February 19, 2016

CCAO encourages commissioners to contact legislators to express concern over fiscal impact of employment services sales tax exemption bill

CCAO is opposed to legislation pending before the House Economic and Workforce Development Committee which proposes to exempt all employment services and employment placement services from the sales and use tax. This change would cost counties and transit agencies $33 million, the state GRF $131 million and the two local government funds $4.6 million per year. CCAO and Union County Commissioner Gary Lee have testified against HB 343 (two links to Gary Lee testimony and CCAO testimony).

The House Economic and Workforce Development Committee is scheduled to have a hearing on HB 343 on Wednesday, February 24 and HB 343 is starred for a possible vote. CCAO is encouraging commissioners, county council members and executives to contact legislators who serve on the House Economic and Workforce Development Committee to express concerns with this legislation. Issues that you may wish to raise with legislators include:

- **Loss of County Funds** – estimated revenue impact of $33 million in lost sales tax dollars per year to counties and transit authorities

- **Need to Hold Counties Harmless** – this can be accomplished in two ways: 1) exempting counties and transit authorities from state tax exemption, or 2) by reimbursing counties for lost revenues

- **Reliance of Counties on Sales Tax** – Counties on average receive more than 50% of their revenue to the county general fund from the sales tax. This is the only revenue source that has experienced healthy revenue growth over the past 8 years – most other revenue sources including state revenue sharing with local governments has declined.

- **Need for Legislature to Follow Consistent Approach in Tax Reform** – The legislature has formed a Joint Legislative 2020 Tax Policy Study Commission to among

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**HB 343**

Sales tax Exemption on Temporary Employment Services

**Sponsor:** Rep. Ron Young

**Status:** House Workforce and Economic Development Committee

**CCAO Position:** Oppose

**Key Provisions:**

Exempts temporary employment services from sales tax base, reducing county sales tax collections by $33 million per year
other things study ways to adopt a flat rate income tax, review and evaluate tax credits, and reform Ohio’s severance tax. Perhaps HB 343 should be raised in the context of other changes to Ohio’s tax law where revenue neutral approaches may be explored that hold counties harmless from the impact of tax reform policies pursued on a piecemeal basis.

The sales tax on employment services and employment placement services was established by the legislature in 1993 in response to declining state revenues due to a recession. Proponents of eliminating the tax on employment services claim that the tax is administratively burdensome, ill-defined and thus subject to litigation, and a tax on compensation that is already taxed as income, becoming in effect a tax upon a tax. Opponents to eliminating the tax point to sizable revenue losses for state and county governments. Opponents also note that this tax is consistent with the concept of expanding the sales tax base to additional services as our economy continues to grow more rapidly in the realm of services than the sale of tangible personal property.

Representative Ron Young (R-Leroy Township) and Mark Romanchuk (R-Ontario) are prime sponsors of the bill and Representative Niraj Antani (R-Miamisburg) is also a cosponsor. Members who serve on this committee and their contact information include:

- Representative Nan Baker (R-Westlake), Committee Chair (614) 466-0961 nan.baker@ohiohouse.org
- Representative Mark Romanchuk (R – Ontario), Vice Chair (614) 466-5802 mark.romanchuk@ohiohouse.org
- Representative Kent Smith (D – Euclid), Ranking Minority Member (614) 466-5441 kent.smith@ohiohouse.org
- Representative Niraj Antani (R – Miamisburg) (614) 466-6504 niraj.antani@ohiohouse.org
- Representative Steve Arndt (R – Port Clinton) (614) 644-6011 steve.arndt@ohiohouse.org
- Representative John Barnes, Jr. (D – Cleveland) (614) 466-1408 john.barnes@ohiohouse.org
- Representative Hearcel Craig (D – Columbus) (614) 466-8010 hearcel.craig@ohiohouse.org
- Representative Denise Driehaus (D – Cincinnati) (614) 466-5786 denise.driehaus@ohiohouse.org
- Representative Kyle Koehler (R – Springfield) (614) 466-2038 kyle.koehler@ohiohouse.org
- Representative Rick Perales (R – Beavercreek) (614) 644-6020 rick.perales@ohiohouse.org
- Representative Scott Ryan (R – Newark) (614) 466-1482 scott.ryan@ohiohouse.org
- Representative Ron Young (R – Leroy Township) (614) 644-6074 ron.young@ohiohouse.org
- Representative Paul Zeltwanger (R – Mason) (614) 644-6027 paul.zeltwanger@ohiohouse.org
CCAO encourages you to reach out to one or more legislators on this committee to express concerns with HB 343. If you have questions regarding this issue, please contact Brad Cole of the CCAO staff at bcole@ccao.org or by calling 614-220-7981.

