



# THE BUCKEYE INSTITUTE

## **Interested Party Testimony on House Bill 166 Before the Ohio House Finance Committee**

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Chairman Oelslager, Vice Chair Scherer, Ranking Member Cera and members of the Finance Committee, thank you for the opportunity to testify today on House Bill 166.

My name is Greg R. Lawson, I am a research fellow at **The Buckeye Institute**, an independent research and educational institution—a think tank—whose mission is to advance free-market public policy in the states.

State budgets are always about more than just dollars and cents. They are vision statements about where state leaders want to go, and a roadmap that tells voters and taxpayers how they plan to get there.

House Bill 166 echoes many of the themes that Governor Mike DeWine has spent years discussing. They include well-intended reforms aimed at making Ohio a better place for children, the economically disadvantaged, and those rightfully concerned about our natural resources. But the budget that the governor proposes is simply too large and must be scaled back strategically.

This budget arrives during an economic expansion of historic duration. Indeed, should the current economic growth persist until July, it will be the **longest economic expansion** in U.S. history. Now is the time to pursue meaningful, sustainable reform and take full advantage of this biennial opportunity to make Ohio more prosperous, while avoiding missteps that could lead to a disastrous recession. Accordingly, the General Assembly should consider critical changes to the proposed budget in areas related to overall government spending, public education, Medicaid, and taxes.

## **Spending**

Spending ever-greater sums of taxpayer dollars every fiscal year establishes higher budget baselines that make economic downturns more painful and policy choices more difficult. Setting those higher baselines forces future policymakers to choose between painfully increasing taxes during an economic slowdown, or taking a meat cleaver to current and future government projects and programs.

House Bill 166 contains several good policy proposals, but it fails to make the tough spending decisions that will allow for sustainable state budgets moving forward. Although the substitute version of House Bill 166 reduces the general revenue fund (GRF) budget enough to meet the statutory appropriation limit, the substitute version still substantially increases overall spending—including an increase of 4.2 percent in Fiscal Year (FY) 2020 over FY 2019 estimates, and another 2.8 percent increase in FY 2021. These increases raise the governor's already over-sized spending increase that The Buckeye Institute **has called unsustainable**.

As we explained in our report, ***Sustaining Economic Growth: Tax and Budget Principles for Ohio***, spending increases should be tied to actual inflation and population growth. So, the extra fat in the proposed budget must be trimmed.

The Buckeye Institute's *Piglet Book* recently suggested more than \$2.5 billion in savings that can be achieved by eliminating:

- \$260 million in corporate welfare;
- \$36 million in government philanthropy;
- At least \$2 million in burdensome occupational licensing; and
- More than \$2.2 billion by limiting the budget growth rate.

Reining-in the budget will not be easy. It never is. But Ohio government spending has outpaced inflation and population growth for years, and the day of reckoning will be painful for families and businesses throughout the state if spending and spending rates are not reduced to sustainable levels.

### Public Education

Since the 1990s, Ohio's spending on K-12 public education **has grown faster** than inflation even as school enrollment has declined. According to the **National Center for Education Statistics**, Ohio saw a 1.7 percent decline in enrollment between 2009 and 2014, with a projected 5.5 percent decline between 2014 and 2026. Ohio ranks among the top 10 states with the largest projected enrollment declines over the rest of the decade. Yet, Ohio continues to spend more and more on public education.

Meanwhile, Ohio's achievement gap between African American and white students remains stubbornly high as reflected in the **Nation's Report Card**. **In 2017**, African Americans trailed white students by 28 points in 4<sup>th</sup> grade reading, essentially the same as the 27-point difference seen in 2002, and Hispanic students lagged behind white students by 15 points (the data was not collected in 2002 for this population). The same troubling numbers largely apply to 8<sup>th</sup> graders in **reading** and are even worse for **4<sup>th</sup>** and **8<sup>th</sup>** grade math. Spending more state money on education has not proven to be a viable solution to this persistent problem.

The substitute House budget proposes education funding increases of 3.5 percent in FY 2019 and another 1.4 percent in FY 2020. We believe that spending increases of 1.4 percent and 1.5 percent respectively are more appropriate in light of Ohio's declining enrollment. Those lower spending rate increases would save the state \$457 million without harming students.

The budget may also mistakenly propose eliminating academic distress commissions. The existing statute regarding those commissions may have problems, but the commissions should not be eliminated. School districts that have failed their students for years should be held accountable. The state should not intervene in the day-to-day operations of local school districts, but taxpayers and parents demand accountability. Including aspects of House Bill 154 in the budget would deny such accountability, and would be a mistake.

## Medicaid

Current Medicaid expansion is unsustainable. Ohio's total Medicaid costs went from nearly **\$16 billion** in FY 2010 to a projected **\$26 billion** in FY 2021—a more than 62 percent increase in a little more than a decade, or well over five percent per year. Much of that spending has thus far come from federal dollars, exacerbating Ohio's reliance on Washington, and ensuring that the state's Medicaid budget would be entirely unbalanced with even the slightest change in the federal reimbursement rate.

Fortunately, the substitute House budget provides for robust healthcare pricing transparency, serious emergency room diversions, the elimination of many facility fees that increase costs, and controls for ballooning pharmacy prices. Eliminating facility fees will be especially helpful in constraining costs as telemedicine continues to take off. These policies should be retained.

## Taxes

Ohio should reduce the tax burden on Ohioans. The substitute version of the budget sends a mixed message on taxes while delivering an overall cut in the income tax.

The House would effectively raise taxes on small business owners—the lifeblood of Ohio's economy—by lowering the threshold for the small business income tax deduction from \$250,000 to \$100,000. Small businesses owners continue to struggle under the cumulative burden of Ohio's byzantine municipal income tax structure that can add another 2 to 2.5 percent to their tax bills. Pancaking taxes harm Ohio's competitiveness and disproportionately hit the small business entrepreneurs that need every dollar to survive.

But the House also proposes to close a series of troublesome tax loopholes—finally adopting recommendations that The Buckeye Institute has been making **for years now**. The House would end the motion picture tax credit and the fractional jet ownership sales tax credit, and then use those revenues to (a) zero-out tax liability for the bottom two income tax brackets, and (b) reduce the rate on the next two brackets.

Overall, the budget proposes a net tax cut, which is certainly better than a net tax increase. But the tax reductions should be across-the-board so that they benefit more Ohioans, including those that will be adversely affected by the shrinking small business deduction. A broader-based tax reduction is more pro-growth than House Bill 166's current tax cut proposal.

## Conclusion

House Bill 166 makes some solid proposals. But the state spending trend must be curbed or risk strangling Ohio's already **below-average economic growth rate**. We strongly recommend that the Committee continue to trim non-essential budget items, like those listed in our *Piglet Book*. The Committee should also adopt a broader income tax cut while retaining critical cost containment proposals to address Medicaid and rising healthcare costs. Taking such steps will improve the budget substantially by making it more pro-growth and more sustainable for the long-run.

Thank you again for the opportunity to testify today. I am happy to answer any questions that the Committee may have at this time.

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