A budget that works

Introduction

The state budget is the two-year blueprint for the services Ohioans depend on for a healthy environment and clean water, thriving communities, safe streets, and opportunity for children to grow and learn. In the wake of the recession, Ohio's legislature faced a choice as it crafted the current two-year budget: whether to take a balanced approach that included new revenues to maintain services, or to just cut services. They chose to cut.

The current state budget slashed needed services, seized money from local government and put it toward state obligations, and sold off state assets for short-term gain (and at long term cost). It continued a tax-cutting agenda begun in 2005 that has deprived Ohio of the revenue needed for a well-functioning state. From mental health to maintenance of dams, resources for public services were deeply eroded going into the 129th General Assembly. State Fiscal Stabilization Funds (part of the Recovery Act) expired with the prior budget, but no tax revenues were generated to replace these federal funds. Billions were cut from schools and communities and redirected to state uses. Public assets were sold and public operations – like prisons – were outsourced. An $800 million income tax cut that disproportionately benefitted top earners was allowed, and new tax expenditures were granted. [1]

Ohio started 2013 with a final blow to fiscally battered communities: elimination of the estate tax, a $200 million-plus annual loss to Ohio's local governments.[2] Federal policy enacted under the Budget Control Act of 2011 (the "Sequester") could cut around $180 million in federal funding from important programs needed by Ohioans this year, and could do the same in 2014 – and each year, though 2022.[3] Ohio, the seventh most populated state with the eighth largest Gross State Product,[4] has now joined states near the bottom quintile in rankings that measure quality of life and investment in residents: healthy lives (42nd),[5] need-based college aid (37th),[6] state funding for public children's services (50th),[7] per-recipient spending for child care and development (37th),[8] and state support for public transit (40th):[9] services that affect the daily lives and opportunity of many Ohioans.

This year, Ohio should have a more balanced approach to state budgeting. This report highlights selected public services that will be impacted by the state budget in education, health care, and human services as well as selected local government funding and services. These are only some of the important items for the state to support, chosen either because of their importance or because of they are a focus area of Policy Matters Ohio.

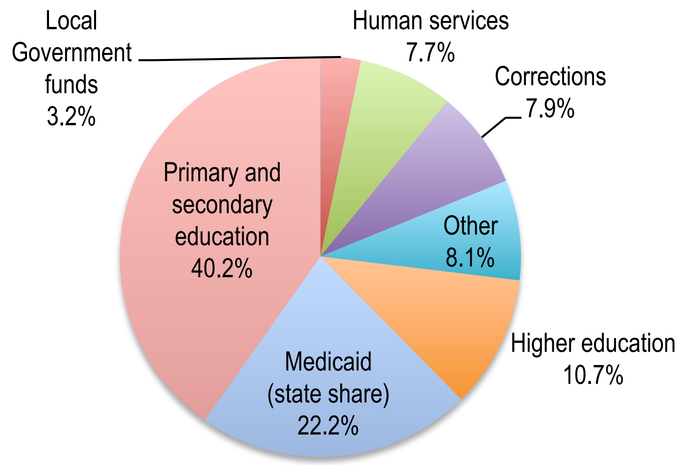
Tax policy is the key to restoration: the final section provides an analysis of Ohio tax policy and how past tax decisions have helped or hurt Ohio.

Budget baseline

The General Revenue Fund (GRF) represents allocation of tax revenues by elected officials. The major functions supported in Ohio's GRF in 2013 were education (K-12 received 40.2 percent and higher education, 10.7 percent, for a total of 51 percent of the budget); health (state-only Medicaid expenditures account for 22.2 percent of the budget); corrections (7.9 percent), human services (7.7 percent) and local government (3.2 percent). All the other functions – commerce, insurance, economic development, agriculture, natural resources, the judiciary, and so forth – account for just 8.1 percent. (Figure 1)

Figure 1

Major public service areas of the state budget, FY 2013

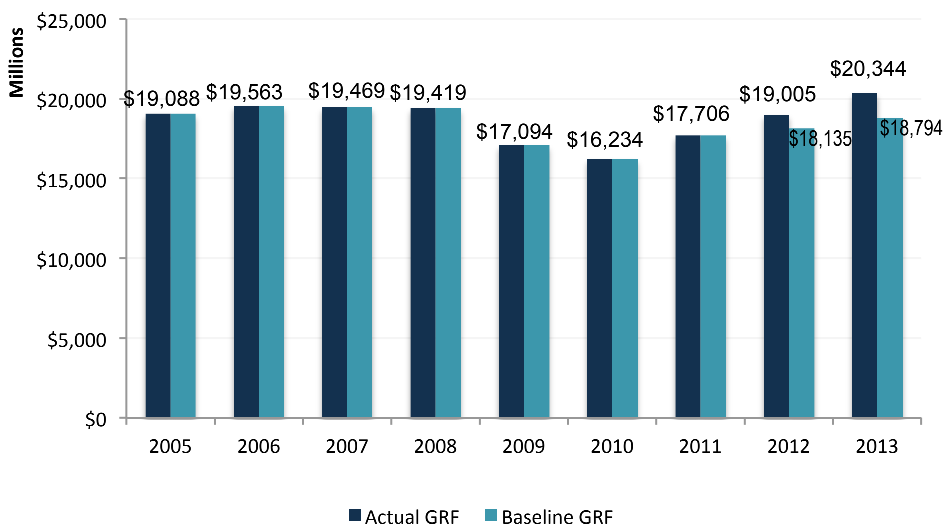


Source: Policy Matters Ohio based on Ohio Legislative Services Commission, Historical state-only expenditures, Table 2-1.

The current budget, for Fiscal Years 2012-13, slashed many programs, seized funds from local government and schools, and sold off important state assets. The state took a billion dollars from localities, cutting the Local Government Fund in half and cutting tax reimbursements, promised when the state eliminated local taxes earlier in the decade, by nearly two-thirds. Another billion in tax reimbursements was taken from schools. Libraries, which saw their funds slashed in the previous budget, were trimmed further. Howard Fleeter of the Education Tax Policy Institute has calculated the amount of state tax revenue added to state coffers as a result of these policy changes (Figure 2). Altogether, Fleeter calculated, the GRF was $870 million higher in FY12 and will be an estimated $1.55 billion higher in FY13 because of the revenue diversions.[10]

Figure 2

Baseline GRF state-only tax revenues, FY 2013



Source: Education Tax Policy Institute, "FY2012 Tax Revenues Come in $373 Million Above Estimates," Facts & Figures, Summer 2012

Fleeter's calculations show that without the resources redirected from schools and local governments, state tax revenue has not recovered from the recession and the tax cuts of 2005. Yet the current budget reduced taxes further and expanded tax expenditures.

- Tax cuts from 2005 are costing the state about $2.5 billion a year – nearly a dime out of every budget dollar;
- These cuts went mostly to businesses, which no longer pay a tax on corporate profits, and affluent individuals, who got most of a 21 percent income-tax cut;
- The estate tax was eliminated in HB 153, effective in 2013; the local share of the estate tax brought $302.1 million to local governments in FY2011.[11]
- Other new tax breaks, such as a new personal income tax credit on investments in small business enterprises, will reduce state revenue in the upcoming budget.

In Ohio, years of prioritizing tax cuts over public services have caused long-term, inadequate funding for critical services. The tax cuts of 2005 were supported by governors regardless of party affiliation. The legislature has turned to one-time revenues and spending cuts instead of sustaining services and investments. Increasingly, the state is choosing to privatize public services and sell public assets, whether in economic development, primary and secondary education, higher education, corrections, or local governments.

Privatization

Privatization – the sale of public assets or services – has been a go-to approach in the current budget period. The expansion of charter schools and vouchers, privatization of ancillary services on college campuses, sale of prisons, outsourcing of prison management, sale of the state wholesale liquor profits for the privatized economic development agency, JobsOhio – these are all forms of privatization or even of privateering, a term coined by George Lakoff to describe using public funds to allow private companies to take over critical functions of government.[12] The private companies will make a profit from the delivery of their services.

Bids of private firms may look cost-effective up front, but troubles from loopholes or contractual obligations can emerge over time. For example, Chicago faces a lawsuit from its parking contractor over permits granted for new parking facilities.[13] Indiana got a $400,000 bill when residents were allowed to flee rising floodwaters without pausing to pay the toll on the privatized turnpike.[14] Services may turn out to be poor – as in Indiana, where privatized public assistance contractors had to be booted. And it may be hard to attribute technical problems to the contractor – in Texas, oversight of development of an ultimately defective information system was obscured by contractual stipulations.[15] The Government Finance Officers Association estimates that hidden and indirect costs can add up to 25 percent to the contract price; a 2007 survey by the International City/County Management Association found that 52 percent of governments that brought services back in-house reported that the primary reason was insufficient cost savings.[16]

Transparency and accountability are also key issues when public services are privatized. For instance, JobsOhio, the state's new economic development entity, is not subject to the same transparency standards as the agency it has replaced. Accountability problems are illustrated by the difficulties of the Ohio Department of Rehabilitation and Correction in correctly tabulating cost savings of privatized prison operations over time. Policy Matters Ohio found the state's calculations over the past decade were not only riddled with errors, oversights and omissions of significant data, but also were tainted by controversial accounting assumptions that many experts considered deeply flawed.[17]

Public opposition to the privatization of the Ohio Turnpike has caused Gov. Kasich to back off and opt instead for a plan to issue bonds based on future toll revenue to pay for road projects now. However, as much as Ohio needs more funds to support its transportation infrastructure, it needs a more permanent solution, not just a one-time infusion of funds.

