

Testimony to the House Ways & Means Committee on House Bill 9

Zach Schiller

Good afternoon, Chairman McClain, Ranking Member Cera and members of the committee. My name is Zach Schiller and I am research director at 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 today regarding House Bill 9.

The taxation department said in its 2013 report on tax expenditures, “Unlike direct budgetary expenditures, unless there is a pre-existing termination date, tax expenditures may remain in effect indefinitely with little or no scrutiny by policy makers.” House Bill 9 is a much-needed step toward rectifying this.

Policy Matters Ohio has conducted research on tax expenditures for a number of years. At 128, the total number of expenditures on the books is now just 10 below what it was in 2003. Yet, an analysis we conducted two years ago found that 44 tax expenditures had ended over the previous decade because of the repeal of the corporate franchise and estate taxes. Ohio has not cut its exemptions significantly because so many have been transferred to be used against other taxes, or altogether new ones have been created.

Provisions in House Bill 9 requiring more details on and specific review of proposed new or modified tax expenditures are an important positive element of the bill. However, HB 9 lacks a key provision that would make the review process meaningful: Sunsets. Tax breaks should not simply remain on the books. Rather, they should stay in place only if their worth is proven. Washington State, which already has a review process, in 2013 required that all new tax expenditures have a sunset date, so that they will automatically expire unless renewed (the default sunset is 10 years).

The analysis of tax expenditures should start with a review by nonpartisan staff. This could be assigned to the Legislative Service Commission, along with the necessary resources for the LSC to do the job. Another way to strengthen the review process would be to mandate that the governor include in his or her budget proposal a recommendation about whether any recently evaluated tax expenditures should be continued, modified, or terminated.

There are other ways that House Bill 9 could be strengthened. Additional disclosure by taxpayers benefiting from specific expenditures could be required, as in Washington. A number of states include in their tax expenditure reports the number of beneficiaries, the cost to localities, and the

distribution of benefits by income level. Adding such information would support the review process. When the committee reviews tax expenditures intended to benefit the economy, its criteria should include the extent to which any benefits remain within the state, if the tax expenditure encouraged positive new behavior or subsidized behavior that would have occurred anyway, and whether repeal might have a positive effect on the economy. The bill's eight-year period for review of each tax expenditure also is unnecessarily long, at least for those 91 that each are estimated by the taxation department to lead to foregone revenue of at least \$1 million in Fiscal Year 2017.

One change that should not be made is to introduce dynamic scoring into the analysis. Budget Director Tim Keen summed this up answering a question during his testimony to the House Finance Committee last month. "To me, dynamic modeling for use in revenue estimates does not meet the test of conservative forecasting and conservative revenue projection," Keen said. In addition, it is important that the committee be established permanently, as the bill says, and not just for a one-time review.

A tax-expenditure review mechanism is badly needed. While there certainly are ways that this bill could be strengthened, we urge the committee to approve it as a first step toward providing the accountability for tax expenditures that Ohio needs. Similarly, we support House Bill 65 and the language in the governor's budget bill that would establish a one-time review.

Thank you for the opportunity to testify. I am happy to answer any questions you may have.

*Policy Matters Ohio is a nonprofit, non-partisan research institute
with offices in Cleveland and Columbus.*