THE BUCKEYE INSTITUTE

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

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Chairman Dolan, Vice Chair Burke, Ranking Member Sykes and members of the Senate 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 roadmaps that tell 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. "Investing" in Ohio is understandable, as are the media accolades supporting the governor's proposals.

Unfortunately, the current version of the budget is simply too large and too expensive. It 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. However, economies are notoriously cyclical and there are already warning signs that the next downturn or recession may not be far off. China and the United States appear on the brink of a costly trade war; three quarters of the economists **surveyed** by the National Association of Business Economists now believe there will be a recession by 2021; and Ohio's monthly **jobs report** just showed no net job increase in the private sector, and revised March's numbers down to only 1,200 new jobs. Policymakers ignore those economic flashing yellow lights to everyone's peril.

Even if the next recession is not just around the corner, 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 unpleasant financial consequences. Accordingly, the Senate should proceed and deliberate with cautious prudence, reduce overall government spending, and ensure that Ohio's tax policy promotes strong economic growth.

Spending

House Bill 166 contains several good policy proposals, especially in the area of healthcare, 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 appears to reduce the general revenue fund (GRF) budget enough to meet the statutory appropriation limit (SAL), the substitute version still substantially increases overall spending—including an increase of 4.4 percent in all funds spending in Fiscal Year (FY) 2020 over FY 2019 estimates, and another 2.7 percent increase in FY 2021. Total spending in the operating budget will be $141.5 billion over FYs 2020-2021 vs. an estimated $131 billion in FYs 2018-2019. These represent increases to the governor's already over-sized, **unsustainable** spending proposal.

Even if the current version of the budget satisfies the letter of the SAL, it violates its spirit. Similar tricks were employed in the previous budget when the Kasich Administration moved nearly $3 billion in Medicaid spending off of GRF and into a dedicated fund. Such accounting gimmicks may work for bureaucracies and bean-counters, but they also mislead the Ohio public by creating a shadow budget obscured by blinding headlines declaring **$69 billion budget passes Ohio House with strong bipartisan support**, when the real budget is far greater.

We explained in ***Sustaining Economic Growth: Tax and Budget Principles for Ohio***, and again in our newest policy brief ***How to Grow Ohio's Economy: Return the Budget Surplus to Taxpayers***, spending increases should be tied to actual inflation and population growth. But in this budget, they are not.

The Senate must find ways to trim government spending, and The Buckeye Institute is here to help. Our annual ***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 responsibly managing the budget growth rate.

As our recent **op-ed** in *The Cincinnati Enquirer* warned, this budget's proposed spending levels risk derailing an Ohio economy that has been chugging along and pulling the state from the valley of the Great Recession. 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.

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.

Taxes

And now, taxes. Ohio should reduce the tax burden it levies on families, wage-earners, and businesses. Unfortunately, although the substitute budget lays a potential foundation for broader, pro-growth tax reform, it ultimately sends a mixed message on taxes.

First, the good news. The House proposes to close a series of troublesome tax loopholes—finally adopting recommendations that The Buckeye Institute has been making **for years now**. The House wisely would end the motion picture tax credit, the fractional jet ownership sales tax credit, and even the $50 political contribution credit. These are failed, special interest tax expenditures that rarely live up to their public relations hype. The film tax credit, for example, has yet to pay for itself. According to a Central State University **study**, between 2011 and 2015, Ohio gave out more than $32 million in tax credits for film production, but, as the *Akron Beacon Journal* recently **pointed out**, those credits induced only $22 million of related activity. Other states, including Michigan, have eliminated similar programs because they cost more in tax revenue than they generate. The House smartly proposes eliminating these ineffective loopholes and using revenues gained by closing them to partially pay for across-the-board income tax cuts.

But now the bad news. The House budget 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 and eliminating the three percent rate for pass-through entities above that. To be clear, The Buckeye Institute has always expressed concerns with the small business deduction. We maintain that this policy creates incentives for individuals to avail themselves of the deduction without necessarily hiring additional people. Thus, we have always preferred across-the-board rate reductions that would help all Ohioans, including wage-earners. Nevertheless, 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. The pancaking effects of multiple tax layers hamper Ohio's competitiveness and disproportionately hurt small business entrepreneurs who need every dollar to survive.

With recent revenue projections coming in higher than expected, The Buckeye Institute strongly encourages the Senate to make an even deeper across-the-board rate reduction rather than increase government spending. Doing so will help all Ohioans and offset some of the adverse impact incurred by the shrinking small business deduction.

Conclusion

House Bill 166 makes some solid proposals. But the state's present spending trend risks derailing Ohio's economic recovery and further hindering its **below-average economic growth rate**. The Senate should look to reduce government spending, trim non-essential budget items—see our *Piglet Book* for suggestions—and pursue deeper, across-the-board income tax cuts. Taking such steps will make Ohio's economy stronger and its budgets more sustainable.

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

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SUSTAINING OHIO'S **ECONOMIC GROWTH**

BUCKEYE INSTITUTE SOLUTIONS THAT BENEFIT OHIOANS & THEIR FAMILIES

returning the

$658M

— **budget surplus** —

to OHIO **taxpayers**

would lead to

6,600

MORE **jobs**

— **each year** —

while encouraging more **economic activity** + **business investment**

Fundamentals of **Economic Growth**

1 LOWER TAXES FOR **OHIOANS**

reduce **commercial activity tax** and the **individual income tax**

2 SIMPLIFY THE **TAX CODE**

simplify **Ohio's tax code,** standardize **municipal tax collections**, and make **local governments more efficient**

3 RETURN SURPLUSES TO **OHIOANS**

return recent **budget surpluses to families and businesses** via lower taxes which will **create 6,600 more jobs** each year

4 PEG SPENDING TO **INFLATION + POPULATION**

tie state **spending to inflation** and **population growth**

TAX & BUDGET **PRINCIPLES**

» for Ohio policymakers

- Tax policy should **promote economic growth and private investment.**
- Tax codes should be **simple, transparent, and make local governments more efficient.**
- Budget surpluses should be **saved or returned to taxpayers.**
- Budgets should **grow proportionately with inflation and population.**

Read the full report at: BuckeyeInstitute.org

ECONOMIC RESEARCH CENTER at THE BUCKEYE INSTITUTE

ABOUT THE RESEARCH:

How to Grow Ohio's Economy: Return the Budget Surplus to Taxpayers was authored by the Economic Research Center. The research was conducted using a dynamic scoring model developed by economists at the Economic Research Center that analyzes how changes to tax policy impact government revenues, economic output, job creation, and business investment.

About The Buckeye Institute

Founded in 1989, The Buckeye Institute is an independent research and educational institution – a think tank – whose mission is to advance free-market public policy in the states.

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