Sales tax holiday returning?

Lawmakers this week heard proponents of a sales tax holiday explain that Ohio's first back-to-school sales tax holiday was a success and should be made permanent.

On Wednesday, the Senate Ways & Means Committee heard sponsor testimony on Senate Bill 264, along with a presentation from Julie Heath, executive director of the University of Cincinnati's Economics Center, that said Ohio's first sales tax holiday generated an extra $4.7 million while saving consumers $3.3 million. Dr. Heath's newly released study, commissioned by retail interests, was shared with the committee. The Department of Taxation is still reviewing its own data to determine the impact of the three-day period from Aug. 7-9 during which clothing up to $75 per item and school supplies and instructional materials up to $20 per item were exempted from sales tax.

Dr. Heath said researchers were "surprised by the strength of the positive effect" the holiday had on tax revenues. Whether that success would continue in subsequent years if the holiday was extended is unknown, she said. "It could be the case that consumers experience an exuberance of sorts in this first year and subsequent years will be characterized by a more educated, experienced consumer," Ms. Heath said. "On the other hand, as consumers become more accustomed to the sales tax holiday, it could take on a Black Friday aspect...continuing to drive additional sales on non-exempt items and pulling customers from surrounding states."

The 11-page study, conducted for the Ohio Council of Retail Merchants' Focus on Ohio's Future, determined that $46.75 million in tax exempt sales took place during the holiday and that overall retail sales increased by 6.48% in August.

The holiday period generated a 9% gross increase in sales tax collections "which could be attributed to the fact that consumers increase purchases on non-exempt items while shopping for tax-exempt items," the study found.

The center determined the state lost $3.3 million in taxes on exempted goods, but saw an increase of about $8 million in sales tax collections which more than compensated for that loss. The state collected an estimated $100 million in sales tax during the three-day period, according to the report.

Ms. Heath said the study clearly illustrates that Ohio's border counties drew out of state shoppers, with those counties showing a 15.48% increase in sales tax collections compared to the 4.56% increase of non-border counties. "There is no other explanation for that differential," Ms. Heath told Chairman Sen. Bob Peterson (R-Sabina) in response to a question. "The only
difference between a county that borders Indiana and a county that does not is that cross border traffic of consumers."

Ms. Heath said 18 states offered such a holiday in 2015, most of which were southern states. No state contiguous to Ohio offered one, which she said puts Ohio at an advantage in pulling shoppers from out of state. The study also refuted concerns that shoppers would purchase less in July and September in favor of targeting their spending for the holiday; the study found no such shifting of purchases.

"These figures prove Ohio’s sales tax holiday helped consumers enjoy lower taxes while boosting state and local government revenues," council President and CEO Gordon Gough said in a statement. "In short, increased revenue resulted from a reduction in taxes, not an increase."

The bill from Sen. Kevin Bacon (R-Minerva Park) would create an annual tax holiday, under the same parameters as last year’s event, to coincide with back-to-school shopping. He said in sponsor testimony he’s hoping the measure will pass both chambers by May 1 in order for the next holiday to take place later this year. "I can tell you with my conversations with retailers it was very, very positive results," Sen. Bacon said.

CCAO is opposed to SB 264 as introduced and is advocating for the following:

   a. Extension of the 2015 Sales Tax Holiday as a pilot project.
   
   b. A requirement be included that an independent analysis (i.e., the Ohio Tax Department, etc) be conducted following the Sales Tax Holiday, to determine the benefits and negative impacts.
   
   c. Counties be held harmless.
   
   d. Continue to express the Association’s position of supporting a broad, stable base for the counties’ sales and use tax.

