Policy Matters Ohio

Budget
April 5, 2017

Testimony to the House Finance Committee
Public transit in the operating budget (House Bill 49)

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Good afternoon Chairman Smith, ranking member Cera and members of the Committee. I am Jack Shaner, consultant to Policy Matters Ohio, a member of the Ohioans for Transportation Equity coalition. Thank you for the opportunity to testify. In our testimony, we encourage the General Assembly to restructure the Managed Care Organization (MCO) tax in a way that sustains counties and public transit, and to restore General Revenue Fund (GRF) support for public transit to earlier levels.

In 2015, the Governor's Workgroup to Reduce Reliance on Public Assistance noted that lack of transportation was one of the major barriers to employment in the state of Ohio.[1] The Ohio Department of Transportation's recent Transit Needs study[2] found that about half of transit riders have no car. The problem of transportation to work is particularly acute for people with serious vision problems or other disabilities.

Policy Matters is a member of Ohioans for Transportation Equity, a coalition representing seniors, people with disabilities, transit riders and many others. This coalition argues Ohio needs a 21st century transportation system that includes roads and highways but also includes public transit, passenger and freight rail, and walkable, bikeable streets. Funding that could make this possible has been eroded over time, and is further reduced by the end of this biennium.

As Ohio has reduced public transit funding in the General Revenue Fund since 2000, more than one-third of the fleet of transit vehicles has become obsolete, fares have gone up and service lines in many cities have been cut.[3] This hurts workers and employers, as new job growth and workforce location are not well matched in many places in Ohio. Of the nation's 96 major metropolitan areas, Cleveland area had the largest decline in number of jobs located near the average resident between 2000 to 2012.[4]

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[1] "When individuals are impacted by infrastructure limitations, such as jobs that do not pay a sustainable wage in their community or the inability to access reliable transportation to and from work, we need to collectively work to eliminate those barriers." Cover letter to the report from the Governor's Workgroup to Reduce Reliance on Public Assistance, April 15, 2015. http://humanservices.ohio.gov/PDF/041415-Report_FINALBOOK.stm

[2] Ohio Department of Transportation Transit Needs study at http://www.dot.state.oh.us/Divisions/Planning/Transit/TransitNeedsStudy/Pages/StudyHome.aspx

[3] February 9, 2017 Testimony of Kirt Conrad, president of the Ohio Pubic Transit Association, to House Finance Subcommittee on Transportation, at http://www.ohiohouse.gov/committee/finance-subcommittee-on-transportation; see also Ginger Christ, "RTA fare hikes and route cuts to begin Sunday," August 11, 2016 at "http://www.cleveland.com/metro/index.ssf/2016/08/rta_fare_hikes_and_route_cuts.html

[4] This finding holds whether constricting the analysis to the city, suburbs, or entire metro and is even more pronounced in areas of high poverty (where the drop was 35 percent).

The state could help more people access a ride to work. The Ohio Department of Transportation's "Ohio Transit Needs" study found market demand for 37.5 million more rides than our system can deliver. The study found a $650 million gap between funding and the needs of Ohio's 61 public transit entities in 2015, a gap which grows to $1 billion by 2025.[5] The study proposed Ohio start funding public transit at $120 million a year, a target that grows to $185 million a year by 2025. We support those recommendations.

But the governor's budget lets public transit fall further behind during this biennium. Total funding proposed, between federal flex funds of the Ohio Department of Transportation budget (House Bill 26) and the House operating budget (House Bill 49), total $40 million a year. That's a $10 million increase over 2017, but changes to the state sales tax base, upon which the large public transit agencies levy a local sales tax, offset the entire state transit budget by 2019.

The removal of the Medicaid Managed Care Organizations (MCOs) from the state sales tax base takes almost $40 million a year out of the system by 2019. While the governor's budget provides transitional funding in fiscal year 2018 to mitigate this loss, this aid vanishes by fiscal year 2019.

Lawmakers can address this loss in the operating budget. The state restructured the Medicaid managed care organization tax to meet federal requirements and make itself whole, but left local public transit and counties out of the new structure. The new tax has been presented as a done deal because it meets federal approval, but legislators have not been given the opportunity to analyze how it might be configured to replace the old tax more completely. Rates of the proposed replacement tax could be adjusted to replace the local government share. An entirely different configuration - one that also meets federal requirements - might offer a better solution. We call for an open and transparent analysis and a replacement tax that holds public transit and counties harmless.

