



## Testimony for the Ohio Senate Ways and Means Committee Gavin DeVore Leonard, One Ohio Now – May 20, 2015

Good afternoon Chairman Peterson, Ranking Member Tavares, and distinguished members of the committee. Thank you for the opportunity to speak with you today. My name is Gavin DeVore Leonard. I am the State Director of One Ohio Now, a coalition with 100 partner organizations whose members represent over 1 million Ohioans. We believe great public services strengthen our communities and advocate for adequate, equitable revenue sources for those services.

With this testimony, I've included lightly edited remarks that I shared with the House Finance and Ways and Means Committees in response to the tax policy changes and other relevant budget issues introduced by the Governor. The large majority of that testimony focused on the efficacy, or lack thereof, of income tax cuts. While there were many changes from the Governor's proposal to the House's budget, the information on the income tax is still very relevant.

Briefly, our positions on the major components of the budget proposals from the Governor and the House thus far are as follows:

We support the concepts of 1) the creation of a tax expenditure review commission, 2) sales tax base expansion, 3) CAT increase, 4) severance tax increase, 5) investments in education, child care, developmental disabilities, and more.

We're opposed to the concepts of 1) the personal income tax cut, 2) sales tax increase, 3) and business income tax cut.

We strongly oppose income tax cuts, which were a major budget change proposed by the Governor and remain as such in the House proposal. We believe there are a number of reasons that this policy direction should be more closely scrutinized, many of which have been detailed in the testimony attached here. If you'd like to talk more about the efficacy of income tax cuts as a job and economic growth strategy, please let me know.

As I've followed budget deliberations closely, this year and in the past, I'm struck by how little evaluation or empirical research is done to track the investments and decisions made by and for the state. My hope is that regardless of what policy decisions are made in the coming weeks, that you might consider how the state can effectively understand the impact of those decisions and whether or not the goals and objectives were met, and why or why not, so that we might be better positioned to make good policy in the future.

You may recall me talking previously about what has happened since 2005. This is the biggest recent tax change that we've seen. Yet, there is little to no systematic analysis available, to my knowledge, about the impacts (or lack thereof) of those major policy changes. We've attempted to track a range of metrics to better grasp what's happened over the last 10 years – job and employment information, data on poverty and social services, and more. It seems that a fiscally prudent thing to do would be to evaluate the outcomes of our policy positions at reasonable intervals of time after they've been implemented.



I believe similar logic has led to the overwhelming consensus that tax expenditures should be reviewed, and hopefully we're now moving closer to better checks and balances in this area. Similarly, job incentive credits are reviewed by the Attorney General and governments around the country are starting to more closely track the impact of tax incentives to see how they are working.

In the non-profit arena where I've spent my career, evaluation and outcome assessment is expected from nearly every major funder or supporter. We create plans and goals and are asked to report back on our progress meeting those goals. It seems that this process would serve the public sector well, too.

As we examine the goal of cutting income taxes, in particular, the Governor's office has been very clear that his hope is that this change might spur job creation and economic growth. That is a worthy goal that we all certainly share. There are others who would like to see tax cuts for the purpose of reducing government spending/cutting programs and services. That, of course, is a very different goal, and is discussed much less frequently. But, understanding what the goal/s of each policy change is would help us to look back and understand if the ends were achieved.

Looking at one specific, recent example, it has been very interesting to watch the response to ideas like the business income tax cuts proposed by the Governor. Sources from the right and the left on the political spectrum questioned that means toward the stated end of job creation. When will we look back to try to understand the impact of the major business income tax changes that have been made in recent years so that we might know whether to stay the course or change our direction?

From another angle, if our main goal is to create jobs and economic growth, then shouldn't we seriously consider investments that have been shown repeatedly to create such growth? In particular, investments in our infrastructure are widely supported and the multiplier effect on those dollars has been documented by many sources. Similarly, investment in education is widely known to have important impacts, especially over the long term. This is another factor that should be taken into consideration – what are the short and long term impacts of policy changes being considered?

I hope that we'll be able to make reasonable fiscal decisions for the state's present and future. I believe building in a process for evaluation of policy changes would be a prudent way to accomplish this goal.

I'd be happy to answer any questions.



## Testimony before Ohio House Ways and Means Committee March 4, 2015

My name is Gavin DeVore Leonard. I am the State Director of One Ohio Now, a statewide coalition of 100 health and human service, labor, and advocacy organizations whose members include over 1 million Ohioans. We believe that great public services strengthen our communities and we need revenue to pay for those services.