SB 264 is scheduled for a second hearing this Tuesday with a possible vote in the Senate Ways & Means Committee. CCAO encourages members to talk with their Senators, particularly those on the committee, and urge changes be made to the bill.

If you have questions, please feel free to contact CCAO Managing Director of Research Brad Cole at 614-220-7981 or bcole@ccao.org.

**Possible Mid-Biennium Review bills in the works**

Just don’t call it a "Mid-Biennium Review Budget (MBR).” The MBR moniker has taken on some negative connotations among lawmakers who have grown weary of the governor’s fast and furious approach to state policy revisions during his five-plus years in office.

The Kasich Administration is working on legislation to update policy at four agencies. In an apparent nod to legislative leaders’ concerns, the administration is preparing what might be
called an "MBR Lite" - at least for the first set of bills that officials say could begin emerging as soon as next week. The preliminary plan is for two measures in each chamber, none of which would involve extensive impacts to state revenue, taxes or other highly controversial policies.

The House is slated to introduce administration bills on higher education and the Department of Developmental Disabilities. The former will entail "college affordability" issues, according to sources. The latter will deal with "improved efficiencies," such as realigning programs, and is expected to be introduced in early March.

The Senate, meanwhile, is expected to roll out administration bills dealing with the Department of Natural Resources and the Ohio Environmental Protection Agency. The ODNR measure will likely include the transfer of a division, according to officials who could not provide further details. The OEPA package is said to involve a list of relatively minor policy tweaks.

The administration characterized the bills as the "first wave" of MBR-like policy updates, with more to potentially follow later in the session. It's unclear whether the packages will be time-sensitive and require legislative action prior to the summer recess, currently slated to begin in late May or early June.

Transportation Task Force hears testimony on Motor Fuel Tax, and Public Transit needs

Raising the motor fuel tax and license plate fees and flexing federal dollars were among the ideas shared Tuesday with a legislative task force aimed at exploring ways to meet growing infrastructure needs. Now members are heading toward a Dec. 15 deadline for another report - this one on the effectiveness of the Ohio Motor Fuel Tax and potential alternative ways to fund the state's transportation infrastructure. During its first meeting of the year, the group fielded testimony from a number of interested parties.

Joseph Calabrese, CEO and general manager of the Greater Cleveland Regional Transit Authority, recounted the findings of 2015's Ohio Statewide Transit Needs Study, which recommended additional federal and state funding to public transit. From 2002-2015 the state's GRF investment in public transit dropped from $43 million to $7.3 million, he said. "As a result of these cuts in state funding and the effect of the recession, many transit systems were forced to cut services by as much as 20% and raise fares as much as 50%," he said.

The average state funds 20% of its transit needs, while Ohio's share is closer to eight-tenths of 1%, he said. In neighboring states, he said, public transit funding contribution averages $57.71 per capita, compared to Ohio's 62 cents per capital. "The real question is not if the State of Ohio can afford to invest more in public transit, but if the State of Ohio can afford not to," he said.

Other witnesses reinforced the need for additional public transit funding, but focused mostly on the motor fuel tax. Northeast Ohio Areawide Coordinating Agency Executive Director Grace Gallucci said it would appear at first glance that the tax does meet the Department of Transportation's needs. "However, the view from the local and regional level differ from that of ODOT," she said, saying that many major arterial roads aren't being properly preserved. "How
can funding be considered sufficient when there are gross examples of unmet needs around the state?"

She recommended the task force examine how ODOT receives and allocates funds generated by the tax to ensure the funding impacts Ohioans in an equitable way given that the majority of that revenue comes from urban areas. "With the current funding allocations NOACA receives, it would take approximately 63 years to bring all of the current maintenance needs in Greater Cleveland to a state of good repair," she said. "And that $1.5 billion figure is not inclusive of the needs for public transportation systems including transit systems."

