STATEHOUSE REPORT

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Previewing the 2014 Mid-Biennium Review

In his State of the State address, Gov. John R. Kasich outlined new proposals to further strengthen Ohio's economic recovery and extend the benefits of the state's growing prosperity to more Ohioans. These new ideas will be part of Kasich's 2014 Mid-Biennium Review, a supplemental budget to the FY14-15 budget bill Kasich signed into law last summer.

The MBR has become a regular part of Kasich's strategy for continuing to advance needed changes that get Ohio back on track and force state agencies to review their programs, policies and spending priorities in order to continually improve them. Highlights of the MBR proposals Kasich discussed in his State of the State speech include:

Furthering Ohio's Economic Recovery

A New Tax Cut - Reducing Ohio's Income Tax Rate Below 5 Percent: The governor will propose new tax cuts that reduce Ohio's income tax rate below 5 percent, made possible by the long-overdue reform of Ohio's severance tax on oil and gas drilling and other tax reforms. Since taking office in 2011 he and the General Assembly have reduced taxes by $3 billion by eliminating the estate tax, cutting small business taxes in half and cutting the state income tax by 10 percent. To date these and other efforts have helped Ohioans create more than 170,000 new private-sector jobs.

Strengthening Education and Workforce Training

Dropout Prevention and Recovery: New strategies will help prevent students from dropping out of high school by identifying at-risk students earlier and developing individualized plans with an alternative path to their diploma. The Ohio Department of Education will work with local school districts to develop the policies and, if necessary, to address individual students' learning styles, including alternatives to traditional classroom instruction, such as career training. The new strategies will help Ohio better support the nearly 24,000 students who drop out every year. Kasich will also propose a new pilot program to provide new solutions for the one million Ohio adults who never finished high school to allow them to work with Ohio's two-year colleges and earn their high school diplomas.

Encouraging Mentoring - Community Connectors: The governor will propose using $10 million from casino-licensing fees to support innovative community efforts that bring together parents, community organizations, faith- based groups, businesses and others in support of our schools and to mentor students. The 3-to-1 matching grants will help give more Ohio students access to role models who can help motivate and inspire them, as well as help them develop skills that lead to success in school and the workplace.

Expanding Vocational Education: Ohio' s high-quality network of technical and vocational education will be expanded to students as early as the 7th grade, giving more Ohio students a jumpstart on career education. School districts can opt-out of the expansion by passing resolutions.

A Jump-Start on College - Fixing the High School-Age College Enrollment Program: An improved system to help high schools encourage more students to get credit toward college from their high school courses will give students a jump on their college careers and also help reduce college costs for them and their parents. Last year 30,000 public high school students participated in the dual-credit program, but due to the program's complexity, that's a small fraction of the more than 500,000 high school students who could potentially benefit from it.

Prioritizing Graduation, Not Just Enrollment: With policies proposed in the MBR, this year Ohio will complete its transition to a new undergraduate formula for state-supported higher education funding that is based entirely on course and degree completion, not enrollment. With both four-year and two- year institutions adopting this new approach, Ohio will now lead the nation in incentivizing its public colleges and universities to achieve successful student outcomes.

Academic Credit for Veterans' Military Training and Experience: The governor will propose giving Ohio's military veterans no-cost academic credit for their training and experience, as well as ensuring that veterans receive help securing federal G.I. Bill financial support to pay for professional license and certificate tests. With the U.S. Armed Forces providing some of the best training in the world in many in-demand professions, this initiative will help tear down barriers to veterans' successful reintegration to civilian life and give Ohio job-creators better access to skilled workers.

Caring for Ohioans

Improving Options for Ohioans and Families Coping with Mental Illness and Addiction: The governor will propose an initiative to increase access to safe places for Ohioans with mental illness and addiction, keep people off drugs and provide those in crisis with a place to seek help before they harm themselves or others. For example, a homeless veteran suffering from the effects of trauma and in need of a stable place to live will be connected to transitional housing that includes access to services to get well, find training and employment, and eventually move into a more permanent setting such as an apartment or house.

Expanding Ohio's New "Start Talking!" Drug Abuse Prevention Campaign: The governor will propose expanding "Start Talking!" by working with legislators to get the program adopted by more schools across Ohio. "Start Talking!" is rooted in research that shows youth are up to 50 percent less likely to use drugs when parents and adults talk with them about substance abuse. More information: www.starttalking.ohio.gov.

Tobacco Cessation: To focus on further reducing tobacco use in the state, the governor will propose allocating $8 million from the Master Settlement Agreement to the Ohio Attorney

General for tobacco settlement enforcement responsibilities and $26.9 million to the Ohio Department of Health to support a five-year plan for tobacco prevention, cessation and enforcement programs.