I am here to testify today on the personal income tax changes proposed by Governor Kasich in his Executive Budget. I'll share what we feel is relevant context in considering such major changes, both in terms of what has happened over time and how the personal income tax changes fit into the full package.

We've worked to participate fully in dialogue about an adequate and equitable revenue system that meets Ohioans' needs for a high quality of life – including great schools, roads, public safety, and much more. My goal with testimony today is to contribute to the discussion about our state's future.

### **We agree with some pieces of the Governor's budget proposal.**

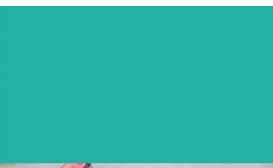
- Tax Expenditure Review
- Sales Tax Base Expansion
- Commercial Activity Tax Increase
- Severance Tax Increase
- Investments in childcare, developmental disabilities, and other items such as means testing.

### **There are also key components of the proposal that we disagree with.**

- Personal Income Tax Cut
- Sales Tax Increase
- Business Income Tax Cut

### **Our biggest concern is the personal income tax cut.**

We believe this component of the proposal is misguided and requires more deliberation based on the facts, including Ohio's experience over the past 10 years.



# Five major reasons to reconsider the proposed income tax cut.

## 1

### Because the research says it won't work (or at best is unclear).

- Six out of eight major peer-reviewed academic studies done since 2000 found that state personal income tax levels do not affect economic growth.
- What's been cited so far raises serious questions.

→ In the rollout of the budget proposal, a quote was used stating that over 50 studies show higher state tax rates on income and business lead to fewer jobs and growth. Of the articles cited, 23 have nothing to do with state tax policy, 5 have nothing to do with tax policy, and others are not peer-reviewed and/or lack empirical analysis.

→ In recent testimony, Commissioner Testa's Attachment C cited 10 reports "on income tax cuts and economic growth." Some are not peer-reviewed, many cite data and sources that are decades old, and one is all about Canada.

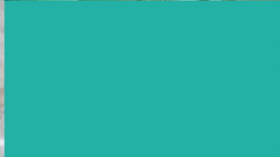
→ Claims and predictions that income tax cuts have made or will make states more competitive have simply not panned out and require closer scrutiny.

→ Claims that tax rates – in particular state personal income tax rates – are leading to Ohioans leaving the state are highly inaccurate based on the research.

## 2

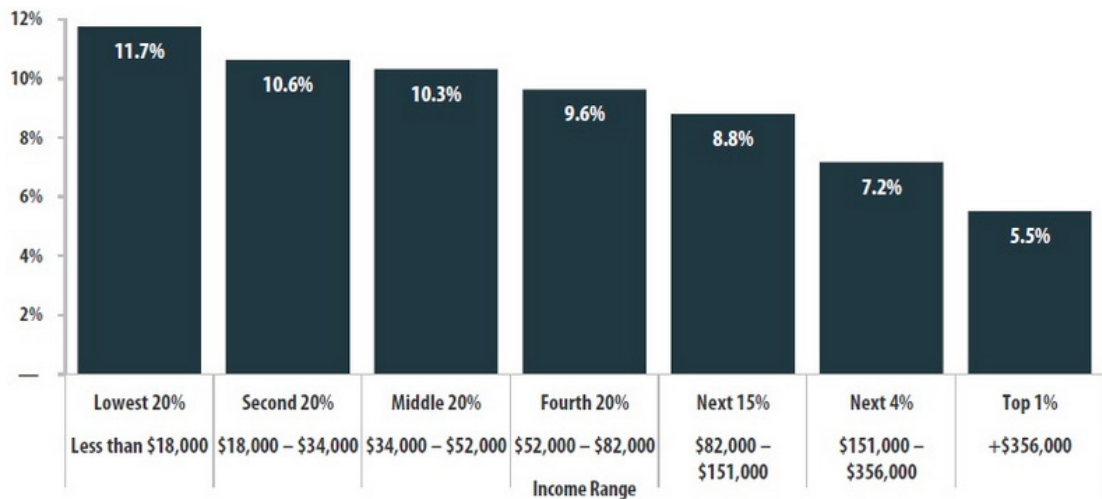
### Because tax shifting isn't fair.

- Making our revenue system even more regressive means that lower and middle-income Ohioans will pay an even greater share of their income toward taxes. Winter coats, car repairs, and other necessary items will get more expensive for those who can least afford it.