She urged the task force to explore: allocating more federal and state gas tax dollars to the control of local decision makers, codifying the priority of infrastructure improvements, increasing state resources allocated to transit through a one to one match of state to local dollars, and changing policy to ensure state highway assets inside incorporated areas are the maintenance responsibility of ODOT.

Greater Ohio Policy Center Deputy Director Alison Goebel suggested the state take on a similar reform process as Pennsylvania, which in 2013 adopted a transportation reform budget that result in $2.3 billion in savings through instituting select fees and reforming gas taxes. She also recommended legislatively raising the motor fuel tax, indexing the tax to inflation, and removing through statewide ballot the constitutional restrictions on the motor fuel tax. "While my organization does not view the motor fuel tax as a silver bullet for Ohio's transportation funding needs, the gas tax is a long standing source and will remain an important resource for ODOT," she said. "We must modernize and maximize this resource."

ODOT Legislative Liaison Johann Klein provided a snapshot of revenue generated by federal and state gas taxes. About 42% of total federal and state revenues from the taxes are put toward highway maintenance, with 38% going toward local governments and 10% in discretionary money going from ODOT to local partners, he said. The remaining 10% funds partnerships with entities such as the Department of Public Safety or Ohio Public Works.

ODOT, he said, is using a "more aggressive, cost efficient" process to preserve bridges and roads that includes proactive cleaning and sealing of bridges and treatment of roads. The department is also using more advanced technology for data analysis on when and how to best treat infrastructure. "ODOT is committed to working with our partners to continue to use innovative and creative ways to maintain these assets and to deliver a superior quality product with the resources provided," he said.

The members made several requests for more information from ODOT, including specifics on its strategy for dealing with transportation and bridge infrastructure and a list of and dollar amount for backlogged projects.

License Plate Fees: Delaware City Manager Tom Homan - who chaired the Mid-Ohio Regional Planning Commission License Fee Task Force - said lawmakers should reevaluate the fee's current $20 cap, which hasn't been increased since the late '80s.

A survey from the MORPC task force, he said, found two out of three communities surveyed had postponed repair or other road or bridge projects because of a lack of funding. Of respondents, 70% said they might increase license fees if authority was granted. "It only makes sense that the state explores giving more flexibility to local governments to use the optional license fee as one of many tools," he said.
He said his community is seeing a $2 million gap between infrastructure needs and funding. "Obviously the license plate fee's not going to solve that alone...but it's one more piece a local government has at its disposal," he said.

For additional information on transportation issues, please contact CCAO Managing Director of Research Brad Cole at boole@ccao.org or 614-220-7981.

Bills Introduced

HB 463  MORTGAGE FORECLOSURES (Dever, J.) To establish expedited actions to foreclose mortgages on vacant and abandoned residential properties, to permit private selling officers to conduct judicial and execution sales of real property, to state the intent of the General Assembly regarding mortgage foreclosure actions, to revise the Commercial Paper Law relating to mortgages and lost instruments, and to make other changes relative to foreclosure actions. Am. 323.47, 1303.16, 1303.38, 2303.26, 2327.01, 2327.02, 2327.04, 2329.01, 2329.151, 2329.17, 2329.18, 2329.19, 2329.20, 2329.21, 2329.26, 2329.271, 2329.28, 2329.30, 2329.31, 2329.33, 2329.34, 2329.39, 2329.45, 2329.52, 2329.56, 2909.07, 5302.01, 5721.371, and 5721.39 and to enact sections 2308.01, 2308.02, 2308.03, 2308.04, 2329.152, 2329.153, 2329.154, 2329.211, 2329.311, 2329.312, 5302.31, 5721.372, and 5721.373

HB 465  PEACE OFFICER DISABILITY (Ruhl, M., Ryan, S.) To retroactively extend eligibility for benefits from the Volunteer Peace Officers' Dependents Fund to situations in which, on or after January 1, 2016, a volunteer peace officer is totally and permanently disabled or killed in the line of duty. Am. 143.09

HB 466  TAX EXEMPTION (Smith, R.) To specifically exempt digital advertising services from sales and use tax. Am. 5739.01