Other one-time infusions from privatization are likely to be part of the state budget, such as the renewed attempt to lease the state's wholesale liquor operation. Raising funds this way exposes the state budget to long-term risk. It may create an immediate windfall, but it often reduces an income source for the state, makes it difficult for the state to control costs, and cloaks the delivery of public services in secrecy. It is not a sustainable way to fund services. What is needed is comprehensive fair, adequate and sustainable tax policy.

Local government

The state took local government aid to balance its own budget, leaving local governments with budget problems that have intensified each year. No community went unscathed. The Kasich administration suggested local shortfalls would be averted by elimination of collective bargaining rights, privatization, merging of local governments and collaboration of services, and new casino tax revenues. This has not come to pass. Senate Bill 5, passed by the 129th General Assembly in 2010 to eliminate the rights of public workers to bargain collectively, was decisively defeated in a referendum. Some collaboration efforts are being studied with state funding from a new grant program, and some local privatization efforts have moved forward. Casino tax revenues are nowhere near robust enough to replace what has been lost.

Ohio is a home rule state where many services, including some delivered by state government elsewhere, are provided by local government. Revenue sharing in Ohio has supported local government while allowing for diversity in local public finance. House Bill 153 reduced revenue sharing by reclaiming tax reimbursements promised for local taxes eliminated in earlier state legislation and by cutting the local government fund in half. These cuts totaled $1.086 billion dollars when compared with the two-year, prior biennium.[18]

Communities in 2013 will get 60.5 percent less from the state then they got in 2010, the last year of full funding before the current budget took effect. (See Table 1.)

Table 1

State aid to local governments in 2010 compared to 2013

	2010	2013	Change	% change
Municipalities				
Local Government Fund	$376,182,230	$201,861,714	-$174,320,516	-46.3%
Tax reimbursements	$128,367,831	$16,455,896	-$111,911,935	-87.2%
Total	**$504,550,061**	**$218,317,611**	**-$286,232,451**	**-56.7%**
Townships				
Local Government Fund	$57,135,295	$30,735,937	-$26,399,357	-46.2%
Tax reimbursements	$81,650,857	$27,589,193	-$54,061,664	-66.2%
Total	**$138,786,151**	**$58,325,130**	**-$80,461,021**	**-58.0%**
Counties				
Local Government Fund	$218,930,026	$117,773,428	-$101,156,598	-46.2%
Tax reimbursements	$298,306,941	$71,488,093	-$226,818,847	-76.0%
Total	**$517,236,967**	**$189,261,522**	**-$327,975,445**	**-63.4%**
Other				
Local or multi-jurisdiction levies	$68,535,336	$17,519,172	-$51,016,164	-74.4%
Local Government Fund – parks	$11,156,273	$6,001,518	-$5,154,755	-46.2%
Local Government Fund – other	$112,996	$60,786	-$52,210	-46.2%
Total	**$1,240,377,785**	**$489,485,739**	**-$750,892,046**	**-60.5%**

Source: Policy Matters Ohio, "No Windfall: Casino taxes won't make up cuts to local governments," October 2012.

Local health and human services levies are big losers

An under-reported aspect of cuts to local government was the toll it took on local health and human service levies. Under Ohio's hybrid system of state-local financing, some critical functions, like some of the Medicaid match required for some services to the developmentally disabled, are funded at the local level through property tax levies. The loss of tax reimbursements took an estimated $210 million from local levies for children, seniors, public health and mental health/developmental disabilities (Table 2). It was generally touted that health and human services were not cut as badly in the current state budget as areas like K-12 education, but the cuts were deeper when the impact of local government cuts is considered.

Table 2						
County health and human service levies cut deeply Loss of tax reimbursement hurts local effort to provide services in the community						
County health and human service levies	**CY 2010**	**CY 2011**	**CY 2012**	**CY 2013**	**Change, CY 2012-13 compared with CY 2010-11**	**Percent change**
Seniors	10,984,411	7,999,408	4,666,309	2,506,150	($11,811,360)	-62.2
Children	42,070,501	30,186,936	20,653,040	12,453,259	($39,151,138)	-54.2
Health	33,085,466	23,139,763	15,184,122	8,976,741	($32,064,366)	-57
MH/DD	137,019,881	101,583,199	69,414,005	42,338,468	($126,850,607)	-53.2
Total	223,160,259	162,909,306	109,917,476	66,274,618	($209,877,471)	-54.4

Source: Policy Matters Ohio, based on Postsecondary Education Opportunity, "Family Income and Educational Attainment, 1970 to 2010," Newsletter #235, January 2012 at www.postsecondary.org/last12/235_112pg1_16.pdf

Local governments struggle with budget shortfalls

Local governments are pursuing a variety of strategies to fill emerging budget shortfalls. Privatization is one way to get short-term cash (although with long-term risk): The city of Cincinnati, facing a budget shortfall of $39 million, is considering privatized parking over the protests of some neighborhoods.[19] Ohio State University sold its parking functions to a private contractor. A team at the *Cincinnati Enquirer* recently looked at the budget strategies of local governments in Southwest Ohio and found slashed services and new local fees and levies.[20] Similar scenarios can be found everywhere in the state. Policy Matters Ohio collected news accounts and spoke to local officials in every county of the state in the summer of 2012. County factsheets about the impact of the state budget on quality of life issues in communities – public safety, emergency services, roads, mental health, and other services – can be found here: www.policymattersohio.org/county-budgets-nov2012.

Three of four casinos slated for Ohio are open and the final one is expected to open in March 2013. Some of the taxes generated from the casinos go to local governments. Last fall, Policy Matters Ohio compared loss from state budget cuts to local governments with anticipated revenues (Table 3). The gains are nowhere near the losses, and based on experience since then, the gains could well be less than projected earlier.

Table 3		
Casino revenues will not make up for cuts to locals Annual casino tax revenues and tax losses from state policy (millions of dollars)		
	Estimated Tax Revenue	Estimated revenue loss
Eight municipalities receiving casino tax	$68.4	$135.9
All other municipalities	$0.0	$300.5
Townships	$0.0	$156.9
Counties	$158.2	$328.0
Other jurisdictions and LGF cuts*	$0.0	$56.2
Total	$226.6	$977.5

Source: Policy Matters Ohio, "No Windfall: Casino Revenues won't make up cuts to local governments," October 2012. *Includes reduced tax reimbursements for multi-jurisdictional levies, LGF for parks and other.

From dimmed streetlights in Mansfield and Mingo Junction to closed recreation centers, curtailed senior services, laid-off school crossing guards, delayed garbage collection and furloughed police and firefighters, current state budget cuts have hurt quality of life and property values in communities across the state. Adequate, fair and sustainable state tax revenues are needed for restoration. At the minimum, no more cuts should be imposed.

Education

In 2011, the Ohio General Assembly passed, and the governor signed, a budget for the current biennium (FY 2012-13) that included $1.8 billion less in overall funding for K-12 education than the previous two-year budget. Table 4 shows how and where the biggest changes occurred – the state's seizure of $1.1 billion in tax reimbursements that would normally have gone to school districts, and the loss of $875 million in federal fiscal stabilization funds that was distributed to Ohio in fiscal years 2010 and 2011. The only funding streams that directed more money to schools in the current biennium were the General Revenue Fund and the General Services Fund. The latter increase was due primarily to the doubling, to $50 million from $25 million, of the School District Solvency Assistance Fund.

Table 4				
Comparison of K-12 education funding, previous biennium compared to current biennium (in millions of dollars)				
	FY 2010-11	**FY 2012-13**	**Change**	**Percent change**
General Revenue (state)	$14,648	$15,168	$520	3.6
General Revenue (SFSF)[a]	$875	$0	-$875	-100
General Services[b]	$50.6	$83.2	$32.5	64.2
Federal[c]	$4,592	$4,262	-$330	-7.2
State Special Revenue	$97.7	$110	$12.5	12.8
Lottery Profit Education	$1,456	$1,398	-$58	-4
Revenue Distribution	$2,363	$1,261	-$1,102	-$46.6
Totals	**$24,082**	**$22,282**	**-$1,799**	**-7.5**

Source: Policy Matters based on Ohio Legislative Service Commission "Budget in Detail" (as enacted) for the 129th General Assembly. [a] State Fiscal Stabilization Fund, American Recovery and Reinvestment Act dollars used to fill budget holes and aid schools, districts during the recession. [b] Increase is due primarily to a doubling, from $25 million to $50 million over the biennium, of the School District Solvency Assistance Fund, line item 200687. [c] Includes poverty & special ed funding, as well as other programs; much of the decrease results from loss of federal stimulus funds specific to Title I poverty & special education after FY2012. Includes the Education Jobs Fund, which has awarded over $359 million to Ohio for FY11 and 12; documents available on the ODE website show about $68 million was disbursed in FY11, leaving just over $290 million for FY12.