Local governments describe proposal for distributing severance tax funding

Representative Brian Hill (R-Zanesville) presented the amendment he plans to offer to HB 375, the bill which would create a new severance tax on shale drilling operations, to the House Ways and Means Committee this week. The Hill amendment would fund the LGF hold harmless provision off the top from non-earmarked revenue and increase the allocation to the local governments from 10% to 25%. This proposal has the support of CCAO, OML (the Ohio Municipal League) and the OTA (Ohio Township Association),

The major points of the Hill amendment include:

- Funding the Local Government Fund hold harmless provision "off the top" of the tax revenue before the $21 million appropriation for ODNR and not having it be a part of the allocation to the local governments in the impacted area

- Raising the amount of total severance tax revenue slated for local governments from 10% in the substitute measure to 25%.

- Distribution of the revenue to local governments would occur as follows:

    - 75% would flow to an infrastructure development fund to be overseen by the 11-member Ohio Shale Gas Regional Committee appointed by the governor. The committee would be comprised of 3 commissioners, 3 municipal elected officials, and 3 township trustees all from the impacted area and an economic development professional and an oil and gas industry representative. The Ohio Public Works Commission would manage the grant process for infrastructure projects involving roads and bridges, waste water and drinking water systems, solid waste disposal, storm water, and airport, port, and rail improvements.

    - Another 20% of the severance tax revenue slated for local governments would go to counties impacted by the shale play through a special fund in the county treasury to be distributed to the various political subdivisions based upon the county's undivided local government fund distribution formula.

    - The remaining 5% of the revenue would flow into a township road maintenance fund to be distributed by a committee appointed by each board of township trustees in the county.

Tuscarawas County Commissioner Kerry Metzger, past president of CCAO, testified in support of the Hill amendment on behalf of the CCAO, OML and OTA. Metzger said that it was "extremely important" to recognize that the three groups representing counties, municipalities, and townships, who are often at odds on other issues, unequivocally support the plan. "Our three associations are united on this issue," he said.


Tuscarawas County Commissioner Kerry Metzger

Metzger noted that while CCAO, OML and OTA appreciate that the substitute bill would provide 10% of the severance tax revenues to local governments, the amount is insufficient to support the necessary economic development in shale play counties. Metzger made reference to previous information presented by Representative Hill which identified more than $5 billion in current infrastructure needs in the shale play area.

Harry Eadon, secretary of the Eastern Ohio Development Alliance's board of directors, also spoke in support of Rep. Hill's proposal, saying a significant portion of the revenue should be dedicated to mitigating short and long term impacts of drilling and to ensure a better economic future of the region. Some revenue should be used to pursue infrastructure improvements and another portion should be set aside to support the economic revitalization, he said. "The EODA is encouraged that Rep. Hill's proposed amendment addresses both of these recommendations by returning 25% of the collected tax to the impacted region."


Rep Jeff McClain

The new Chairman of the House Ways and Means Committee, Representative Jeff McClain (R-Upper Sandusky) indicated that how the fracking tax revenue should be distributed is a key concern for members, and noted the ongoing discussion around funding local government needs and how to pay for the Department of Natural Resources' regulatory program.

During an interview McClain said the committee would not meet next week, but would likely hold two hearings the following week on HB 375. But when asked about the bill's future he indicated that whether the committee will advance the bill in two weeks is an open question. "Who knows about the vote? We've got to make sure that we're in a position where we have enough votes that we can pass it, and at this point I'm not sure that's the case," McClain said.

Other parties are debating whether the proposed 2.25% severance tax rate in the substitute measure is sufficient, McClain said. "Obviously the governor would like more. So there's a lot of stuff in play."

Governor Kasich, who has twice proposed raising the oil and gas severance tax, is expected to include another proposal of his own when he unveils his "mid-biennium review" measure in coming weeks.

The current version of the bill before the committee earmarks 10% of the severance tax to local governments and would use this revenue to first offset the lost revenues to the State Local Government Fund resulting from the income tax credits and CAT tax exemptions provided under the bill. The remaining revenues would then be committed to capital improvement projects in the impacted area and a "legacy fund" available beginning in 2025 for capital projects after that time.

Elections officials, county commissioners urge end of special elections

The time has come to end special elections in February and August, witnesses told the House Policy and Legislative Oversight Committee on Tuesday.

Lake County Commissioner Daniel Troy

The idea has been floating around in the General Assembly for years, appearing in an elections reform package 129-SB 148 (Wagoner), which never cleared the Legislature, as well as in a report by former Secretary of State Jennifer Brunner after holding a number of election summits.