The General Assembly should also appropriate more GRF funding than the $7.3 million per year proposed in the governor's budget. An additional $25 million in GRF funding could be used as matching funds to help rural transit agencies and those in smaller cities and towns match federal capital dollars to restore and expand their fleets and services.

Better funding for public transit could come from closing tax breaks in Ohio's $9 billion tax expenditure budget. We attach a description of Governor Kasich's recommendations from the current budget proposal, and also from his budget proposal for 2016-17. These tax breaks total far more than the $120 million we request for annual public transit funding.

Thank you for this opportunity to testify. I would be glad to answer questions.

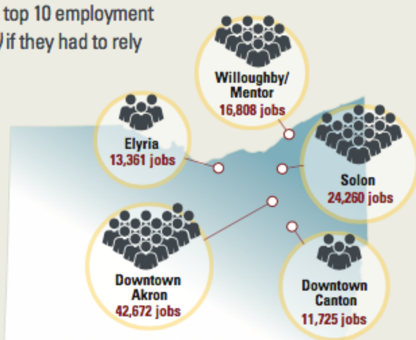
[5] Ohio Department of Transportation Transit Needs Study and Findings Snapshot at http://www.dot.state.oh.us/divisions/planning/transit/transitneedsstudy/Pages/StudyHome.asp

A Long Ride to Work: Job Access and Public Transportation in Northeast Ohio

In an analysis published in November 2015 by the Federal Reserve Bank of Cleveland's Community Development Department, the authors find that the largest share of Northeast Ohio's workforce—workers with only high school diplomas—experiences the lowest levels of job access. Also, in most outlying counties, less than 10 percent of regional jobs can be accessed by public transit in 90 minutes or less. The authors conclude that continued efforts to better connect workers with jobs are needed. Here are more of their findings.

WHERE JOBS AND LABOR FORCE MEET—OR DON'T

85% of the regional workforce could not work in half of the top 10 employment centers *(see map)* if they had to rely on public transit.



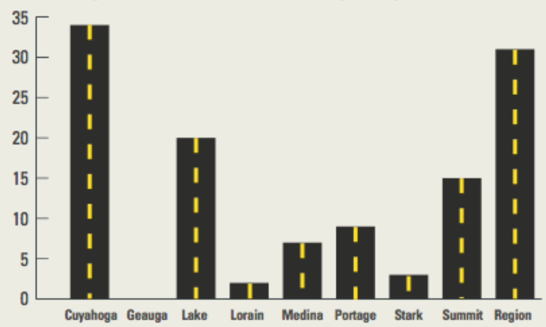
There are **108,826** total jobs within these employment centers. The good news is that 34% of the workforce ***can*** reach the top employment center by public transit. With **177,157** total jobs, Downtown–University Circle–Ohio City is unparalleled in Ohio in terms of job density.

TRANSIT ACCESS LACKING, BUT NOT EVERYWHERE AND NOT FOR ALL INDUSTRIES

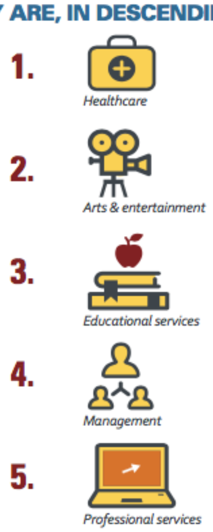
The Cleveland metropolitan statistical area (MSA) ranks in the top 20 among major metro transit systems for service frequency (i.e., the typical wait time during rush hour for a bus or train) in both the city and its suburbs, but it's in the bottom half of MSAs in terms of jobs accessible by transit.

Less than one-third (31%) of the jobs in Northeast Ohio are transit accessible, or can be accessed by public transit in 90 minutes or less.

Percent of jobs that are transit accessible, by county



THE MOST TRANSIT-ACCESSIBLE INDUSTRIES IN CUYAHOGA COUNTY ARE, IN DESCENDING ORDER



MINORITY WORKERS ARE MORE LIKELY TO BE EMPLOYED AT TRANSIT-ACCESSIBLE JOBS

Around 47% of black workers and 37% of Hispanic workers have jobs that are accessible by transit in 90 minutes or less, compared to 28% of white workers.