Since that budget was enacted, two federal programs have injected new money into Ohio that is not included in Table 4. The federal Education Jobs Fund was created to pay salaries and benefits, and to rehire, retain or hire employees at schools across the country; it has awarded $366 million to schools in Ohio, of which nearly $360 million has been disbursed.[21] Most of that money came to Ohio during the current biennium. The federal Race to the Top program, targeted to schools and districts that proposed changes in line with Obama administration priorities, has brought into the state about $172 million during the current biennium, compared to just under $13 million in FY 2011, the second year of the last biennium.[22] At the same time, state revenue streams have been adjusted over time from appropriated to actual amounts, which means the state is on track to spend about $1.5 billion less on K-12 education during the current biennium than it spent during the previous one.

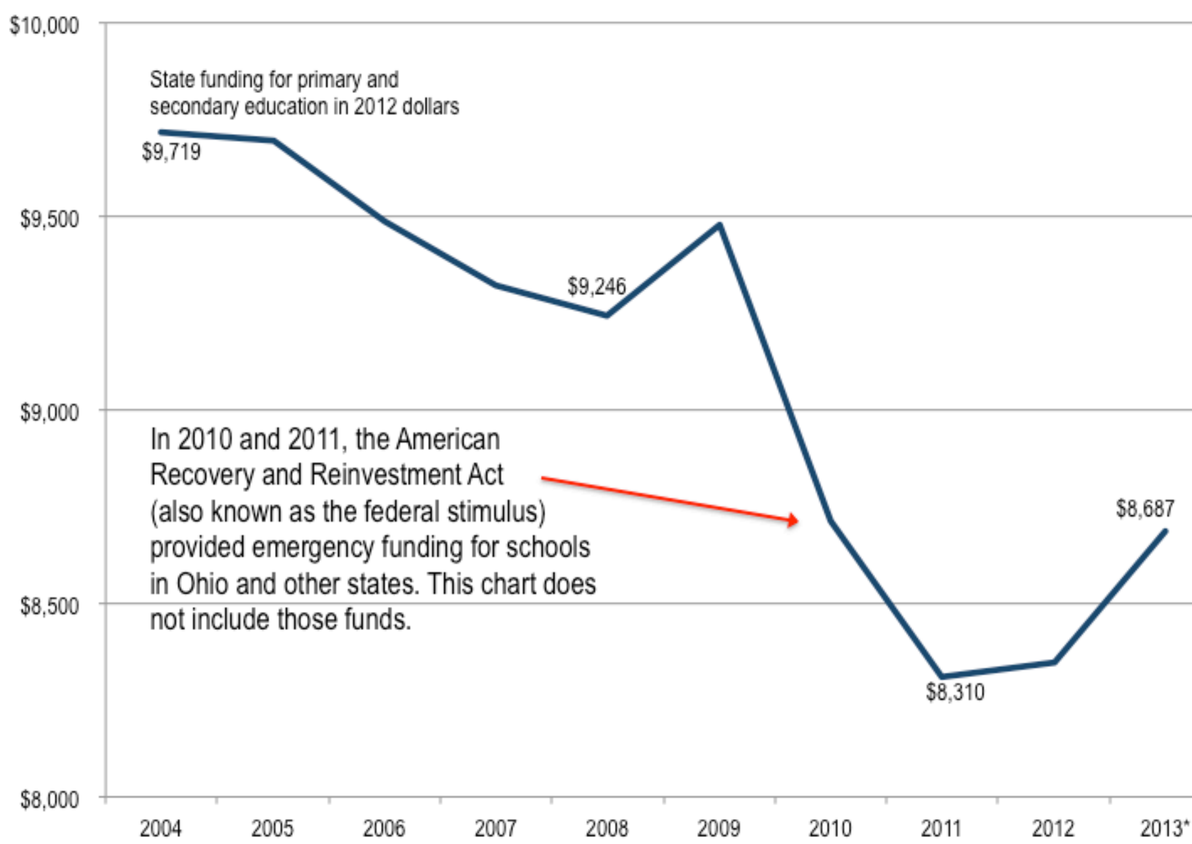
Funding drops over decade

Figure 3 shows that, adjusted for inflation, annual state funding for primary and secondary education in Ohio has dropped more than a billion dollars over a 10-year period, to less than $8.7 billion in FY13 from $9.7 billion in FY04, in 2012 dollars. As noted, Figure 3 does not include federal stimulus funding.

Figure 3

State funding of K-12 education has been slashed over past 10 years

In 2012 dollars (in millions)



Source: Policy Matters analysis of historical expenditure data from website of Ohio Legislative Service Commission. Funds shown here include only the General Revenue and Lottery Profits Education funds. *Fiscal years 2004 through 2012 show actual funds; the 2013 number represents adjusted appropriations as of July 30, 2012. Inflation adjustment calculated using the U.S. Dept. of Labor, Bureau of Labor Statistics inflation calculator, www.bls.gov/data/inflation_calculator.htm.

Privatization directs money away from districts

Even as K-12 education – districts, charters, and voucher programs - has gotten less funding through the state budget, the state continued to expand privatization, directing increasing amounts of money away from school districts toward privately operated charters and voucher schools. Some increasing funding is due to rising enrollment in charters, but as Table 5 shows, year-to-year increases in the deduction of funds from school districts have either outstripped or stayed roughly on track with enrollment increases. Over the 10-year period beginning in FY 2003, charter school enrollment has increased 262 percent, while funding for charters has increased more than 500 percent over the same period.

Table 5

Increase in charter enrollment compared to increase in charter school deductions (in millions of dollars)

Fiscal year	Enrollment	Percent increase from previous year	Deductions	Percent increase from previous year
2003	29,939	-	$126.1	-
2004	47,101	57.3	$297.9	136.2
2005	62,561	32.8	$424.3	42.4
2006	72,064	15.2	$483.9	14
2007	76,932	6.8	$530.8	9.7
2008	82,643	7.4	$588.5	10.9
2009	88,536	7.1	$652.9	10.9
2010	93,623	5.7	$680.4	4.2
2011	99,658	6.4	$721.1	6
2012	108,239	8.6	$774.9	7.5
2013	na	na	$810.9	4.6
Percentage increase 2003 to 2012		**262%**		**515%**

Source: Analysis by Policy Matters of data in Community Schools Annual Report, Ohio Department of Education. na - Enrollment data for FY 2013 not available on ODE website.

Policy makers have increased voucher spending as well. HB 153, the budget bill signed in 2011, created a new voucher worth up to $20,000 that families of special needs children can use at state-approved private providers beginning this school year.[23] The budget bill also increased the voucher amount for the Cleveland program, to a maximum of $5,000 for high school and $4,250 for grades K-8, from $3,450 for all grades.[24] HB 153 expanded the number of vouchers available through the statewide EdChoice program to 60,000, although FY 2013 enrollment remains much lower at about 15,968.[25] Ohio's autism voucher program, which provides up to $20,000 a year to use with private providers, began in FY 2004 and has been used by more than 2,000 families.[26]

Together, the amount of money directed to charter schools and voucher programs in Ohio is approaching $1 billion a year deducted from school district funds. In FY 2011, for example, charter schools saw about $720 million and voucher programs got a total of more than $100 million.[27] The Ohio Department of Education (ODE) reports that in FY 2012, $774 million was allocated to charter schools and at least $86 million for vouchers.[28] This reflects a growth of about 5 percent in privatized school funding in a year that overall funding plunged. ODE figures show at least $950 million will be spent on charters and vouchers in Ohio in FY 2013.[29]

New school funding plan
When Gov. John Kasich took office, he eliminated the Evidence-Based Model for school funding put in place by his predecessor, Ted Strickland. Since then, the state has been operating without a permanent funding formula. Kasich has said he will introduce a new system with his biennial budget for fiscal years 2014-15.