The latest bill, HB 240 (Becker-Adams), received a second hearing and proponent testimony Tuesday, with Lake County Commissioner Daniel Troy and Madison County Board of Elections Director Tim Ward urging the elimination of the extra election days to save taxpayers money.

Ward, testifying also on behalf of the Ohio Association of Elections Officials (OAEO), called it "a change that is long overdue." He said the special elections in February and August present problems for counties, who have to fund them and may have to cut other programs to do so. He said twice a year is plenty for entities to get a levy passed.

"Let me answer the question you certainly want to ask. No, we are not asking for these to be eliminated because we are lazy and don't want to do the work. We are paid to run elections, and we will gladly run however many are required by law. But as Ohio's election professionals, we see undue consternation and wasted resources thrown into these elections year after year," Ward told the committee. He called "preposterous and insulting to voters" the notion that multiple elections are needed to educate voters about an issue.

Rep. Matt Lundy (D-Elyria) asked if elections officials are weighing in on local issues by calling them "preposterous." Ward said if the Legislature tells elections officials to run four elections a year, they will, but he is pointing out the "huge cost" to taxpayers.

Lake County Commissioner Daniel Troy said it is getting harder to fund special elections, and that there are too many. He asked whether the goal of a special election should be "to chase down the fewest number of voters."

CCAO's platform advocates for curtailed special elections, or, in the absence of their elimination, a requirement that the political jurisdiction calling such election pre-pay the county general fund for the election costs in advance.

He said that while current law requires counties to pay for the cost of special elections now and get reimbursed from next year's tax settlements to that political subdivision, very few counties are in a position "to play the bank on these costs." He also noted that whatever is approved by voters is not collected until the next year, meaning there is no fiscal penalty or loss of revenue by waiting until the next regularly scheduled election.

In response to questions, Troy told committee members that he doesn't think eliminating special elections takes away the rights of voters or disenfranchises them, because voters still must approve the levies. He said the question is whether the cost is worth it, and he believes it is money "that is unnecessarily spent."

"The whole concept [of elections] is to get as many people involved in making decisions as possible, and special elections just don't get people involved," he said.

Members of the committee asked the witnesses to provide them more concrete details of the amount of special elections held and the costs. The witnesses said they would get that information to the committee.

If you would like additional information on HB 240, please contact CCAO Staffer Cheryl Subler at csubler@ccao.org.

CCAO executive director urges opposition to sales tax holiday legislation (SB 243)

In testimony before the Senate Ways and Means Committee, CCAO Executive Director Suzanne Dulaney reiterated CCAO's opposition to legislation that would establish a sales tax holiday for certain clothing, school supplies, computers and computer accessories during the back-to-school shopping season. CCAO's testimony expanded on concerns expressed by CCAO during previous testimony to the committee.

CCAO Executive Director Suzanne Dulaney

The legislation, sponsored by Senator Kevin Bacon (R-Minerva Park), exempts from sales tax transactions occurring on the first Friday of August and through the following Sunday of each year including: clothing (up to $100), school supplies (up to $20 per item), personal computers (up to $1000), and personal computer software and accessories (up to $750).

A Legislative Service Commission fiscal note estimated sales tax revenue losses of up to $31 million per year for the state, and county and transit authority revenue losses of up to $7 million dollars per year. The Local Government Fund (LGF) and the Public Library Fund (PLF) would together experience revenue losses of approximately $1 million per year.

In her testimony to the committee Dulaney emphasized the importance of the permissive sales and use tax as "the single largest individual source of revenue to fund state mandates and services funded from the county general fund." Dulaney also raised the following points in her testimony relative to the short and long term implications of the sales tax holiday:

- Streamlined Sales Tax Compact – Ohio is one of 23 states that have full member status as part of the streamlined sales tax project. Every effort should be made to assure that Ohio's adoption of a sales tax holiday does not adversely affect Ohio's status as a recently added member of the streamlined sales tax compact