Read it all:
http://tinyurl.com/jrvjtyl

WHAT CAN LEADERS DO TO IMPROVE JOB ACCESS?

- Target investment to improve transit and pedestrian facilities at key suburban employment centers
- Increase intercounty transit options
- Develop innovative and collaborative funding strategies to promote accessible communities across the region

The Federal Reserve Bank of Cleveland's community development team conducts applied research, analyzes data and trends, provides technical assistance to organizations, and convenes meetings to bring together key players in community and economic development. The aim is to promote economic growth and financial stability, especially in low- and moderate-income areas, and to deepen the understanding of issues affecting communities.

Search a comprehensive collection of Federal Reserve community development resources related to affordable housing, neighborhood revitalization, workforce development, and more at fedcommunities.org.

The views expressed here are those of the authors and do not necessarily represent the views of the Federal Reserve Bank of Cleveland or the Federal Reserve System.

Brett Barkley and Alexandre Gomes-Pereira, Federal Reserve Bank of Cleveland

FEDERAL RESERVE BANK *of* CLEVELAND

Tax expenditures that could be eliminated to fund transit and other services

In the 2015 executive budget, Gov. Kasich proposed limiting or repealing a variety of tax breaks that were not accepted by the General Assembly. For instance, he proposed: [6]

- Eliminating the tax credit and discount that sellers of beer, wine and mixed beverages get for paying their alcoholic beverage tax a few weeks in advance;
- Limiting the amounts retailers can receive for collecting the sales tax, known as the vendor discount – expected to cost the State an estimated $29 million in the 2016-17 executive budget proposal. Most states either have no discount at all or cap the amount, ensuring that big retailers do not reap a windfall. Tax Commissioner Joe Testa said in testimony that Ohio's 0.75 percent discount "essentially functions as a profit center" for big-volume retailers.
- Cutting the sales-tax exemption for trade-ins of used cars and boats in half, and
- Repealing the 2.5 percent discount that distributors of cigars, chewing tobacco and other tobacco products get for timely payment of their taxes. "It shouldn't be necessary to reward businesses for paying their tax on time," as Testa noted. Together those changes would have generated more than $130 million in extra state revenue by 2017.

The Governor's current budget proposal also takes some measures to rein in unneeded tax expenditures.[7]

- One is to institute a minimum on the Commercial Activity Tax due from suppliers to certain big distribution centers. This break allows suppliers to distribution centers that buy at least $500 million a year of goods, and ship at least half of them outside Ohio, to avoid paying the CAT on what is sent outside the state. As Commissioner Testa has testified, the value of this exemption will balloon from $25 million FY 2008 to an estimated $174.4 million in FY 2019. Gov. Kasich's proposal to require at least a 10 percent payment is a good idea.
- One little-noticed feature of the Governor's proposal would require that future budget bills include detailed estimates of business incentive tax credits, including how much may be authorized each year, the expected amount to be claimed, and the amount of credits expected to be outstanding at the end of the biennium. This move toward transparency is a good one. Gov. Kasich also included estimates of these amounts for seven different credits. The bill estimates that more than $386 million in such credits will be claimed during the upcoming biennium, and a total of $1.5 billion of them will be outstanding by the end of Fiscal 2019.

These large sums reinforce the need to examine Ohio's $9 billion-plus in annual tax breaks. HB 9 in the last General Assembly called for a joint committee to be established by this month to examine the state's 129 tax breaks over an eight-year period. Lawmakers should get an early start.

Many tax expenditures are special-interest provisions that should be subject to immediate scrutiny and possible repeal or limitation. Beyond those mentioned above, these include:

- The sales-tax cap for fractional aircraft, a special-interest break worth $15.8 million;
- Ending the net operating loss write-off against the Commercial Activity Tax, which allows companies that experienced large losses – but not small companies – to keep reducing their CAT based on corporate-franchise tax losses. These were experienced more than a decade ago against a tax that no longer exists. Value: $4.6 million.

These are just a handful of those that should be considered; many more deserve a careful look. Limiting these unneeded expenditures would allow the state to make needed investments.

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[6] Policy Matters Ohio, Spending Through the Tax Code, 2015

[7] Policy Matters Ohio, Testimony to House Ways & Means Committee, March 22, 2017.