



City of Lima, Ohio
Steven V. Cleaves, Finance Director

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February 23, 2010

Honorable Members

Ohio House of Representatives

Ways and Means Committee

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Subject: Testimony HB 400

I would like to express appreciation for this opportunity to voice strong support for the protection of the fiscal stability and economic development of the State of Ohio. The preservation and development of essential State infrastructure and the continuation of critical services provided by State and local governments are critical to any economic development effort. I am here as a proponent for a sound revenue, tax and spending policy that provides for governments' primary responsibilities to provide essential infrastructure and services which are the foundation upon which economic growth and sustainable communities are built and maintained.

The proposal in Ohio HB 400 to eliminate the State Income Tax neither provides for sustainable economic development nor maintains support for essential community infrastructure and services. HB 400 presents the worst of both worlds. State tax reduction on the scale proposed will result in a crumbling of the State's stressed infrastructure needs and essential educational and other services making Ohio unattractive for economic development.

Cutting waste and improving efficiency must always be pursued by both public and private entities. However, you cannot improve private industry or a public entity by the simpleminded wholesale reduction of spending and cutting of services. There are limits to how much a business or public entity can cut without destroying itself. Progress is not simply the ability to hang on for another year.

The revenue cuts proposed would create an extreme hardship on those we serve, and would make it virtually impossible for the State to continue to deliver the services expected of us. A reduction of 30% to 40% of the State's GRF revenue resources especially in a time of budget shortfalls would be a disaster for the State's economic future. Other fees and taxes including real estate and sales taxes would ultimately increase drastically to make up for the vast majority of the revenue shortfall, and Ohio's infrastructure investments and services would be cut to unsustainable draconian levels.

One prominent argument for elimination of the State Income tax is that the money going back into the pockets of consumers will ultimately bring in more revenue as consumers spend the extra dollars not paid in taxes. All reputable economists including the Libertarian Alan Greenspan acknowledge that cutting taxes requires cutting spending. Economists argue over how much spending must be cut for a dollar of tax revenue cut but the usual number cited is about 70 cents of spending cuts required for a dollar of tax revenue cut. Economists implementing the supply side economics policy for President Reagan acknowledged these facts. A Congressional Budget Office study in 2005 stated that in the most generous case a 10% income tax cut would take 10 years to recover 28 % of the revenue loss via economic growth. The argument for tax cuts providing more tax revenue via economic growth is based on the Laffer Curve. What Laffer actually proposes is the concept that there is an optimal amount of taxation above or below which revenues will be reduced. HB 400 100% tax cut proposal will amount to a requirement for at least a 70% cut in spending for the revenue lost. That would add approximately another \$10 billion to the State's current budget shortfall of \$7 plus billion. More than doubling the budget shortfall is a highway to fiscal hell.

Business relocations among states and countries are not driven primarily by tax differences. An analysis by KPMG the world's largest business and financial consulting firm reports in its CEO's Guide to International Business Costs that labor costs make up to 85% of location sensitive costs while taxes account for 2 to 8% of location sensitive costs. Furthermore Ohio's major cities had a business cost index total of less than the baseline index of 100 for US cities prior to Ohio's 2005 business tax reduction reforms. As an example, Youngstown with a typical Ohio tax structure has a lower tax burden than Houston and other Texas cities in spite of Texas having no state income taxes and all of their oil wealth. Youngstown also has a lower total business tax cost than cities in other no income tax states including Nevada, Florida and Alaska. Ohio's job losses are due to lower labor costs for offshore low tech manufacturing and due to higher job skill and quality of life locations for high tech jobs. Ohio must move up to higher tech advanced manufacturing and higher skill service jobs and away from labor intensive low skill manufacturing to regain its economic footing.

There is a better way to look at the difficulties facing the State during this budget cycle. The State and local governments alike must determine what essential services are required to be provided to enable the protection and growth of our communities. A fair and equitable revenue system to provide for those funding requirements must be established to secure our future.

The fiscal realities and restraints facing state government are real and require real solutions, not the proposed elimination of the state income tax.

The seriously flawed and counter productive budget bill as currently proposed should be rejected. Our state legislators should work for legitimate spending and tax solutions, which allow development and maintenance of infrastructure and services crucial to residents of our communities.

Ohio's recent history of business and job loss, decaying infrastructure and school funding cuts demands drastic action to turn the State's fortunes around. We must improve the State's and local community's services and infrastructure to attract new growth, new business into the State of Ohio. What is needed is leadership to see what has to be done and the will to do it. The current budget proposal before the Ohio House does neither. A fair and equitable revenue system to provide for those funding requirements must be established to secure our future.

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