- Compliance Costs - The streamlined sales tax holiday violates the principles of good tax policy which emphasize simplicity, equity and efficiency. The sales tax holiday adds complexity to sales taxes and increases administrative costs to the state and retailers who respectively must enforce and comply with the sales tax holiday. These administrative costs are not trivial and may be substantial for small retail merchants who must train their staff relative to the distinction between exempt and taxed goods, reprogram their registers twice, and make appropriate adjustments to accounting systems.
- Government Involvement in Purchasing Decisions – Sales tax holidays by their very nature are intended to alter purchasing behavior by focusing certain types of purchases into a narrow window of time while the holiday is in place. Sales tax holidays distort consumer spending and reduce market efficiency by favoring certain products over others. Proponents of tax holidays claim that total sales including sales of taxable items increase, thus reducing the negative impact of lost sales tax revenues. However, the experience of some states indicates that the sales tax holiday only shifts the timing of sales resulting in no net increase in total sales activity.
- Consumer Benefit – Studies and investigative reports in other states suggest that consumer benefit from the sales tax holiday is uneven at best. High demand for certain items might understandably cause the price of certain items to increase based on supply and demand for the goods in question.
- Sustainability and Long Term Objectives – The number of states that have offered sales tax holidays has changed over time with a recent trend since 2007 of fewer sales tax holidays. The testimony notes that "budgetary concerns have been a leading driver in the decline, bringing into question whether such holidays are sustainable in the long term and worth the administrative burden."

In concluding her testimony, Dulaney asked the committee to consider a hold harmless provision from the fiscal harm for counties and a sunset for the sales tax holiday coupled with a study regarding the impact of the holiday.

Prior to reporting SB 243 the Senate Ways and Means Committee adopted an amendment clarifying the definition of tax exempt items which was intended in part to address concerns with Ohio's compliance with the Streamlined Sales Tax Compact. The amendment also increased the sales tax exemption for computers from $750 to $1000. SB 243 passed the Ohio Senate on February 26th and is expected to be assigned to a House committee for further consideration in coming weeks.

To view a copy of Suzanne Dulaney's testimony, click here. To view Brad Cole's testimony click here. For additional information please contact Suzanne Dulaney or Brad Cole at (614) 221-5627 or by email at sdulaney@ccao.org or bcole@ccao.org

CCAO supports legislation to expand allowable uses for county credit cards


Representative Tony Burkley

CCAO Managing Director of Research Brad Cole and Franklin County Purchasing Director Karl Kuespert offered testimony in support of legislation (HB 386) that would expand allowable uses for county credit cards to include webinars and automatic or electronic data processing or record keeping equipment, software, or services. The new language of the bill requires such county credit card expenditures to be coordinated with a county automatic data processing board if one exists within the county.

This legislation, which is sponsored by Representative Tony Burkley (R-Payne), was reported by the House State and Local Government Committee after adopting an amendment limiting county credit card expenditures for data processing and copying equipment to $10,000 per quarter. The amendment permits county commissioners to approve a higher expenditure for a particular calendar quarter by adopting a resolution to that effect.

Cole and Kuespert explained that certain vendors that sell technology items and services over the internet insist upon being paid with credit cards and refuse to accept traditional county purchase orders and county checks for payment. Counties have had to ask county employees to use their personal credit cards to make purchases on behalf of the county and then the county reimburses the county employee for the county expense.

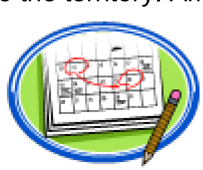
Both witnesses emphasized in their testimony that existing law, unchanged by the bill, requires all county credit card expenditures to be appropriated to a specific line item in the county budget and to be certified as to the availability of funds to pay any credit card expense. Existing law also requires county commissioners to set monthly or multi-month limits on county expenses or to use their appropriation authority to limit how much may be expended by a credit card during specific time periods.

To view Brad Cole's testimony, click here. To view Karl Kuespert's testimony, click here. For additional information regarding this legislation please contact Brad Cole of the CCAO staff at bcole@ccao.org

Legislation of Interest

SB 287	**DEPOSITORY ACT** (**Hughes, J.**) To modify authorized investments of interim moneys and inactive moneys under the Uniform Depository Act. Am. 135.14, 135.142, 135.143, 135.35, and 3770.06 and to enact section 135.48
SB 288	**VOLUNTEER OFFICERS** (**Eklund, J.**) To create the Volunteer Police Officers' Dependents Fund to provide death benefits to survivors of volunteer police officers killed in the line of duty and disability benefits to disabled volunteer police officers Am. 329.66 and to enact sections 143.01 to 143.11
HB 459	**DEPOSITORY ACT** (**Sprague, R.**) To modify authorized investments of interim moneys and inactive moneys under the Uniform Depository Act Am. 135.14, 135.142, 135.143, 135.35, and 3770.06 and to enact section 135.48
HB 461	**ANNEXED TERRITORY SERVICES** (**Henne, M.**, **Butler, J.**) To provide that, beginning five years after a type-II annexation is approved, the annexed territory is subject to a fire, police, or EMS tax levy only if the levy is imposed by the subdivision that provides the fire, police, or EMS service to the territory. Am. 709.023.

Upcoming Legislative Committee Calendar



The Legislature is not in session the week of March 3 - 7