



Revenue and Budget Category

## Testimony on HB 123 before House Ways and Means Committee

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Good morning Chairman Merrin, Vice-Chair Riedel and Ranking Member Sobecki. I am Wendy Patton, Senior Project Director at Policy Matters Ohio, a non-partisan, not-for-profit research organization with a mission to create a more prosperous, inclusive, equitable and sustainable Ohio. Ohioans know that school is where our children learn, grow, experiment and discover their passions and potential. Policy Matters opposes House Bill 123 because it can drain local resources for schools by raising the ceiling on share of property taxes that may be abated without school district approval. It would also eliminate the requirement that municipal income tax revenue from very large, abated projects be shared with schools. The bill may also intensify the war between Ohio communities over footloose developers and corporations and weaken local control.

House Bill 123 eliminates guardrails established in the Community Reinvestment Area (CRA) program over 25 years ago to protect community resources and mitigate harmful competition between Ohio communities for economic development. Under current law, CRAs can only be established where there is proven need for investment warranting tax breaks. The director of development services approves agreements and can step in and mediate in situations where communities may be entering into destructive bidding wars. Today there are mechanisms for state and local oversight. Lawmakers enacted these guardrails to protect public resources in a state where state and local financing and delivery of public services are intertwined. The administration of Republican Governor Voinovich helped create these rules in partnership with economic development professionals, local elected officials, state lawmakers and the business community.

HB 123 would toss out those rules, threatening school funding, local control and transparency. The In 1997, Ohio Supreme Court ruled that the state's school funding system is unconstitutional because it fails to provide under-resourced communities with sufficient funding for public schools. Even as the General Assembly debates the need for better school funding through the Fair School Funding Plan - passed on a bipartisan basis by the House in December - this bill could further drain local school resources. Just over three-fifths of local property taxes fund schools, but HB 123 would allow local governments to abate up to 75% of property taxes on new or expanding corporate entities before getting approval from schools (raising the current ceiling from 50% to 75%). Policy Matters Ohio found that in 2018,<sup>1</sup> tax abatements drained \$125 million from schools. HB 123 would facilitate an increase that loss. In addition, the bill would eliminate the requirement that communities share municipal income taxes generated from very large, tax-abated commercial and industrial projects with schools. It would narrow the window during which a beneficiary that defaults on the tax abatement agreement is banned from receiving new tax incentives from 5 years to 2 years.

HB 123 would require communities to use a state template in formulating agreements, pre-empting local control. It weakens reporting requirements to local Tax Incentive Review Committees. It eliminates the development director's

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<sup>1</sup> Schiller, Zach, "Tax abatements cost Ohio schools at least \$125 million," Policy Matters Ohio, October 2, 2018 at <https://bit.ly/3rj1l6n>

ability to mediate destructive bidding wars between Ohio communities. It even eliminates fees to locals for program administration.

For years, state lawmakers have imposed deep cuts on Ohio cities, counties and towns. HB 123 would be another blow to Ohio's communities. In the past 15 years, lawmakers in the General Assembly phased out major business property taxes that primarily supported schools, and then phased out the tax reimbursements promised to replace that loss. Under Governor Kasich, state policy makers cut the state revenue sharing program with local governments in half and eliminated important tax sources, like the estate tax. These actions have drained more than \$1 billion a year from local governments. Ohio's schools – like so many other public services, ranging from public health to child welfare – have also been underfunded. HB 123 could make it worse.

HB 123 sets the stage now for struggling local governments to cannibalize underfunded schools. All the tax cutting and tax abating in Ohio has not jump-started the state economy: Ohio's growth of jobs has been slower than the national average over the past 15 years. Six of Ohio's ten largest job groups pay so little that a worker with a small family, working full time at the median wage for their occupation, need federal food assistance - food stamps - to put dinner on the table. All that tax cutting has drained resources from Ohio neighborhoods and communities that never recovered from the recession of 2008. Now we are in the recession of 2020-21. More, bigger, and easier tax abatements that siphon resources from schools and communities aren't helpful. HB 123 will hurt, not help, Ohioans, their communities and the state.