News reports suggest some elements that may be part of the governor's plan, including an approach that has funding follow children whether they attend traditional district schools, charters or private schools.[30] Given the state's decidedly mixed track record on privatization – with 40 percent of charters in Academic Emergency or Academic Watch and voucher schools faring worse in many cases than district schools – policy makers should restore full funding for public schools before even considering providing more public dollars for Ohio's privately run schools.[31]

Media stories also have highlighted a possible shift to "outcome-based" funding for schools "focusing on student outcomes and less on prescribing resources or requirements such as class size" and "rewarding schools and teachers when students succeed."[32] While a meaningful evaluation of the governor's plans won't be possible until they are made public, it is concerning that funding may be tied to current accountability systems, based as they are on standardized tests that correlate closely with income levels. It is encouraging that reports include a focus on providing additional funding for children who may be more expensive to educate, such as those who come from low-income families or who have special needs.[33]

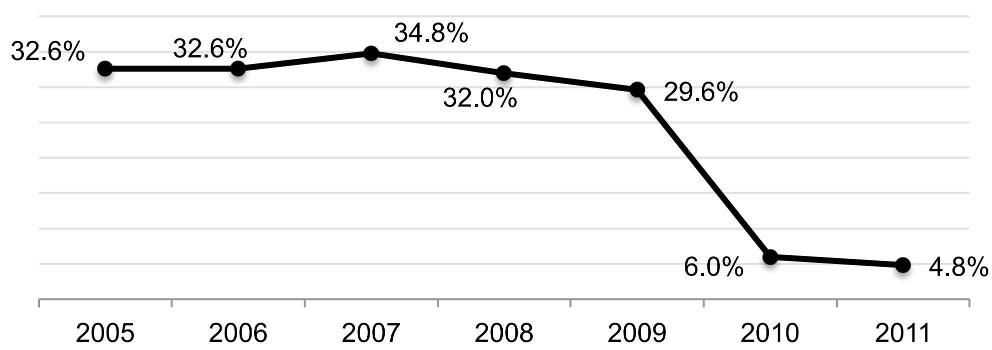
It seems likely that there will be little or no increase in funding for Ohio's public schools, especially with the governor's desire to cut taxes again. The on-the-ground impact of the governor's school-funding proposal – and the General Assembly's response to it – won't become clear for some time, but early indications hold little promise for a system that provides equal opportunity for all of Ohio's young people. Regardless of funding levels, that must be a key goal for all policy makers.

Higher education
Ohio's share of low-income students enrolled in colleges or universities increased by 22.2 percent between 2000 and 2010, the second largest increase in the nation.[34] However, need-based financial aid dropped precipitously at the end of the decade. Figure 4 shows that between 2005 and 2009, state need-based aid boosted the federal aid provided by the Pell Grant by almost a full third, but by 2013, state need-based aid to students with Pell grants provided less than a 5 percent boost. Cuts in federal aid now compound problems for Ohio's low-income students.[35] These cuts could deepen: up to 2,000 work-study positions in Ohio could be eliminated by the sequester.[36]

The current budget introduced the "Enterprise University Plan for Ohio," which recommended substantial deregulation of Ohio's higher education system and increased merit-based aid instead of need-based aid. Policy Matters looked at the impact of deregulation of higher education in other states, and found that deregulation did not increase college completion, make college affordable, or close the higher education gap. In many cases, deregulated states seemed to perform worse than the nation on indicators of accessible and affordable higher education.[37]

Figure 4

Ohio's need-based aid to college students has fallen dramatically
(Shown as a percentage of Pell Grant aid)



Source: Policy Matters analysis of data from Post Secondary Education Opportunity, state spread sheets

The focus on merit aid illustrates how a deregulated system – with less state support but also less regulation – will focus on the higher-income student, making merit aid the natural focus. Students from higher income communities with high property values and ample school funding are more likely to qualify for merit aid than students from lower income communities that lack the property tax base to fund enrichment courses and other performance-boosting opportunities. They also achieve timely completion with more ease than students who may struggle to balance work and study. Competition for students from wealthier families includes a focus on merit aid rather than need-based aid.

The Enterprise University Plan has not been implemented. The pending budget offers the opportunity for new approaches. The higher education system faces long term, systemic problems that need to be addressed with long term plans:[38]

- **Growing demand, declining need-based aid –** Growing demand for higher education coincided with sharp declines in state support for public colleges and universities, across the nation and in Ohio. In 1991, Ohio dedicated $7.03 of every $1,000 in state personal income to higher education. This plunged to $6.30 in 2000 and to $4.57 in 2011, a 35 percent decline over 20 years, surpassing the 31 percent decline seen in the nation in the same period. Further, the dollar amount of need-based financial aid has plunged to its 1993 level in Ohio, not adjusted for inflation, even as tuition has risen sharply. Ohio's de-funding of need-based aid has been extreme and at odds with a policy goal of encouraging higher education.
- **Costly tuition and fees –** Public colleges and universities have responded to sharp reductions in state allocations by increasing tuition and fees. Ohio's public four-year institutions are the third most expensive in the nation relative to family income; our public two-years are the fifth most expensive. At $8,387 in 2010, Ohio's in-state students pay $2,130 more than the average college student in the nation, while Ohio students at two-year colleges pay $411 more per year.

- **Our higher education attainment rate is low –** In 2010, just 26.7 percent of Ohio adults had at least a bachelor's degree, compared to 29.9 percent of in the United States, ranking us 34th among states. Demand for higher education is growing: 32 percent more students enrolled in Ohio's public colleges and universities in 2010 than in 1990. Unfortunately, this growth was lower than the nation as a whole, where enrollments grew by 52 percent in the same period. A growing percentage of jobs with middle-class compensation require some college. By 2018, the Board of Regents argues that 57 percent of Ohio jobs will require a college degree or coursework. Expanding higher education attainment requires attracting new student populations, especially those that have been under-represented in higher education traditionally. Chancellor Jim Petro, like Chancellor Eric Fingerhut before him, sets growth in college graduation rates as a top priority for Ohio, and the planning document, *The Fourth Report on the Condition of Higher Education,* identified students from moderate- and low-income backgrounds as a priority.

- **Inequity in outcomes –** An Ohio wishing to boost post-secondary attainment must encourage low and moderate-income students to pursue college. Higher education is not equally distributed. In 2011, a 24-year-old student born into the top quartile of family income was about seven times more likely to have earned a bachelor's degree than a 24-year-old born into the bottom quartile. Disinvestment in public support for higher education that leads to institutional focus on wealthier students works against a statewide goal of boosting completion on a state-wide basis.

Instead of reducing public control by deregulating, Ohio should do more to meet the demand for higher education, make it affordable for students from all backgrounds, to boost completion rates. Ohio students need fair, adequate and sustainable tax policy that would allow the state to provide sufficient support to higher education, both to ensure reasonable tuition and adequate need-based aid.

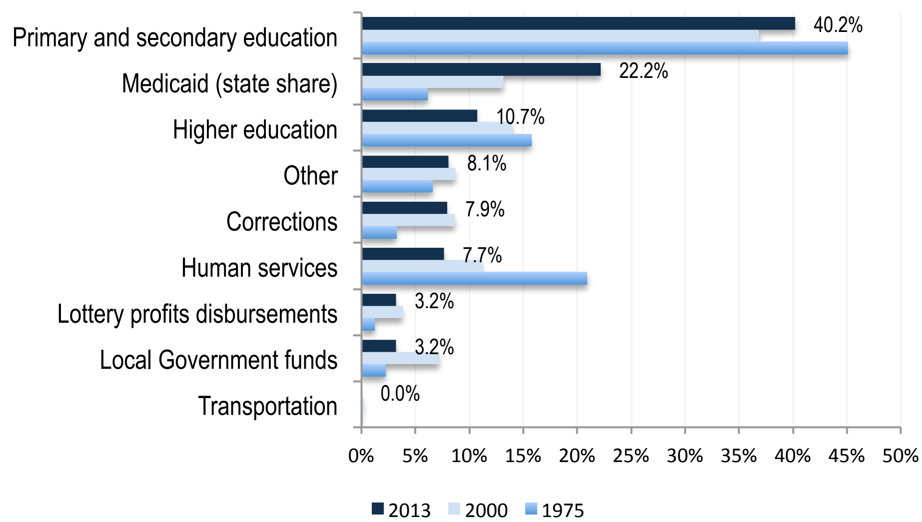
Health and human services

Unemployment remains high in Ohio and job quality has declined over the long-term. These two factors mean that many Ohioans cannot meet their basic needs through their work income. This makes a basic safety net essential to reduce poverty, assuage hunger, and ensure health coverage.

The profile of Ohio's safety net has changed over time. Inflation in the health care system has been much higher than in the economy as a whole over the past generation, and has driven growth in Medicaid expenditures while other human services have been squeezed. (Figure 5.)

Figure 5

State-only expenditures by major category as a percent of Ohio's General Revenue Fund, FY2013



Source: Policy Matters Ohio, based on Ohio Legislatives Service Commission historical state-only expenditures table. Percentage labels on the chart are for 2013.

Inadequate funding in health and human services has deepened over time. In the last budget crucial Medicaid services were continued and some human services were protected at the state level, but other essential services were not adequately funded.