HB 467  UNEMPLOYMENT COMPENSATION (Butler, J.) To establish a loan from the Budget Stabilization Fund to the Unemployment Compensation Fund, to require the Director of Job and Family Services to recommend a program to incentivize the purchase of private unemployment insurance, and to require a study on the solvency of the Unemployment Compensation Fund. Am. 131.44 and to enact sections 131.441, 4141.03, and 4141.091

HB 468  PUBLIC WATER TESTING (Boccieri, J.) To require a board of health to conduct testing for lead in public water systems, to modify the notice requirements with respect to lead in a public water system, to require an applicant for a renewal of a public water system license to complete specified training, and to specify that civil and criminal penalties apply to the members of a board of health and the Director of Environmental Protection with respect to the failure to provide timely notification regarding lead contamination in drinking water. Am. 6109.10, 6109.12, 6109.21, 6109.30, 6109.33, and 6109.99.
Hearing Schedule

Tuesday, February 23

Senate Ways & Means (Committee Record), (Chr. Peterson, B., 466-8156), South Hearing Rm., 9:00 am

HB 9 TAX EXPENDITURES (Boose, T.) To create a Tax Expenditure Review Committee for the purpose of periodically reviewing existing and proposed tax expenditures. --3rd Hearing-All testimony

SB 264 TAX HOLIDAY (Bacon, K.) To provide for a permanent three-day sales tax "holiday" each August during which sales of back-to-school clothing and school supplies are exempt from sales and use taxes. --2nd Hearing-All testimony-Possible amendments & vote

HB 233 REDEVELOPMENT DISTRICTS (Schuring, K.) To authorize municipal corporations to create downtown redevelopment districts and innovation districts for the purposes of promoting the rehabilitation of historic buildings, creating jobs, encouraging economic development in commercial and mixed-use areas, and supporting grants and loans to technology-oriented and other businesses. --3rd Hearing-All testimony-Possible amendments & vote

House Session, (Chr. Rosenberger, C., 466-3357), House Chamber, 11:00 am

House Ways & Means (Committee Record), (Chr. McClain, J., 644-6265)

HB 334 TAX EXEMPTION (Buchy, J.) To exempt memberships to gyms or other recreational facilities operated by nonprofit organizations from sales and use taxation. --3rd Hearing-All testimony-Possible amendments & vote

HB 297 TAX CREDIT (Hill, B.) To authorize a refundable income tax credit for current livestock owners who invest in a manure storage or treatment facility or acquire manure application equipment or manure handling and transportation equipment. --2nd Hearing-Proponent

House Government Accountability & Oversight (Committee Record), (Chr. Brown, T., 466-8104), Rm. 114, 1:30 pm

HB 278 HUMANE SOCIETIES (Hambley, S.) To require approval by the board of county commissioners, instead of the probate judge, of appointments of agents by county humane societies outside a municipal corporation, to specify that a county humane society is a political subdivision, to make its directors, agents, officers, and employees subject to the Ethics Law, and to increase the salaries paid to the agents. --3rd Hearing-Opponent

Wednesday, February 24

House Economic & Workforce Development (Committee Record), (Chr. Baker, N., 466-0961), Rm. 114, 9:00 am

HB 343 TAX EXEMPTION (Young, R., Romanchuk, M.) To exempt employment services and employment placement services from sales and use tax. --7th Hearing-All testimony-Possible vote

2020 Tax Policy Commission, (Chr. Peterson, B., 466-8156; Chr. McClain, J., 466-8156), South Hearing Rm., 9:30 am

Testimony on the State of Ohio’s tax expenditures

House Financial Institutions, Housing & Urban Development (Committee Record), (Chr. Terhar, L., 466-8258), Rm. 122, 10:00 am

HB 435 STATE FINANCING (McClain, J.) To authorize the Treasurer of State to issue revenue obligations of the state for the purpose of making loans to qualifying public entities for their acquisition of permanent improvements through the Treasurer of State’s purchase of public obligations of those qualifying entities. --3rd Hearing-All testimony-Possible amendments & vote

House Session, (Chr. Rosenberger, C., 466-3357), House Chamber, 1:30 pm