## Ohio State & Local Taxes in 2015

Shares of family income for non-elderly taxpayers

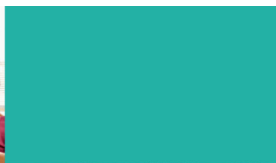
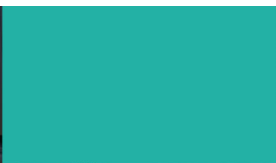


Source: ITEP, Who Pays Jan. 2015. <http://bit.ly/17d01c4>

- Thorough modeling of the full package presented by the Governor shows that many Ohioans will actually pay more as a result of the plan. Commissioner Testa's cited Attachment G has numerous flaws.

Impact of proposed tax changes							
	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Income range	Less than \$20,00	\$20,000 - \$37,000	\$37,000 - \$58,000	\$58,000 - \$89,000	\$89,000 - \$163,000	\$163,000 - \$388,000	\$388,000 or more
Average income	\$12,000	\$28,000	\$47,000	\$72,000	\$115,000	\$234,000	\$1,071,000
Tax change as % of income	0.9%	0.4%	0.1%	-0.0%	-0.2%	-0.4%	-1.1%
Average change	\$116	\$122	\$64	-\$27	-\$219	-\$890	-\$11,906

Source: Policy Matters Ohio Feb. 2015 <http://bit.ly/1EL6kOr>



# 3

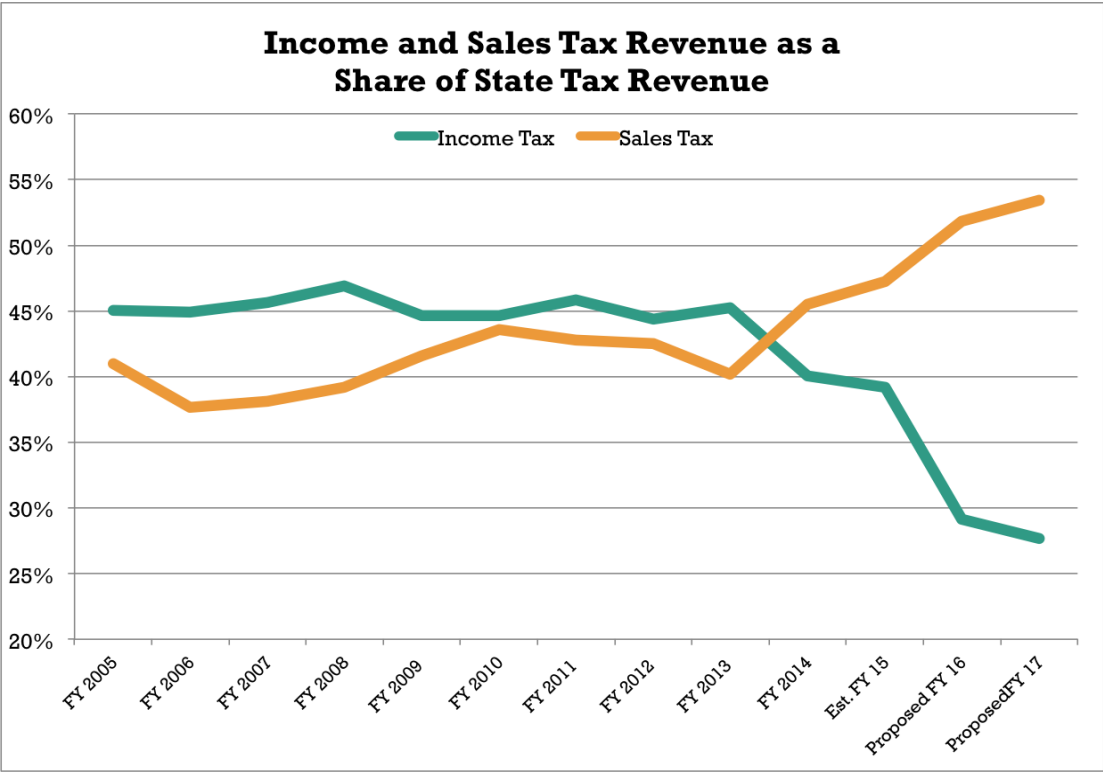
## Because there are real concerns about the fiscal impact.

- **Bond Buyer** cites questions from Fitch Ratings and Moody’s Investors Service about tax reform proposals, saying “the state is in the midst of a major tax overhaul that analysts warn could derail the state’s structural balance.”

**“Like Fitch, Moody’s warns that tax cuts could pressure the state’s budget. ‘Potential revenue reductions from tax reform could threaten the state’s balanced financial operations,’ Moody’s said in its ratings report.”**

Bond Buyer  
*Ohio, Plotting Tax Reform, Readies Bond Deals*  
Dec. 30, 2014 <http://bit.ly/1ARdfX3>

- Sources like **Standard and Poors’** Ratings Services are raising important questions about how “inequality reduces overall economic growth” and state revenues.





