



## H.B. 166 FY20-21 Biennium Budget Overview

August 2, 2019

On July 17, 2019, after a 17-day delay, Governor Mike DeWine and the 133rd General Assembly completed work on House Bill (H.B.) 166, the state's general operating budget for the biennium. It concludes several months of intensive committee hearings, featuring hundreds of witnesses, hours of testimony and thousands of amendments. The final legislation totaled 2,602 pages.

Introduced on March 15, 2019, Governor DeWine's proposed budget echoed his focus from the 2018 campaign, transition and initial days in office—a focus on family and children's initiatives. The initial proposal invested in key government functions designed to improve the wellbeing of Ohio children, including, for example, significant additional investments in wraparound care services, mentoring and after-school programs. Overall, H.B. 166 appropriates \$69.79 billion during the FY2020-2021 biennium.

As has become custom, in addition to the appropriations for the state's next two fiscal years, the budget also includes a number of policy items, ranging from regulations on peer-to-peer car sharing services to major changes in tax policy.

The governor and General Assembly enjoyed healthy revenue projections for the FY2020-2021 budget, based on the state's tax collections running far ahead of predictions. Legislators' challenge to this General Assembly was to strike a balance



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between increasing spending for key initiatives and programming, while maintaining fiscally responsible discipline that guards against any future potential economic downturns.

Highlights of the budget bill are below. This list is representative of many larger policy and appropriation items found in the bill. For a full analysis of the bill, including a fiscal review, please visit the Ohio General Assembly's [website](#).

#### Appropriation and Policy Provisions in H.B. 49

Education. For months Representatives Bob Cupp (R-Lima) and John Patterson (D-Jefferson) worked extensively on overhauling Ohio's public school funding formula. During budget deliberations, Representatives Cupp and Patterson unveiled a new formula for school funding. While it was hailed as potentially transformative, the plan was shelved so it can receive additional attention and debate later in 2019 and into 2020.

The budget does increase state funding for schools. K-12 schools receive an increase of \$381.8 million, for a total of \$9.3 billion in the 2019-20 fiscal year, and includes another increase for a grand total of \$9.4 billion for the 2020-21 fiscal year. As mentioned above, the budget also includes a \$625 million increase over two years for wraparound care services.

The legislature also enacted new graduation requirements, providing more additional pathways to a diploma in addition to standardized testing, and enacted a one-year moratorium on creating a new academic distress commissions. The General Assembly plans to revisit academic distress commissions, which, under current law, take over the governance of struggling school districts. The governor also line-item vetoed multiple provisions that would have impacted property taxes and funding for both local governments and school districts (see below).

Libraries. The budget raised Ohio's public library fund, which is a percentage of the state's general revenue fund, from 1.68 to 1.7 percent. In recent years, Ohio's public libraries have become leaders in workforce development efforts, literacy efforts, and are vital local partners in education and economic development.

Taxation. The House passed an overhaul to Ohio's small business income tax deduction, which lowered the threshold for the deduction from \$250,000 to \$100,000. The Senate restored the deduction in full. In part, this policy difference fueled the delay in enacting the budget prior to the June 30 Constitutional deadline. Ultimately, the legislature agreed to restore the small business income tax deduction in full. However, attorneys and lobbyists are no longer eligible for the deduction.

The budget includes an across the board 4 percent income tax cut for all Ohioans and eliminates the lowest two tax brackets.

Following a United States Supreme Court decision, *South Dakota v. Wayfair, Inc.*, 138

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S.Ct. 2080 (2018), the legislature also enacted provisions that now applies the state's sales tax to online sales and vendors, considered "marketplace facilitators" in the Supreme Court decision.

The final version of H.B. 166 also includes new taxes on vapor products and raises the age for tobacco products to age 21.

Health Care. After introduction, many referred to Governor DeWine's budget proposal as the "Children's Budget," because so much of the proposal was directed towards improving the lives of children and families. The final product included a total of nearly \$70 million over the biennium for home visiting programs for newborns, which has been proven to reduce infant mortality rates.