- State support for handling abuse and neglect of the elderly is practically nonexistent. Though counties are mandated to investigate reports of neglect and abuse, the state is budgeting just $366,003 a year for that, an amount that works out to less than $1,000 for some small counties.
- According to the Ohio Association for County Behavioral Health Authorities, non-Medicaid funding for community mental health services has been cut by 70 percent since 2002 and non-Medicaid community addiction services have been cut by 35 percent since 2005. According to Director Cheri Walters: "…as more people are trying to access services, more and more are being put on waiting list, or turned away altogether. Frankly, these cuts are unmanageable and untenable."[39]
- Ohio was one of just seven states that actually lowered income eligibility for childcare subsidies in 2012. Eligibility for subsidized child care in Ohio fell from $27,408 for a family of three in 2011 to $23,172 in 2012 – in other words, from 44 percent of the state median income level to 38 percent. This follows years of cuts in eligibility: In 2007, income eligibility was $31,764.[40]
- Ohio ranks last among the states in state funding for children's services.[41] The current budget bill, HB 153, cut a $39.1 million from local levy funding for children's services levies through reclaiming tax reimbursements promised when earlier local taxes were eliminated through state legislation.

- Funding for provider services and administration of Medicaid waiver programs has tightened. Enrollment gains in some cost-effective home and community based care services, a goal of the current budget bill, slowed in 2012.[42]
- Ohio providers of home and community-based waiver services for individuals with developmental disabilities have not had a rate increase since 2005. Staff directly responsible for providing supports to Ohio's most vulnerable citizens now receive average salaries that place them below the Federal Poverty Guidelines (for a family of four) and 90 percent of developmental disability provider respondents report now having staff on public assistance.[43]
- Ohio has more unused federal funding dollars for disability employment services than any other state – about $30 million in recent budget cycles. The Rehabilitation Services Commission has closed 21 of its 34 regional offices and reduced nearly 185 staff positions over the past two years.[44]

Ohio should initiate a long-term strategy for restoration of human services based on fair, adequate and sustainable revenues.

Medicaid expansion
One step that Ohio can take to improve its budget situation and improve the lives of Ohioans is to expand Medicaid to working adults earning up to 138 percent of the poverty level. This is a population that has been left out; their jobs often don't provide insurance and they are paid too little to buy it for themselves, but Medicaid hasn't covered them, except for parents with very low incomes. Ohio has the opportunity to cover these Ohioans, increase their access to preventive care, and dramatically improve their quality of life. Further, new rules under the Affordable Care Act (ACA) mean that the federal government would pay the vast majority of the costs for this expansion, with Ohio actually saving money while covering more of our working families.

According to a joint study published by the Health Policy Institute of Ohio and conducted by the Urban Institute, REMI and the Ohio State University, Ohio's state budget could gain $1.431 billion dollars over and above baseline projections between January 1, 2014 and June 30, 2022 as a result of the ACA and Medicaid expansion:

- An estimated $17.5 billion in federal dollars will come into the state, creating an estimated 31,000 jobs;
- At the end of 2022, when the federal match has dropped from 100 percent of the newly eligible to 90 percent, the state will break even on Medicaid costs and expenditures.
- Medicaid expansion will save businesses $1.6 billion and consumers $7.4 billion;
- Counties will see an additional $387 million in county sales tax revenues;
- With Medicaid expansion, almost a half million Ohioans (456,000 individuals) will have the opportunity for healthier, more secure and more productive lives by 2022.[45]

How will it all work? While many in need of health care who earn less than 400 percent of the federal poverty line (shown in Table 6) will get federal subsidies to buy insurance on the new health exchanges, those can't afford it will become eligible for Medicaid if the state chooses to expand Medicaid. At present, Medicaid covers children, their parents (up to 90 percent of poverty), and low-income elderly or disabled individuals. Medicaid expansion would cover all adults, working people of low income, up to 138 percent of the federal poverty line. This ensures all, even those with low incomes, have access to preventive care before they seek treatment of last resort – in crisis, in the emergency room, the most expensive health care venue in the world.

Table 6

2012 Federal Poverty Guidelines

Family size	90%	100%	138%	200%	250%	400%
1	$10,053	$11,170	$15,415	$22,340	$27,925	$44,680
2	$13,617	$15,130	$20,879	$30,260	$37,825	$60,520
3	$17,181	$19,090	$26,344	$38,180	$47,725	$76,360
4	$20,745	$23,050	$31,809	$46,100	$57,625	$92,200

Source: Based on Federal Register, Vol. 77, No. 17, January 26, 2012 pp. 4034-4035.

Preventive care can reduce suffering and boost opportunity for a healthy and productive life. Failure to expand will leave out the hundreds of thousands of Ohioans who are too poor to qualify for health insurance subsidies through the exchanges but not eligible for Medicaid. Hospitals could face a fiscal dilemma – federal resources for such care will decline as other states get with the program. Access to care in some places may decline if hospitals close or reconfigure services.

The Affordable Care Act offers opportunity for the state to draw down millions in additional federal funds for targeted populations. For example, the new Balancing Incentives Payment Program could bring more than $50 million annually into the state through 2015 for home and community based services for the elderly, blind and disabled.[46] The new Community First Choice Option would increase federal match by 6 percentage points for individuals who are elderly or disabled and could be cared for by personal care attendants at home instead of in institutions. It would expand access to the services by making them available as a plan option instead of through waiver programs. Some states anticipate hundreds of millions of dollars in federal funding through these programs.

For years, rising Medicaid costs have correlated with falling human service investment. The Affordable Care Act and Medicaid expansion can help turn that around. What Ohio needs is a long-term, fiscally responsible plan to restore the badly slashed health and human services that Ohio families need in the low-wage, churning economy of the 21st century.

Ohio's young children

According to Groundwork Ohio, Ohio's current investments in early care and education represent a 3 percent decrease below 2006 levels, and a 23 percent decrease since 2009, not including any adjustment for inflation.[47] Yet our youngest children are struggling:

- While the low birth weight rate has remained fairly steady over time – approximately 7.7 percent for the last three years – it is above the national average of 6.14 per 1,000 live births. The numbers are worse for African-American babies: 15.5 compared to 6.4 for white infants;
- Forty-seven percent of Ohio's young children were living in families earning less than $46,000 for a family of four in 2009 (200 percent of the federal poverty level);
- Eighty-four percent of households with a child under the age of 18 experienced some form of food insecurity in 2010;

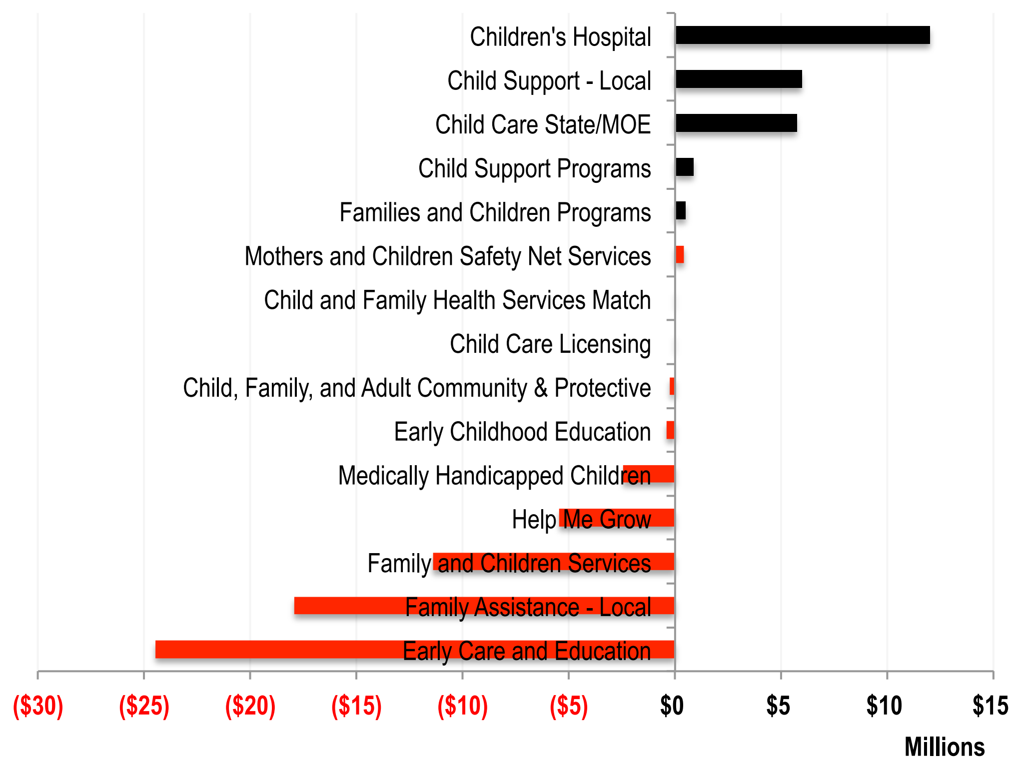
- From 2007 to 2009, child abuse rates for children from birth to age 18 increased by 9 percent.

