

Introduction

How we raise and spend money reflects what we value. Ohio's leaders say they want all children to have access to good schools. They want to help working people get ahead. They want to provide treatment to people struggling with mental illness or addiction. Most Ohioans also want these things, but without sufficient state support, we can't live up to our values.

In recent years Ohio's state lawmakers cut the state income tax, gave more and bigger tax breaks, slashed revenue sharing with local governments and stashed the savings in the bank. Budget cuts and inflation eroded public services. At the same time, need across the state, while better than during the recession, has grown since before the last recession. Manufacturing companies that paid well left the state and left their work forces behind; new companies in the service sector have taken their place with low-wage, non-union jobs. More families struggle.

The new state budget makes substantial investments in a few key areas, and small investments in many more, a welcome development. But it falls short of meeting needs in the low-wage economy and continues cutting the income tax, worsening Ohio's upside-down tax structure.

OVERVIEW & CONTEXT

Ohio has a biennial (two-year) operating budget. The state's fiscal years run from July 1st to June 30th of the following year. The budget considered in this report is for fiscal years 2020 and 2021. Data in this report is based on state fiscal year; represents both years of the biennial budget and is not adjusted for inflation, unless otherwise noted.¹

The state budget for 2020 and 2021 will provide \$48.8 billion in state taxpayer dollars in the General Revenue Fund (excluding the Medicaid dollars placed in that fund) and an increase of \$3.7 billion compared to the prior, two-year budget for 2018-19. The all-funds budget, made up of state taxpayer dollars, federal funds, dedicated purpose funds and fiduciary funds, totals \$140.9 billion.²

Ohio also has a two-year transportation budget. The vast majority of this \$8.5 billion budget went towards roads, highways, bridges and associated public safety and highway-policing measures.³ Less than 2% of this multi-billion budget went towards public transportation or other alternative modes of transportation such as safe pedestrian and bicycling infrastructure. The Transportation Budget is made up of gas tax revenues, motor-vehicle license fees and federal flexible transportation dollars. This budget raises an additional \$865 million annually for highway purposes from an increase in the gas tax (10.5 cents for gasoline and 19 cents

for diesel). Given the regressive nature of a gas tax increase, some changes were made to improve Ohio's Earned Income Tax Credit for low-income working families. As part of the transportation budget, funding for public transit also increased by \$40.5 million, albeit with funds allocated from the state's operating budget.

Public services are the foundation for our daily lives, providing for schools, roads, public transportation, clean water and much more. The state budget allocates taxpayer dollars collected for public services. Lawmakers' decisions about how to use those dollars should reflect the priorities and needs of the people.

Over the past 15 years, Ohio's lawmakers prioritized tax cuts and tax breaks that mostly benefit the wealthiest. The wealthiest 1% pay an average of \$41,000 a year less now than before the tax cutting started in 2005,⁴ and in this budget, state lawmakers reduced their taxes again.⁵ Taxpayers in the middle quintile – with an average income of \$48,000 in 2018 – pay about the same as in 2005; those at the lower end pay more today than they would under the tax laws of 2005 and pay about twice the share of their income in state and local taxes as the wealthiest.⁶ The annual cost of state tax breaks has soared and will reach almost \$10 billion by 2021.⁸

Ohio has grown jobs at a quarter of the national rate since 2005.⁹ Ohio's unemployment rate is low but the poverty rate remains higher than before the recession.¹⁰ Too many of the jobs that have been created are in low-wage sectors. Six of the 10 most common occupations in Ohio leave a full-time worker with two children eligible for – and needing – federal food assistance to put dinner on the table.¹¹ The tax cuts took \$6 billion a year out of state revenues, leaving less to meet the needs of Ohioans.¹²

INVESTMENT BUDGET NEEDED DEEPER INVESTMENT

Governor DeWine said that it is time for investment in Ohio, and lawmakers mostly agreed with him.¹³ But after eight years of harsh policies that eroded funding for schools, human services, colleges and universities, financial aid, local governments, public transit and other critical services, this new budget leaves a lot undone.

If policymakers implemented a fairer tax system as outlined by Policy Matters Ohio and invested the revenue in education, communities and public transit, the state would add 39,601 more full- and part-time jobs, wages would increase by \$1.7 billion, and state gross domestic product would grow by \$2 billion. Those gains would be in addition to the direct benefits of public services. The long-term benefits include better educated Ohioans and services that help communities prosper.¹⁴

In this budget paper, we outline appropriations in the major agencies of the state and highlight changes in state funding for selected programs. We discuss investments that still need to be made and review changes in tax policy in the new budget that will make those investments harder to achieve.

THE OHIO 2020-21 BUDGET: WHAT'S MISSING

Lawmakers made changes to the Earned Income Tax Credit in the transportation budget, but the key to helping more struggling families - making it refundable, like it is in 22 other states - was not part of the fix.

