Senate Ways and Means Committee

House Bill 9 – To Create a Tax Expenditure Review Committee

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Good morning, Chairman Peterson, Vice Chair Beagle, Ranking Member Tavares, and members of the Senate Ways and Means Committee. I am Jon Honeck, Director of Public Policy for The Center for Community Solutions, a non-profit research and advocacy organization with offices in Cleveland and Columbus. Our mission is to propose non-partisan policy solutions to improve health, social, and economic conditions for all Ohioans.

I am here today to speak in support of House Bill 9 because it creates a comprehensive framework for the periodic review and evaluation of all tax expenditures that would fall within the current definition in R.C. 5703.48 (the ODT Tax Expenditure Report). Tax expenditures are deductions, credits, and exemptions that provide preferential treatment for a particular industry, activity, or group of people. In an era of tight budgets, tax expenditures have become a way to get around the suspicions about starting a new "program." In reality, these mechanisms really are spending by another name, but they do not have to withstand the scrutiny of the appropriations process.

Enacting H.B. 9 is a vital step in reforming the state's approach to the tax expenditure issue. Although a few tax expenditures are closed from time to time, the list of tax expenditures grows with each General Assembly. Many of these provisions have been in place for decades, have never been evaluated, and may no longer be needed. Others may have evolved to create unintended consequences or to give their recipients far greater (or lesser) tax advantages than legislators originally intended. The Tax Department's biennial report estimates the fiscal costs of tax expenditures but does not evaluate their effectiveness. The latest report estimates the total revenue lost to the state at nearly $8.5 billion in FY 2016.

H.B. 9 would create a seven member joint committee with three voting members from each legislative chamber and the Tax Commissioner as a non-voting member to oversee a review process for existing tax expenditures on an eight-year cycle. The committee would make a recommendation to the General Assembly as to whether to keep, repeal, modify, or schedule a tax expenditure for further review. The creation of the Tax Expenditure Review Committee would elevate the issue to a new level and ensure that it gets the attention it deserves. The committee could request information from state agencies and the Legislative Service Commission, and could hear testimony similar to any other committee.

The bill also would create a requirement that bills containing new tax expenditures must have a statement of the sponsor's intent and the objectives of the legislation. We recommend that this provision be strengthened by requiring sponsors to propose actual metrics for the review committee's consideration.

The bill recommends that the committee start its review with the following criteria, although it could add others at its discretion:

(1) The number and classes of persons, organizations, businesses, or types of industries that would receive the direct benefit or consequences of the tax expenditure.
(2) The fiscal impact of the tax expenditure on state and local taxing authorities, including any past fiscal effects and expected future fiscal impacts of the tax expenditure in the following eight-year period.
(3) Public policy objectives that support the tax expenditure. In researching such objectives, the joint review committee may consider the expenditure's legislative history, the tax expenditure sponsor's intent in proposing the tax expenditure, the extent to which the tax expenditure encourages business growth or relocation into the state, promotes or would promote growth or retention of high-wage jobs in the state, or aids or would aid community stabilization.
(4) Whether the tax expenditure successfully accomplishes its objectives.
(5) Whether the objectives could have been accomplished successfully in the absence of the tax expenditure or with less cost to the state or local governments.
(6) Whether the objectives of the tax expenditure could have could have been accomplished successfully through a program that requires legislative appropriations for funding.
(7) The extent to which the tax expenditure may provide unintended benefits to an individual, organization, or industry other than those the legislature or

sponsor intended or creates an unfair competitive advantage for its recipient with respect to other businesses in the state.

(8) The extent to which terminating the tax expenditure may have negative effects on taxpayers that currently benefit from the tax expenditure.

(9) The extent to which the repeal of the tax expenditure may have negative or positive effects on the state's employment and economy.

(10) The feasibility of modifying the tax expenditure to provide for adjustment or recapture of the proceeds of the tax expenditure if the objectives are not fulfilled by the recipient.

We believe that the bill would be improved by the addition of an eight-year sunset clause that would apply to all tax expenditures. This would require the General Assembly to make an affirmative decision to keep or modify an existing tax break.

We urge the committee to report favorably on this bill. Thank you for allowing me to testify today. I would be pleased to answer any questions you may have.

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