



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 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.

The current version of 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 rightly concerned about our natural resources. House Bill 166 also would significantly improve Ohio's tax policy and school choice provisions. And, although the budget would be enhanced by additional regulatory reforms, I will focus today on the bill's treatment of spending, taxes, healthcare, and education, because despite many improvements, the Senate's proposed budget remains too large, too unsustainable to weather anything other than the sunniest economic conditions; it misses a golden opportunity to address rising Medicaid costs more dramatically; and it follows the governor and the House of Representatives in throwing more money at Ohio's education bureaucracy despite declining statewide enrollment.

Spending

As I said when I testified before the House Finance Committee, 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 opportunity to make Ohio more prosperous, while avoiding missteps that could lead to greater pain during any downturn in the economy. As we explained in *Sustaining Economic Growth: Tax and Budget Principles for Ohio*, spending increases should be tied to actual inflation and population growth, but the current Senate bill charts a different course instead and would increase overall state spending—and outspend the House version by more than \$205 million.

Current tax receipts may be meeting initial Office of Budget and Management projections and outpacing last year's revenues, but such prosperity cannot be assumed optimistically across the full biennial budget period. A looming trade war and **recent examples** of a potential economic slowdown should caution the General Assembly against major spending increases today that may require painful programmatic cuts tomorrow. To help policymakers pursue a more disciplined budget, 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 merely limiting the budget growth rate.

Additional examples of fat that can be trimmed from the budget include: \$5 million for sports grants; increases in the Arts Council budget; and subsidizing Ohio's wine industry.

Turning to the Local Government Fund (LGF), this budget proposes spending more than \$800 million on the LGF, in addition to the \$3.7 billion in general revenue that Ohio spends on strictly local property tax reimbursements, belying claims that Columbus underfunds our local governments. And yet the Senate budget would still increase the percentage of general revenue funds syphoned to the LGF—an unnecessary move that unfortunately will set up challenges for Ohio down the road when revenues eventually stagnate or decline. Rather than prop-up localities with state funds that may someday need to be withheld, rather than make local jurisdictions even more dependent on precarious LGF revenues, policymakers should look for ways to help local governments help themselves.

Our *Local Government Funding Reform* policy brief noted a number of mechanisms available for reducing dependence on the LGF, including:

- Eliminating unfunded mandates on local governments;
- Spending state resources on specific critical needs;
- Sharing state revenues with communities in need;
- Incentivizing local governments to share local resources;
- Keeping local spending focused on core needs; and
- Expanding transparency on how local dollars are spent.

Reducing LGF spending would allow Ohio to lower state tax rates and would give local taxpayers and policymakers a better idea of the true costs of the services they demand, which will make for smarter, more informed public spending decisions.

Taxes

The Senate's budget improves Ohio's tax policy. With a deeper, eight percent income tax cut over the biennium, the Senate's version will make Ohio more competitive and help alleviate the pain of our worst-in-the-nation, uncompetitive municipal tax structure that plagues small businesses and layers taxes on top of taxes for all taxpayers. Small businesses are the lifeblood of the economy and the Senate's changes to the small business deduction improve upon the House's version. The small business deduction has always been problematic and creates incentives for claiming the deduction without hiring more people, but the Senate wisely retains the House's elimination of the three percent flat tax rate for pass-through entity incomes greater than \$250,000, and then removes that provision's retroactivity so that business owners are not penalized for prior activity. Making deeper, across-the-board tax rate reductions will ensure that all income taxpayers benefit from the tax relief, and will numb some of the sting that some businesses may feel under the new provision.

The Senate rightly retained several tax loophole closures made by the House, including the fractional jet ownership sales tax cap, but we regret any attempt to restore the motion picture tax credit that the House wisely eliminated. Closing the motion picture tax credit loophole would make more revenue available to allow for even deeper tax cuts for all rather than just the politically well-connected few.

Healthcare

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 taxpayer 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 provided for robust healthcare pricing transparency, serious emergency room diversions, the elimination of many facility fees that increase costs, and controls for ballooning pharmacy prices. Many of these provisions were stripped in the Senate substitute bill. They should be restored in order to continue to bend the cost curve of Medicaid down, especially before we encounter the first recession of the Medicaid expansion era.

The Senate should also consider including the **Healthy Ohio program** in the budget. Without belaboring the intricacies of the program, Healthy Ohio offers an innovative use of health savings accounts, creates incentives for healthier choices, and helps those trying to transition from Medicaid into private health coverage without losing benefits.

Education

School choice provisions that allow families to obtain an education that best meets the academic needs of their children is the right thing to do. So, we applaud the Senate for expanding EdChoice scholarships. But the Senate's proposed education spending levels remain too high.

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 **4th 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 8th graders in **reading** and are even worse for **4th** and **8th** grade math. Spending more taxpayer money on education has not proven to be a viable solution to this persistent problem.

The current version of the budget proposes education-funding increases of 3.5 percent in FY 2019 and 1.2 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 \$450 million without harming students. Again, this is not a cut. It is still spending more than the projected amount to be spent by the end of the current fiscal year and keeps up with both inflation and likely student enrollment.

Although there may be some extensive changes to the statute regarding academic distress commissions, but the Senate should not throw the baby out with the bathwater. The existing statute governing those commissions has problems, but the commissions, or their functions, should not be eliminated. School districts that have failed their students for years should be held accountable. And, while the state should not intervene in the day-to-day operations of local school districts, taxpayers and parents are right to demand accountability.

Finally, although not yet a part of the budget, the **Senate should adopt** the joint proposal on graduation requirements from Ohio Excels, the Alliance for High Quality Education, and the Fordham Institute. This joint proposal creates flexibility by offering alternative career and technical pathways, and reducing some of the testing requirements that burden teachers and encourage a teach-to-the-test mindset. It is not perfect, but the proposal does improve the *status quo* and is far superior to some of the other proposals in circulation.

Conclusion

The Senate has taken several positive steps with House Bill 166. We are encouraged by some of the tax and school choice policies in the budget and are excited by the possibility of even greater regulatory reform. But Ohio's over-spending trend must be curbed. The Committee must continue to trim non-essential budget items, retain critical cost-containment proposals to address rising healthcare costs, and right-size the state's public education spending.

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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