**4**

**Because there are other, better ways to improve our state and create good jobs and economic growth.**

- Tax policy, especially personal income tax policy, dominates the discussion about how to improve Ohio, yet there are many more important areas that should be discussed. In particular, investments in education and infrastructure are unquestionably important for business and individual success.

**Median wages are substantially higher in states with better-educated workers**

*Relationship between state median hourly wage and share of state's workforce with a bachelor's degree or more education, 2012*



Source: EPI, "A well Educated Workforce is Key to Prosperity," Aug. 2013. <http://bit.ly/1Chical>

- **Surveys and studies** of business priorities consistently find that education and infrastructure are the most important needs for a strong job creation climate.

**“The personal income tax rate is NOT one of the critical factors considered when making a final site selection. There are many more important factors...”**

Manufacturer’s Policy Alliance Testimony  
Ways & Means Committee, Feb. 25, 2015

- Tax cuts mean foregone revenue that could be invested in the great public services that strengthen our communities – things like libraries, parks, and firefighters that ensure a high quality of life for everyone. If we did not have needs or important investment opportunities, it would be a different story, but other states are building the foundation for a 21st century economy with things like universal pre-K education, expanded public transportation options that young people want and more.



5

**Because we've been trying this and it hasn't worked.**

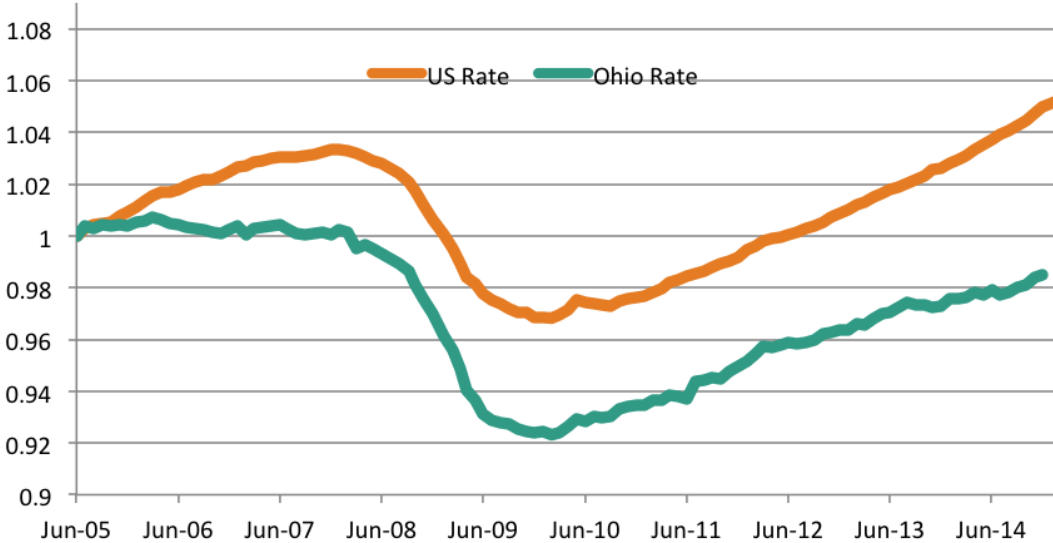
- Since 2005, Ohio has shifted taxes substantially, resulting in many Ohioans paying more taxes in hopes of job creation and economic growth - it has not panned out.

Impact of Ohio tax changes on different income groups, 2005 to date							
	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Income range	Less than \$19,000	\$19,000 - \$34,000	\$34,000 - \$54,000	\$54,000 - \$82,000	\$82,000 - \$151,000	\$151,000 - \$360,000	\$360,000 or more
Average income	\$11,000	\$26,000	\$44,000	\$66,000	\$106,000	\$217,000	\$1,006,000
Average tax change	+\$138	+\$142	+\$65	-\$95	-\$609	-\$2,919	-\$20,477
Tax change as share of income	+1.2%	+0.5%	+0.1%	-0.1%	-0.6%	-1.3%	-2.0%

Source: Policy Matters Ohio Aug 2014, <http://bit.ly/1pWbp0r>

- We've reviewed many major indicators that may signal the state of our state for everyone – job and employment data, poverty and wage data, education and other investment success, health and wellness reports, and more. Unfortunately, we do not see how the changes since 2005 have improved Ohio, and are therefore nervous to go further down the same road.