H.B. 166 also included \$18 million to help reduce the stigma surrounding mental health and substance use disorders and \$22 million to local Alcohol, Drug and Mental Health Boards for crisis support for families.

Energy. The budget included a controversial provision that revised the Public Utilities Commission of Ohio's (PUCO) significantly excessive earnings test (SEET) by permitting an electric distribution utility (EDU) with multiple subsidiaries to average the profits among the subsidiaries, which may impact whether a customer refund is warranted.

The state budget also re-authorized the payment-in-lieu-of-taxes (PILOT) for qualifying advanced energy projects. The PILOT, which was slated to expire in 2020, is an often-used economic development tool for wind and solar projects throughout the state. The PILOT now expires in 2022.

Environmental. The budget created the H2Ohio fund and appropriated \$172 million over the biennium for the Departments of Agriculture, Environmental Protection and Natural Resources to ensure safe and clean water resources across Ohio by funding best management practices for farmers, watershed planning, scientific research, data collection, wetland maintenance and creation throughout the state, and improvements and protection of state waterways in support of water quality priorities and management. There is currently other legislation pending in the General Assembly to address the future funding and structure of H2Ohio.

Economic Development. The budget reinstates the Rural Industrial Park Loan Fund and appropriates \$25 million for the program. The budget also included provisions that would create automatic property tax abatement for undeveloped residential property. However, Governor DeWine vetoed the language, citing the potential impact to existing economic development incentives and the potential negative impacts to local governments' tax receipts.

Other items. The budget includes a regulatory framework for peer-to-peer car sharing services, an emerging industry that Ohio law did not directly address. Language included regulatory oversight, consumer sales protections and tax

language.

The state budget also changed Ohio's primary election date to March 17, 2020, bringing the state in compliance with national Republican Party rules regarding the scheduling of primary elections and ensuring that the state would have full representation at future conventions.

#### Line-Item Vetoes

The governor issued several line-item vetoes. The full list of vetoes can be found [here](#).

Health Care. After extensive reporting by Ohio media, primarily from a series of stories by the Columbus Dispatch, claiming pharmacy benefit managers (PBMs) were a leading cause of high costs for prescriptions, the legislature enacted extensive reforms. This includes requiring the state to utilize only one PBM provider for Medicaid managed care and requiring that contract to be re-bid every four years. The sole PBM will negotiate prices on pharmaceuticals for the state's managed care program. However, the governor vetoed these provisions, stating that while the administration is committed to embracing many of the proposed reforms in the budget, the proposed statutory language would inhibit the Department of Medicaid's needed flexibility to properly administer the program.

The governor also vetoed health care provisions related to price transparency, citing federal actions, including an executive order recently signed by President Trump. Governor DeWine's veto statement indicated that the transparency regulations would create regulations that were duplicative of federal regulations and increase compliance costs for health care services. The governor simultaneously issued an executive order directing state agencies to comply with the new federal health care transparency regulations.

Taxation. Governor DeWine issued several tax-related vetoes. Above, we mentioned the new regulatory structure for peer-to-peer car sharing services. The new framework also includes language applying the state's sales tax laws to those services. However, this language was vetoed, because current law already requires the collection and remittance of sales tax for peer-to-peer car sharing services, and the legislature had agreed to remove this provision during conference committee. When the final language did not reflect that agreement, the governor struck the language.

There were a few property tax-related line-item vetoes as well. One veto, citing the potential negative impacts to local governments, school districts and existing economic development incentives, eliminated a provision that created automatic property tax abatement for unimproved residential development property. Another veto struck language that would have changed the ballot language for property tax levies. The governor's veto message stated that proposed language could be

confusing and contradictory to voters.

### Conclusion

Now that work has finished on the budget, Ohio representatives and senators begin their summer recess. The legislature likely will not return until September, following Labor Day weekend. Work will continue behind the scenes on priority legislation. Legislators will hold interested party meetings, draft amendments or new proposals and engage constituents on highlights of their work from the first half of 2019.