There were some increments in funding in some program areas for children in the current budget, but overall, General Revenue funding for early education, child care, health and social support for children declined in the current budget compared to the budget for FY 2010-11 (Figure 6).

Figure 6

Expenditures on Ohio's children dropped in the current budget

Fiscal years 2010-11 compared to 2012-13



Source: Policy Matters Ohio, based on Ohio Legislative Service Commission's Budget in Detail (with 2012 actuals and adjusted appropriations for 2013).

The pending state budget needs to restore childcare eligibility and early education opportunity for needy families. Long-term underfunding will be made worse by federal cuts anticipated through the federal sequester. Resources should be directed toward restoration, with a long-term plan of moving Ohio up from the bottom of rankings in key areas like infant mortality, kindergarten readiness, children's services and eligibility for childcare.

Workforce and training

Ohio's economy has recovered somewhat since the official end of the 2007 recession, but job creation and job quality remain below what we expect from a healthy economy. Unemployment remains high at 6.7 percent. Too many Ohioans, 388,000 in December, are still looking for work. In 2011, the last year for which we have full-year data by demographic, young Ohioans had a 14.3 percent unemployment rate and African Americans faced a 17 percent rate.[48] Ohio median wages fell by 45 cents in 2011 and have been falling since 2006.[49]

Years of bad UC policy prove costly to state

Ohio's unemployment compensation (UC) trust fund – the money that pays benefits to unemployed Ohioans – has been broke for more than four years. Ohio currently owes $1.77 billion to the federal government,[50] which was borrowed to pay UC benefits.[51] By this fall, the state will have paid more than $180 million in interest on that debt. At a time when the state has so many unmet needs, it is illogical for the state to be forking over tens of millions of dollars in such interest payments. We need to pay back the debt, and build a reserve for the next economic downturn, while protecting this critical support.

Ohio's unemployment compensation system is paid for by employer taxes. Ohio underfunded its UC system for many years, so that the trust fund was ill-prepared for the 2007-2009 recession. The recession caused the number of unemployed to skyrocket, increasing the amount of benefits that was paid out. Ohio's unemployment compensation benefits are not overly generous – they average about $300 a week, and relatively fewer unemployed Ohioans qualify for benefits than do jobless workers in most other states.[52]

The key problem is that employer contributions have not been sufficient, leaving the fund ill prepared when benefit levels increase. Ohio employers pay taxes on only the first $9,000 in each employee's annual wages, or less than a quarter of wages paid. That amount, which is well below the national average, hasn't been raised since 1995; if it had kept up with inflation since then, it would be more than $13,500. The state has not met generally accepted solvency standards for decades.[53]

While it's not unreasonable that Ohio had to borrow during this period of high and long-term unemployment, it is clear that Ohio's UC solvency problem is not so much a product of the poor economy as much as poor policy. After years of underfunding this crucial system, Ohio needs to face the need for more adequate financing and a higher taxable wage base, in particular.[54]

Focus on regional opportunities in workforce training

Ohio's workforce training system is crucial for employers, helping them find well-qualified workers. The system is also important to communities, helping workers access and complete training, and linking all workers to new opportunities, but especially those at the bottom of the pay and skill ladder. Most of Ohio's workforce funding comes from the federal Workforce Investment Act (WIA). WIA has traditionally helped unemployed and dislocated workers back into the labor market, often by offering training assistance. The budget of 2012-13 had far less federal funds for workforce training. New state funding was targeted to support college and graduate students move into internships and to train already employed (incumbent) workers. Table 6 shows these changes, along with key budget line items important to supporting the state workforce system.

Table 7							
Decline in federal funding has lowered Ohio's ability to invest in workforce training for dislocated and unemployed workers Fiscal years 2010-11 compared to 2012-13							
Agency	**Program**	**FY2010**	**FY2011**	**FY2012**	**FY2013**	**Change, prior to current budget**	**Percent change**
DEV	Investment in Training Expansion	$1,358,868	$337,461	$0	$0	(1,696,329)	-100.0%
DEV	Industrial Training Grants	$8,168,833	$6,068,045	$4,494,893	$0	(9,741,985)	-68.4%
DEV	Workforce Dev. Initiatives	$9,856,425	$9,335,117	$6,828,424	$16,300,000	3,936,882	20.5%
DEV	Incumbent Workforce Training Vouchers	$0	$0	$0	$30,000,000	30,000,000	100.0%
BOR	Co-op Internship Program	$0	$0	$910,000	$12,000,000	12,910,000	100.0%
BOR	Adult Basic and Literacy Ed., federal	$14,608,742	$16,174,868	$14,614,368	$14,835,671	(1,333,571)	-4.3%
BOR	Adult Basic and Literacy Ed., state	$7,302,416	$7,282,303	$7,093,962	$7,302,416	(188,341)	-1.3%
BOR	Ohio Skills Bank	$0	$1,745,689	$2,553,203	$0	807,514	46.3%
JFS	Workforce Investment Act programs	$250,786,441	$154,973,937	$129,073,399	$172,805,562	(103,881,417)	-25.6%

Source: Policy Matters Ohio, based on Ohio Legislative Service Commission's Budget in Detail (with 2012 actuals and adjusted appropriations for 2013).

WIA funding through the Ohio Department of Job and Family Services for traditional purposes of training adults, dislocated workers and youth, has steeply declined. At the same time, state investment in training increased, as casino licensing fees supported the new incumbent worker training voucher program, and state dollars funded the Co-Op Internship program.

The new budget should restore a focus on helping unemployed workers return to the labor force and helping low-skilled adults connect with family-supporting career pathways. Federal funding through WIA programs is not expected to increase. WIA programs are automatic spending cuts of the Budget Control Act of 2011 ("sequester"). Substantial cuts are expected between March and the end of December under current law.

State funding is needed to backfill for programs targeting low-skilled and low-wage workers. The new state initiatives do little to address the state's dislocated workers and the low-skill, low-wage workforce, the very groups hardest hit by a slow economic recovery and declining federal workforce dollars.

Industry-driven sector partnerships are a proven solution to closing these workforce gaps. The National Governors Association estimates that there are 1,000 partnerships operating in the U.S., and more than half the states are implementing or exploring these strategies.[55] Pennsylvania alone has supported 76 partnerships, serving over 100,000 workers, and increasing wages and job retention rates.[56] Ohio has also produced some successful programs based on sector strategies. The Cincinnati region has supported sector partnerships in healthcare, advanced manufacturing, and construction, training more than 6,000 jobseekers and incumbent workers since 2008.[57] In northwest Ohio, the *Skills for Life* Marine Trades Training Initiative has been nationally recognized by the U.S. Department of Labor and has leveraged more than $1 million in private investment to train workers to use cutting edge technology and equipment.[58]

A sector partnership-training fund would bring these best practices to scale. Investments made in building regional partnerships will maximize state workforce training resources to help those most in need, and build regional infrastructure to address employer needs. The state should use a portion of its workforce training funds, enlarged now through casino revenues, to support regional sector partnerships. Such programs could provide competitive grants to regional consortia of workforce partners for the development and implementation of employer and worker responsive curriculum and training. Sector partnerships could help move Ohioans through quality, employer-driven, training programs for in-demand jobs.

Shared work

Ohio's budget should also include a shared work, or Short-Time compensation program. Shared work is a proven layoff aversion tool. These programs increase the flexibility of the unemployment compensation (UC) system. The program allows employers to shorten the workweek of a larger number of employees instead of laying-off a smaller number entirely. The workers would make up some of their lost income with a partial payout of unemployment benefits.

Under a shared work plan, employees can retain their health insurance and keep accruing retirement benefits while avoiding the emotional hardship associated with layoffs. The stress of looking for a new job in a tough labor market is averted. Employers can retain skilled employees, avoid expensive retraining and rehiring, boost employee morale and be more easily able to gear up when demand recovers. Shared work also allows workers to participate in WIA training programs, training that help the worker and the employer become more productive while managing a down-turn. If Ohio had a short-time compensation program that gained as many participants as the average state program, there would have been more than 23,000 Ohioans participating in 2009, during the height of the recession, the number of layoffs prevented would have been a proportion of that but thousands of Ohioans who would have otherwise been laid off could have been working.[59]

Shared work is funded in the same fashion as regular unemployment compensation benefits: tax rates rise on employers based on payout of benefits to their laid-off employees. The Congressional Research Office has found that in states where short-time compensation is charged to the firm according to the experience rating rules of the regular unemployment program, the firm incurs no more in unemployment insurance tax costs by using shared work than it would through layoffs.[60]

The federal government is offering up to three years of 100 percent reimbursements of shared work benefits to states that enact and implement shared work programs.[61] Outreach and implementation grants are also available to states, but states must apply for this funding by Dec.