**Ohio and National Job Growth  
June 2005-Dec 2014**

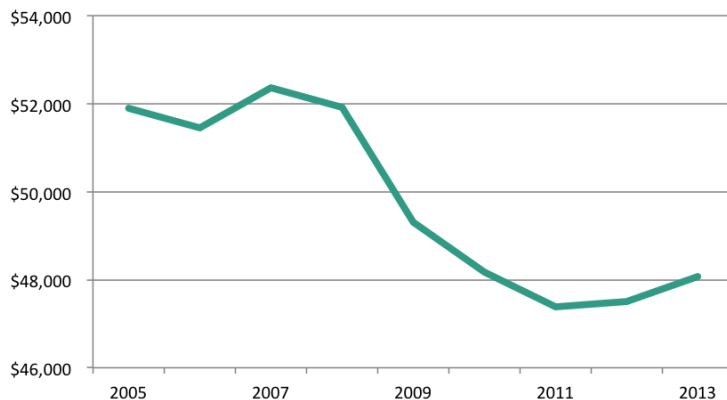


Source: Bureau of Labor Statistics



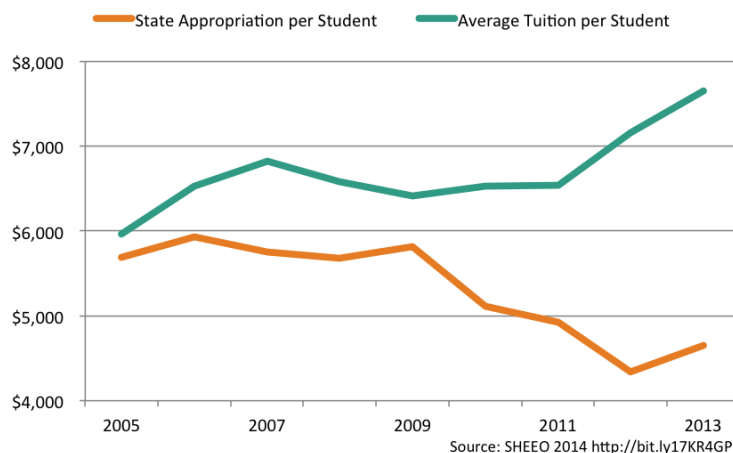


### Median Income in Ohio



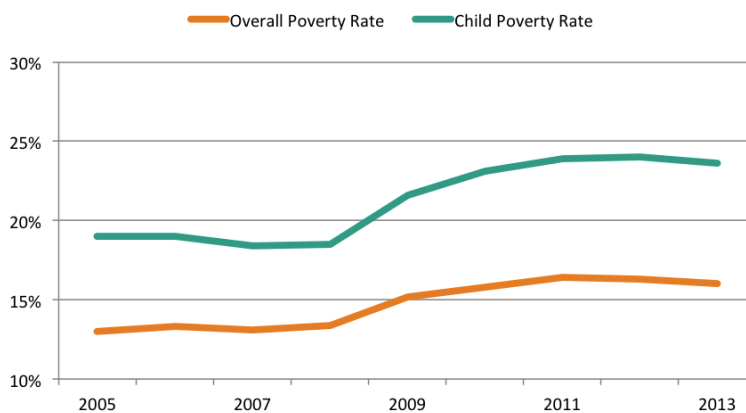
Source: American Community Survey, Census <http://1.usa.gov/17KU0S9>

### Financing Higher Education



Source: SHEEO 2014 <http://bit.ly/17KR4GP>

### Ohio Poverty Rate



Source: ODAS "Ohio Poverty Report" & KidsCount Data



## No matter what we do, let's clarify our goals and set specific benchmarks and timelines for success. It's the fiscally responsible thing to do.

- If you think tax changes since 2005 have been a success, by what measure?
- The logic for the value of tax expenditure review should carry to other spending and fiscal decisions as well.

Budget Director Tim Keen has talked repeatedly about the “philosophy” of shifting and cutting taxes to benefit our state. While I am by no means opposed to the idea of trying out new concepts in general, on the specific topic of state personal income taxes there is enough of available data that we should not need to rely “philosophy.”

I believe we all have a similar goal of an Ohio that shares prosperity with everyone. An important component of that prosperity is job creation and economic growth. But, in the current budget proposal, the only substantial strategy for job creation and economic growth is tax shifting, with by far the biggest change being a cut to the income tax.

After a thorough review of the research, relevant testimony, and more, I believe the evidence shows that state personal income tax cuts are a poor strategy for job creation and economic growth.

## Do you believe the evidence tells a different story?

I would be happy to answer any questions and I look forward to your response.

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