

## New Year's budget resolution: Boost commitment to opportunity

### Executive Summary

Ohio's budget for fiscal years 2016-17 restored some recent deep cuts. After a decade of high needs and slashed services, it is not enough to move Ohio ahead. In this paper, Policy Matters Ohio prepares for a new year with a review of state budget trends since 2008.

Ohio's economy remains weak. We did not recover the jobs we had at the official start of the last recession until October 2015, over a year after most other states recovered. Our poverty rate is stuck above where it was before the recession. Median income remains lower than the national average and far below previous peaks, when adjusted for inflation.

Public policy plays an important role in helping people and businesses get ahead. It creates a platform that allows families and employers to build a future.

House Bill 64, Ohio's 2016-17 budget bill, gave large tax cuts to the richest, constraining the state's ability to make investments. While the draconian funding cuts following the recession have been restored in many areas, investment in the decade between the recession and the end of the new budget will barely rise above inflation, despite deepened poverty and increased needs. More is needed to fix gaps in the safety net, address the damaging effects of low-wage work, help Ohioans train for better jobs and repair the damage of the recession in communities. This report reviews policy and investment changes in House Bill 64. Findings include:

- **Tax policy:** The richest Ohio households get a tax cut, but the poorest pay more, on average, under a set of changes that cut the income tax. Meanwhile, despite three years of consideration, the General Assembly has yet to strengthen Ohio's weak tax on oil and gas production. Nor has the legislature authorized a permanent mechanism to review all of the \$8.5 billion in annual tax breaks. A tax policy study group was established to review the state tax system.

### Key Findings

- After years of recession and cuts, the state budget finally returns to 2008 levels, but many critical services have not been restored.
- Income tax cuts overwhelmingly benefit the richest, and offer little or no benefit to middle- and low-income Ohioans.
- Increase in higher education funding still leaves need-based financial aid hundreds of millions of dollars behind the level of the past decade.
- Childcare aid is improved, but initial eligibility remains among the lowest in the nation.
- Medicaid expansion is retained, but new mandates will block many from care.

- **Local government:** The state continued to cut revenue sharing – by \$124 million, not adjusted for inflation – and use the proceeds to cut taxes for the rich, boost the rainy day savings account and restore state programs. This hurts the ability of localities to provide essential services and hurts the economy by cutting jobs of public workers. Since 2008-09, the loss of state aid to communities is close to \$2 billion – not adjusted – on a biennial basis.
- **Early learning and childcare:** Ohio’s investment rose and fell over the decade, but funding in the current two-year budget period is the same as in the 2008-09 budget period, adjusted for inflation. We’re serving more children in public childcare and fewer in early learning. Overall, quality has been hurt, opportunity narrowed. A boost of \$118.9 million (not adjusted) in HB 64 compared to the prior budget will improve enrollment in pre-kindergarten, provide a small increase in initial childcare eligibility, eliminate co-pays for the poorest and smooth the childcare “cliff.”
- **K-12 education:** Schools have had a bumpy fiscal ride since the recession. School formula funding is 3.2 percent or \$552 million below the 2008-09 budget in inflation-adjusted dollars. This is despite HB 64’s boost of \$1.25 billion or 8.2 percent (not adjusted). Even so, some districts will be worse off as tax reimbursements are phased out, despite subsequent legislative action.
- **Higher education:** The 2016-17 budget provides \$1.18 million less than in the 2008-09 budget (adjusted for inflation). This is in spite of HB 64’s boost of \$369 million, 7.8 percent above the prior budget (not adjusted). More is needed, particularly in need-based financial aid, which is hundreds of millions below 2008-09.
- **Medicaid** expansion brought federal dollars to all corners of the state and provided badly needed health care services to 630,000 Ohioans. Legislators are seeking a federal waiver of Medicaid rules that would impose premiums and penalties on the poorest Ohioans, threatening access to health care for many.
- **Human services** get new investment in protective services; Ohioans with developmental disabilities will have more opportunities to get services through home and community-based services, and a new approach to case management could help people who need work get training and employment. At the same time, local human service levies for seniors, children, mental health and other services lose millions of dollars through the phase-out of tax reimbursements.
- **Corrections** will get new funding, but not enough to ameliorate significant overcrowding that has, over time, fostered violent assaults on guards. The Department of Youth Services budget will contract as the number of incarcerated youth shrinks, but little is known about the number of young people entangled in the judicial system across 88 county youth correction systems.

The past eight years have seen recession and recovery. State budget and tax policy included deep cuts in taxes and spending. From 2008 through 2017, Ohio’s budget has barely kept up with inflation. House Bill 64, the new budget bill, restores some services and needs to restore more. Other states are investing more in the foundations of competitiveness: education, need-based financial aid and human services. In this age of global competition, we can and should do more to boost opportunity for more Ohioans.