such a large part of our economy. And it takes limited measures to rein in unneeded tax expenditures, such as the large tax [break](#) for big distribution centers, special discounts for paying taxes ahead of time, and to ensure that companies do not avoid tax altogether on their interest earnings. The House erred in deleting these provisions from the budget bill, when it should be going even further to limit or repeal special-interest tax breaks.

We need a different approach to tax policy in Ohio to make needed investments. As a state, we need to stop starving college need-based financial aid and classroom instruction so more Ohioans can get post-secondary education. We need to fund childcare to help more families, and at rates that are high enough to ensure a higher quality of care than we are paying for now. More kids should be in preschool, and we need full-day kindergarten, if we want our youngsters reading by third grade. This takes a belief in Ohio’s future, and investment to build that future. We need sufficient funding for children’s services and adult protective services. Our school districts should be held harmless from the erosion of inflation and funding should be provided to restore art [teachers](#) and librarians. We need to restore funding for local government and replace the Managed Care Organization tax in a way that holds counties and public transit harmless. Deferred investment leads to higher costs over time. It’s past time to make these investments. Thank you for this opportunity to testify. I will be glad to take any questions.