

SENATE PASSES STATE BUDGET; HOUSE PASSES ON CHANGES PROMPTING CONFERENCE COMMITTEE

For the last month and half the Ohio Senate has been wading through committee hearings and discussions regarding House Bill 64, the state biennial budget. As you'll recall, the [House finished its work in late April](#), sending a \$131.6 billion dollar budget proposal to the Senate for its consideration. However, the Senate was less than willing to put a stamp of approval on the House's version.

When the Senate, led by President Keith Faber, began its process, it indicated it was going to change the normal process of review of the House's version. Instead of working from the House version, the Senate would work from Fiscal Year (FY) 2015 level numbers and funding levels. This left interested parties having to cover a wide variety of topics when testifying in front of the various committees working on the budget proposal, including testifying to the [Governor's original proposal](#), the House version and the FY 15 levels of spending. It was a guessing game as to what the Senate would do to put its mark on HB 64.

In the end, the Senate retained the House's 6.3% across the board personal income tax (PIT) cut and continued to bolster the small business tax deduction. Where the Governor proposed a 50% deduction, the House proposed a 75% deduction and the Senate has proposed a 100% deduction, for up to \$250,000 of Ohio business income. The Senate has also included one specific tax increase, a \$0.40 increase on cigarettes and an increase on Other Tobacco Products (OTP) which includes chewing tobacco. Electronic cigarettes were not included as part of this tax increase. For the first time in years, the Senate has allocated revenue from the cigarette tax to go to cessation programs around the state.

School funding was a major winner in the Senate's budget. More than \$935 million in new money is slated to be invested in K-12 education, some specifically going to the per-pupil formula, special education, career-technical education and literacy programs for K-3. The Senate also followed the House's lead and is holding all districts harmless on the funding formula amounts for FY15.

The Senate originally wanted to enact a major overhaul of the Historical Rehabilitation Tax Credit. The changes would have revoked funding to projects currently in the process or slated to begin this year. After an outcry from

developers, construction trades and cities across Ohio, the Senate removed the language from the bill and has instructed the Development Services Agency to report to the General Assembly how to convert the program from a credit program to a grant program. The report is due at the end of this year.

The Governor has long sought to rewrite Ohio's severance tax which currently taxes traditional drilling for oil. With the introduction and increase in horizontal drilling (sometimes referred to as fracking) the Governor and some legislative leaders believe that it is time to increase taxes on horizontal drilling which results in severed gas. The House, which passed its own measure last year, stripped out the Governor's proposal in the budget. Senate leadership has been diligently working to come to a compromise with the administration, industry and the House. However, the three were not able to do so in the short time frame of the budget. As such, the Senate has added the severance tax to the list of items to be reviewed by the 2020 Tax Policy Study Committee. The 2020 Committee is being formed to study a wide range of tax reforms, and the bill mandates that the work on severance tax be completed by October 1st of this year.

Also included in the Senate's version of the bill is language granting a 5% pay raise for all local elected officials. Originally, only judges, prosecutors and sheriffs were slated to receive the raise, the first for many local elected officials in nearly a decade. Late in the process, language was added so all elected officials will receive the pay raise. Excluded from the increase are statewide elected officials and lawmakers.

Other significant changes include:

- Freezes instructional and general fees for undergraduate work at state universities for academic years 2015-2017 at current year levels;
- Requires state universities to develop and implement plans that will decrease undergraduate programs tuition by 5%;
- Restores Medicaid coverage for breast and cervical cancer, as well as restoring coverage for pregnant women up to 200% of the federal poverty level;
- Workers compensation coverage for first responders (police and fire) while limiting the ability to receive both workers compensation and disability;
- Elimination of property taxes on power plants which also allows utilities to recover costs directly from customers;

The Senate passed its budget essentially (one Senator from each party voted the opposite way the rest of their party did) along partisan lines with a vote of 23 to 10. In the end, the Senate's budget is \$1.1 billion less than the Governor's proposal and \$1.7 billion less than the House's.

After the Senate vote, the House voted not to accept the Senate changes to the bill, a routine procedure, thereby requiring a Conference Committee to work out the differences between the two chambers. The Conference

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Committee is slated to start immediately with the hopes of finishing its work and getting the bill sent to the Governor for his signature by June 30th.

If you would like to better understand the (subject of Buzz) please contact Charlotte B. Hickcox, Director of Government Affairs at (614) 349-4819 or chickcox@zhftaxlaw.com or one of the other Zaino Hall & Farrin professionals listed below.

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