May 16, 2011

The Honorable Tom Niehaus
President, Ohio Senate
Statehouse
Columbus, OH 43215

Dear Tom:

As legislative deliberations on the 2012 – 13 biennial budget continue, we are writing to ask for your favorable consideration of amendments to the legislation that would repeal a set of tax expenditures, create a sunset review process for tax expenditures that remain in Ohio law after enactment of the budget, and lay the groundwork for addressing fundamental issues in the combination of state and local taxation in Ohio.

Tax Expenditures

As you know, every two years, as part of the introduction of the Executive Budget, the Ohio Department of Taxation produces a Tax Expenditure Report that estimates revenue losses from various exclusions, exemptions, deductions, and credits in Ohio's tax laws. These policies are called "tax expenditures" because they are usually equivalent to the state providing a grant or other form of financial assistance to subsidize a specific activity or group. The Ohio Tax Expenditure report includes policies based on four criteria:

- The item reduces, or has the potential to reduce, one of the state's General Revenue Fund taxes.
- The item would have been part of the defined tax base.
- The item is not subject to an alternative tax.
- The item is subject to change by state legislative action.

The use of tax expenditures has proliferated at the state and federal levels for decades. Yet, once these exceptions are in the law, they rarely receive the same kind of scrutiny as program spending through appropriations. They generally have no performance measurements in statute to judge whether they are achieving their intended purpose.

In light of the enormous fiscal challenges currently facing the State of Ohio, **we propose** terminating a group of these tax expenditures as part of the 2012-13 biennial budget legislation. A list of these, yielding over $300 million in each fiscal year without changing tax rates, is attached. We wish to note that while our organizations have different opinions on the best uses for this revenue (discussed below), we share a belief that their repeal would contribute to a fairer system of taxation.

Further, we propose that remaining tax expenditures be subject to "sunset" provisions, providing that they be repealed unless re-enacted by the General Assembly and approved by the Governor. Such provisions would include:

- Defining tax expenditures in a manner consistent with current Executive Budget estimates;
- Limiting the duration of tax expenditures to 8 years unless re-enacted by General Assembly;
- Establishing a schedule of sunset dates (July 1 of odd numbered years) for current tax expenditures;
- Making provision for a Joint Tax Expenditure Review Committee comprised of the Chairs and Ranking Minority Members of the Ways and Means and Finance Committees of the House and Senate, plus two members from each chamber jointly appointed by the Speaker and Minority Leader of the House and President and Minority Leader of the Senate. Criteria for periodic analysis of the utility (cost and benefit) of tax expenditures would be adopted, borrowing from the experience of states such as Washington that have similar procedures. Proposed new tax expenditures would be subject to analysis and review prior to action by the General Assembly; current tax expenditures would be reviewed periodically, as described above. New tax expenditures would be sunset July 1 of the fourth odd-numbered year following its effective date.

<u>The Combined Impact of State and Local Taxation in Ohio</u>

As noted in numerous analyses, the combined effect of state *and local* taxes in Ohio is a significant consideration for tax fairness and adequacy, as well as the overall business climate of the state. With over 3,500 local taxing jurisdictions, the web of local taxation in Ohio is among the most complex of the 50 states. The impact on total state and local tax obligations is significant. The Washington-based Federation of Tax Administrators ranked Ohio's 2009 *state* taxes 33rd as a percent of personal income and 35th per capita (with first place being the highest); in 2007 (the latest date for which data are available), the Federation ranked *combined state and local taxes* 12th as a percent of personal income and 26thth per capita. While other analyses yield somewhat different rankings (e.g., *Governing Magazine's* Source Books, using the same primary data, rank Ohio *state and local* taxes per capita 16th), the overall patterns of relatively low state taxes, and relatively high (and regressive) local taxes are consistent in most such ranking exercises.

We propose creation of a bipartisan State and Local Tax Study Commission (including Independents as well as Democrats and Republicans) to review the framework of state and local taxation in Ohio, and recommend ways to (a) better align state and local taxation with the roles and responsibilities of state and local governments (including special purpose political subdivisions), (b) allow sufficient flexibility to address continually evolving economic and social circumstances, such as the shift from manufacturing to services and population shift from large central cities to suburbs,(c) provide adequate and stable funding for public services, (d) assure that the tax burden is broadly, fairly, and equitably distributed, and (e) contribute to the economic vitality and quality of life in Ohio.

- The composition should be truly non-partisan (including Independents as well as Democrats and Republicans) and broadly framed to provide a diverse and broadly representative body of well-informed citizens (and excluding state or local elected officials or senior public executives);
- The Commission should have 15 members, five appointed by the Governor, and five jointly by the Speaker/House Minority Leader and President/Minority Leader of the Senate.
- The temporary law provisions creating the Commission should provide for connectivity to local government organizational and policy changes separately initiated by the Governor and General Assembly.
- The Commission should have an independent paid staff for the duration of its deliberations, and a reasonable travel/meeting budget. A final report would be due not before November 15, 2012, and no later than December 31, 2012).

Our agreement on these proposals does not extend to alternative uses of the revenue this will produce. For example, CCS proposes increasing appropriations for community behavioral health services, PASSPORT services for older adults, and protective and early childhood development services, whereas Buckeye Institute prefers reducing tax burdens of small and medium-sized businesses to spur job creation, and Greater Ohio Policy Center views tax reform as essential to incentivizing and removing barriers to local and regional governance reform These differences do not detract from our agreement on setting the stage for a new round of tax reform.

We welcome the opportunity to discuss these proposals with you and your staff.

Thank you for your consideration.

Sincerely,

Lavea Brachman, JD, MCP	John A. Begala	Matt A. Mayer
Executive Director	Executive Director	President
Greater Ohio Policy Center	The Center for Community Solutions	The Buckeye Institute for Public Policy Solutions

C: The Honorable Chris Widener
Brian Perera