31, 2014.[62] More than twenty states and the District of Columbia have or have recently enacted shared work legislation. Ohio should join their ranks, and implement this important program.

Tax policy

Ohio's state tax system, like those of most states, depends heavily on two major taxes: the personal income tax, and the sales and use tax. These two taxes together account for well over four-fifths of the state's General Revenue Fund tax revenue.[63]

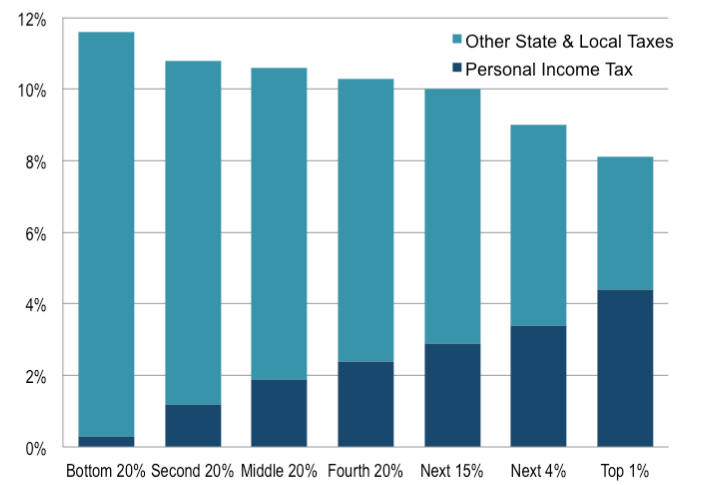
The income tax – the only major tax based on the ability to pay, and the single largest source of state revenue – needs bolstering. If Ohio is to pay for the education and health care that will produce the workforce of the future, or any of the services that underpin a good quality of life and a strong safety net, it needs a strong income tax.[64] Unfortunately, however, this tax has been weakened over the past decade, and is about to experience another attack. Gov. Kasich has made clear that he intends to propose a major reduction in the income tax under the illusion that this will help Ohio's economy.

We have seen already what such cuts will do. Since June 2005, when a 21 percent phased-in cut in the income tax was approved, Ohio's economy has seriously underperformed the nation's. The number of jobs has fallen by nearly 230,000 or a loss of 4.2 percent, compared to a national gain of 414,000, or 0.3 percent. Ohio's personal income has shrunk compared to the national average. Relative gains in Ohio over the past year or so have not erased the overall pattern – and this is no surprise. Since state tax cuts must be matched by spending reductions that cost jobs and economic growth, it's unrealistic to expect that they will produce major economic gains.[65]

The last income-tax cut on average provided a tax reduction of more than $9,500 a year for the top one percent of Ohioans with income over $308,000 in 2011, while providing just $181 to the middle fifth of taxpayers earning between $32,000 and $49,000 and a mere $19 to the bottom fifth of income earners.[66] The same distribution can be expected of other proposed cuts. Even with the income tax, the state and local tax system is slanted against low- and middle-income Ohioans, who pay a larger share of their income than do more affluent Ohioans. Figure 7 shows how much Ohioans of different income levels pay in state and local taxes as a share of their income, and how the income tax contributes to a fairer tax system.

Figure 7

Ohio state and local taxes as a share of income



Source: Institute on Taxation & Economic Policy. Shows shares of family income for non-elderly taxpayers. Figures show permanent law in Ohio enacted through Jan. 2, 2013, at 2010 income levels.

The share of state and local taxes paid by Ohio businesses compared to that paid by individuals has shrunk over the last generation.[67] Ohio is now one of only six states in the country without a tax on corporate profits. Instead, we have a Commercial Activity Tax (CAT) on "gross receipts," or what businesses located anywhere sell in Ohio. This tax replaced two others: our corporate income tax, and a local tax on machinery, equipment, inventory and other tangible property. The CAT is a broader tax than those it replaced, covering most industries and different forms of business organizations. Critically, however, it was designed to bring in far less revenue than the taxes it replaced – and that indeed is what it has done.[68] Overall, the state is losing about $2.5 billion a year in revenue from this change, the income-tax cuts and other elements of the tax overhaul of 2005.[69]

Recent tax policy

While the last two years have not seen an overhaul approaching the one approved in 2005, Ohio's tax system has undergone other major changes recently. Overall, the trend has been for tax cuts, a continuation of the trend reducing taxes on the most affluent, and more exemptions and credits.

In January 2011, the last of five increments of the 2005 personal income-tax cuts took effect as scheduled, a cut that went largely to Ohio's most affluent residents, while costing the state $400 million a year in revenue.

Later that year, the General Assembly repealed the estate tax, which in FY 2012 produced $302.1 million for local governments, in addition to the $72.1 million that went to the state's General Revenue Fund.[70] The loss of this revenue comes on top of huge reductions local governments already have seen in state aid.[71]

Since just 8 percent of Ohio estates have had to pay the estate tax, the repeal will only benefit a tiny share of Ohioans. Cities such as Cincinnati, which received an average of $15 million a year from the estate tax between 2005 and 2010, will have to cut services or find other sources of revenue.[72]

New tax breaks have proliferated over the past two years. One of the largest was a new personal income-tax credit worth $100 million over two years on investments in "small business enterprises" that was dropped into the last budget in conference committee without public review. Other new tax breaks range from a tax credit for companies with home-based employees to a sales-tax exemption for builders of enclosures for captive deer (dubbed 'the Bambi exemption' by one Statehouse observer).[73] Despite hearings in both houses, legislation introduced by Republicans and Democrats, approval of a review mechanism in the Senate version of the last budget, and calls for review from the business community and policy groups from all sides of the political spectrum, Ohio has not moved forward to publicly review the exemptions and credits that litter the state tax code.

A new bank tax approved by the General Assembly last month closes some major loopholes in the old, ungainly tax structure, but ill-advisedly passes the revenue gains from cutting such tax avoidance right back to the banks.[74] This includes a special low rate for big banks, many of which have engaged in the tax avoidance the bill was designed to prevent. The legislature also reduced the revenue the tax would generate, when the industry should be paying more in line with its share of the economy.[75] Further, legislators added in exemptions to the new tax. In short, what could have been a major improvement in the tax system was badly misdirected.

State and localities have begun receiving proceeds of casino taxes and those paid by racetrack owners who operate video lottery terminals. However, casino taxes are producing less revenue than originally projected – and don't come close to making up for the cuts that local governments experienced in the current budget.[76]

One of the biggest developments in Ohio taxes is one that didn't happen: The General Assembly refused to approve Gov. Kasich's proposal to boost the severance tax on oil and gas and use the proceeds for an income-tax cut (one that on average would have provided $42 for middle-income taxpayers, less than the cost of a tank of gas). However, a new form of that is likely to resurface shortly.

Oil and gas severance tax

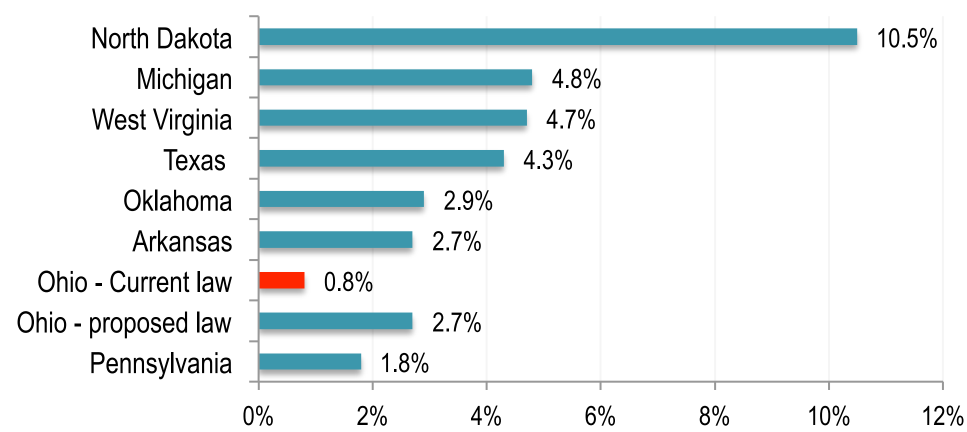
Ernst & Young's analysis of the Kasich Administration's severance tax proposal found the effective rate of Ohio's current severance tax lowest of all states with major production potential through hydrofracturing techniques.[77] The severance tax proposal of the Kasich administration last year would still have left Ohio near the bottom of the rankings. (Figure 8)

Based on the administration's projections last spring, the governor's proposal could bring in as much as a billion dollars in revenues over four years. However, a higher rate than the 4 percent he proposed would be similar to the rates in North Dakota, West Virginia and Texas, all of which have thriving oil and gas industries. A 5 percent tax on oil and all forms of natural gas (liquid or dry), without the loopholes built into the governor's proposal, could raise up to $1.8 billion over four years. At 7.5 percent on all production out of the well, with no loopholes, up to $2.7 billion could be raised.[78]

This is not enough to restore local funding for health and human service levies, school districts or communities. But it is a start, and it is important, for fairness and stability, that businesses pay their fair share of taxes. Long-term impacts of new drilling techniques – hydraulic fracturing – in Ohio's particular geology, and in populated and agricultural areas, are not yet well proven. An adequate severance tax is needed to fund a sufficient risk management strategy to address unknown, long-term effects on health, the environment, and property.

Figure 8

Ohio's effective severance tax rate is the lowest of states with potential for significant oil and gas production



Source: Policy Matters Ohio based on data in the Ernst & Young report on the Kasich administration's severance tax proposal in HB 487, at http://bit.ly/1130Mdj.

The governor originally proposed using severance tax revenues for an income tax cut. Based on analysis of last year's proposal, such a tax cut might bring a family earning median income $42 annually, but top earners might see more than two thousand.[79] Trading severance-tax revenues for personal-income tax revenues is a bad idea because of Ohio's needs, some of which are enumerated above. We can ill-afford to use new revenues for a tax cut that will go largely to the most well-off Ohioans.

Tax expenditures

Governor Kasich has indicated that he will propose certain reductions in tax expenditures (exemptions, credits and deductions) in the tax code to pay for an income-tax cut. Tax expenditures indeed need a careful review. According to the state's last tax expenditure report, 128 such tax expenditures are costing more than $7 billion a year.[80] While some of these are productive, others are special-interest giveaways. This includes the sales-tax exemption for pollution-control equipment that is mandated, the sales-tax cap for purchases of time-shares in jet aircraft, the write-off that big companies that lost money years ago can take against the Commercial Activity Tax, and numerous others.[81] Reviewing and eliminating non-productive tax loopholes is a good policy goal, but pairing this with erosion of the income tax code is not.

Ohio is sometimes mistakenly portrayed as a high-tax state. That is incorrect. Altogether, state and local taxes per capita in Ohio amounted to $3,762 in Fiscal Year 2010, less than the national average of $4,105. Such taxes amounted to 10.8 percent of personal income, compared to the national average of 10.7 percent.[82] Tax levels are fairly similar across most states.

While General Revenue Fund tax revenues are increasing to what is projected to be a new high in the current fiscal year, much of this increase has reflected the seizure of funds that had previously gone to schools, local governments and libraries. As noted earlier, calculations by Howard Fleeter for the Education Tax Policy Institute demonstrate that state tax revenue even now has not fully made up the reductions from the 2005 tax cuts and the economic downturn. Moreover, these numbers do not adjust for inflation, so real state tax revenue remains well below what it was in 2006. Ohio needs more tax revenue to pay for public services. We cannot be a successful state when schools are slicing courses and teachers, streetlights are being dimmed, parks aren't being repaired, and mental health services are provided only to those in crisis situations, as is now true in Washington County, to cite one example.[83] We need to keep police on the beat, firehouses open, and teachers in the classroom.

Further, we need to see more equity in our overall state tax system. The lowest-income Ohioans pay a larger share of their income in state and local taxes than the most affluent. Twenty-four states have a mechanism to equalize this kind of inequity – a state-level earned income tax credit.

The federal Earned Income Tax Credit (EITC) is the nation's largest poverty relief program for working families. Created by President Gerald Ford in 1975 and expanded under every presidential administration since, the EITC is lauded for its direct impact in lifting families with children above the poverty line, making work pay, and sending federal dollars to local communities. A modest Ohio EITC program, set at 10 percent of the federal credit, would provide the average recipient $221 and would cost the state $210 million per year. A slightly more generous credit, set at 20 percent of the federal credit as in many states, would cost about $420 million per year and would provide families with an average of $442 annually.

A state EITC program enables families to work and build assets while reducing the impact of regressive income tax changes. A state EITC makes sense because recent changes to the personal income tax have provided greater tax reductions for higher-income earners than they have for lower- and middle-income families.

Most Ohioans, those of middle and low incomes, have seen wage stagnation, reduced services and little tax reduction. But Ohio's highest earners have seen their real income increase and their state taxes drop substantially. Given the deepening fiscal crisis in schools, local governments and local human services, top earners should pay more to restore adequacy, fairness and efficiency to Ohio's tax structure. So should businesses, which benefited significantly from the 2005 tax overhaul. Ohio should review all tax expenditures, sunset those that are not productive, and eliminate wasteful exemptions. Oil and gas companies that will extract a one-time resource from Ohio should pay what they do in other states, instead of the pittance they do now.[84] General business taxes should be readjusted so that companies pay a larger share of the tax load, as they did decades ago when Ohio's economy was stronger than it is today. In short, Ohio needs to revamp its tax system to provide adequate revenues for the services Ohio's people need.

Summary and recommendations

The current budget slashed funding for critical services, impacting quality of life in all communities. This budget should take a more balanced approach by restoring revenue and reversing cuts to schools, local governments and health and human services.

Tax policy

To revamp Ohio's tax system so it is adequate for state needs, policy makers must:

- Restore the top income tax rate of 7.5 percent and add a new, 8.5 percent "half-millionaires' tax" for those earning $500,000 or more per year;
- Review all tax expenditures, repeal unproductive ones and establish sunset dates for all such expenditures;
- Levy appropriate taxes on oil and gas companies that extract a one-time resource from Ohio to ensure that they pay what they do in other states, instead of the extremely low rate they now pay. Use of these funds should help impacted communities, restore slashed services, and be used in a permanent fund for risk management purposes;
- Restore the overall level of general business taxes so that companies pay a reasonable share of the tax load, as they did in the past;
- Implement a unified development budget that depicts all state support of economic development so that taxpayers and legislators can see clearly annual spending through the tax code and the budget.

Education

- Restore cuts that have caused local school districts to cut staff and course offerings, increase class sizes, and implement pay-to-play for extracurricular activities;
- Institute a fair, adequate and equitable funding formula for schools;
- Apply high standards to charter schools, keeping ineffective schools from opening and closing those that fail their students. Make sure charters become part of a stronger K-12 education system in Ohio, not a means to dismantle it;
- Fund higher education sufficiently to make tuition at Ohio's colleges and universities more similar to that in other states;
- Establish a long-term strategy to restore need-based aid.

Health and human services

- Initiate a long-term strategy to provide adequate health and human services throughout the state;
- Expand Medicaid under the Affordable Care Act so as to improve the lives of 456,000 Ohioans, to control growth of health care costs and to bring $17.5 billion into the state, boosting the state budget between January 1, 2014 and June 30, 2022 by $1.4 billion;
- Bring additional federal dollars into the state for care of the elderly and disabled through the Community First Choice Option and the Balanced Incentives Payment Program;
- Restore early learning and childcare subsidies for young children and their families;
- Sufficiently fund services for the aging and those with disabilities so that the providers earn a living wage, and agencies have sufficient funds to handle work volume.

Workforce and unemployment compensation

- Invest in *The Sector Partnership Training Fund*, which would create a $10 million Sector Partnership Training Fund, funded with a combination of public and private money;
- Implement a shared work, or short-time compensation program;
- Provide adequate financing of its unemployment compensation trust fund and a higher taxable wage base, in particular.

As budget negotiations commence, we urge legislators to evaluate the needs of communities and residents. The long-term erosion of Ohio's public sector has meant that community and family well-being has deteriorated. It's a long way back up. We must restore schools and communities, boost aid for low-income college students, adequately fund mental health and other important health and human services, and ensure that workforce training programs address the needs of employers and the unemployed. A long-term investment strategy must be based on revenues that are fair, adequate and sustainable. The pending budget discussions provide an opportunity to restore Ohio. Smart choices now will mean less poverty, a stronger and larger middle class, and a healthier economy.

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[6] Ohio ranks 37 out of 50 in terms of need-based aid for low-income students, down from 17th in FY 2000 and from 13th in FY 1996. From Postsecondary Education Opportunity spreadsheet, "State need-based grant coverage of Pell Recipients in 1978-79 through 2010-11," updated 8/23/2012 at http://www.postsecondary.org/spreadslist.asp

[7] The state of Ohio invests the least of all states in children's services, according to PCSAO, the Public Children's Services Association of Ohio: *"….as a state, Ohio provides the lowest investment in child welfare in the nation, with only 8-10% of the total cost of child welfare services; local funds and federal funds provide the rest in nearly equal proportions.*" PCSAO Fact Book 2011-12 at http://bit.ly/Yf6fxS. Given the importance of local funds to children's services in Ohio, it is important to point out that just over half (45) of Ohio's 88 counties have local levies financing such services, and that those levies lost $39.2 million in the last biennial budget as the state reclaimed tax reimbursements promised as local taxes were eliminated by state tax changes.

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