An investment of \$657 million in the Student Success and Wellness Fund, which funds primary and secondary schools to provide health, mental health and other services to help students in poverty learn, will benefit many Ohio children. However, state funds for basic classroom teaching is frozen at 2019 levels and will not keep up with inflation, eroding resources over the coming biennium. State formula funding for K-12 education per student, including TPP reimbursements, supplements, and the Student Wellness and Success Fund, will have dropped by 5% between 2017 and 2021 on an inflation-adjusted basis.¹⁵

Investment in the broad category of health and human services catches up to 2006 levels on an inflation-adjusted basis for the first time in 2021. But overall state dollars for human services other than Medicaid remain 11.5% below 2006 levels, even though the poverty rate is higher than in 2006.

Ohio didn't provide enough match in 2018 to draw down \$32 million federal vocational rehabilitation dollars it was eligible for.¹⁶ Ohio lawmakers left more of this money on the table than any other state. They boosted the state's investment for 2020-21, but will still forgo millions of dollars.

The state helps aging or disabled people live at home with the help of home health aides. Ohio's Medicaid reimbursement for these workers has been so low that turnover is high and services inadequate in some places. Lawmakers increased rates but

the governor vetoed the provision. There's a commitment to providing some increase, but maybe not for all services.¹⁷

Legislators did not provide any funding for new preschool slots, meaning Ohio will continue to have less than half of the national average of low-income youngsters in pre-school.¹⁸

Only two states make it harder to get child care assistance than Ohio.¹⁹ Lawmakers failed to extend aid to more struggling families, although it was a campaign priority for the governor. Lawmakers can help more struggling families by increasing initial eligibility for public child care aid from 130% of the federal poverty line to 200%. That would also align child care eligibility with public pre-school, making it easier for working parents to send kids to that enrichment program.

The transportation budget's increase in the gas tax will help pay for big-ticket road and bridge repairs in local budgets. The smaller the city or more rural the county, the more helpful the aid. Ohio's biggest urban counties and cities will welcome the new funds, but it's far from what they need to make up for the eight years of deep cuts. In Cleveland, for example, the \$5.8 million in additional gas tax revenues the city gets is helpful but does not make up for the \$25 million loss over the decade.²⁰

Lawmakers considered curtailing the LLC Loophole, an income tax break on passthrough business income, which costs well over \$1 billion a year, overwhelmingly benefits the wealthiest, has not created jobs and has not increased business start-ups, as promised.²¹ Both chambers of the General Assembly agreed to cutbacks, but their efforts did not make it into the final budget.

KEY CHANGES IN THE BUDGET

- Lawmakers provided at least \$182 million in targeted, new or expanded programs in the Departments of Health and Medicaid and the Minority Health Commission to reduce the state's high infant mortality rate.
- The budget increases funding for public child care by \$431.7 million in federal dollars in 2020-21 compared to the prior budget; new dollars are for long-overdue, increased rates for public child care providers who meet quality benchmarks.
- Lawmakers boosted investment to strengthen Ohio's mental health infrastructure, including an increase of \$55.5 million for the state's psychiatric hospitals; \$72.2 million for statewide treatment and prevention initiatives; and new dollars to expand the OhioSTART program for addiction-affected families to an additional 30 counties, now 64 in total.
- New state funding of \$675 million for the new 'Student Wellness and Success' fund in the Ohio Department of Education will allow K-12 schools to provide health, mental health, and other services to economically disadvantaged students, shown to improve learning.
- The H2Ohio clean water fund will provide \$172 million to clean Ohio's lakes and waterways over the next two years, as the fight to ensure clean-up of Lake Erie's toxic algae problem moves to the courts.
- State funding of more than \$20 million (recently augmented by a \$44 million federal grant) will rehabilitate homes toxic with lead and provide treatment for children poisoned by lead.
- State funding for indigent legal defense increases by \$152 million over the two-year budget period, which will allow courts to fulfill the constitutional duty of all people accused of a crime can be represented by an attorney at trial, regardless of ability to pay.
- Lawmakers doubled state funds for child protective services. Contribution of state funds has historically been the smallest among all the states. With the drug epidemic, need soared; lawmakers added more than \$200 million to stabilize the system over the biennium.
- The federal government pays \$.68 cents of each Medicaid dollar in Ohio across all programs, but more in the State Children's Health Insurance Program (SCHIP) and the Medicaid expansion, which primarily covers low-wage workers, disabled people and caregivers.²² Both programs faced reduction in federal share, with federal share of SCHIP dropping from \$.97 of each Medicaid health care dollar to \$.86 and from \$.93 to \$.90 for Medicaid expansion. Lawmakers preserved both programs without reducing eligibility or services.
- Across non-programmatic funding, local governments gain \$633 million (12%) compared to 2018-19, driven in part by the gas tax hike in the transportation budget.
- The state's expenditure on tax breaks will be close to \$10 billion by 2021, which is more than state GRF dollars used for Medicaid, higher education, corrections and most other services.²³
- Lawmakers considered enacting, repealing or changing 27 state and local tax break measures, and they made changes in 17 of them. They cut the income tax once again, benefitting the wealthiest people the most.

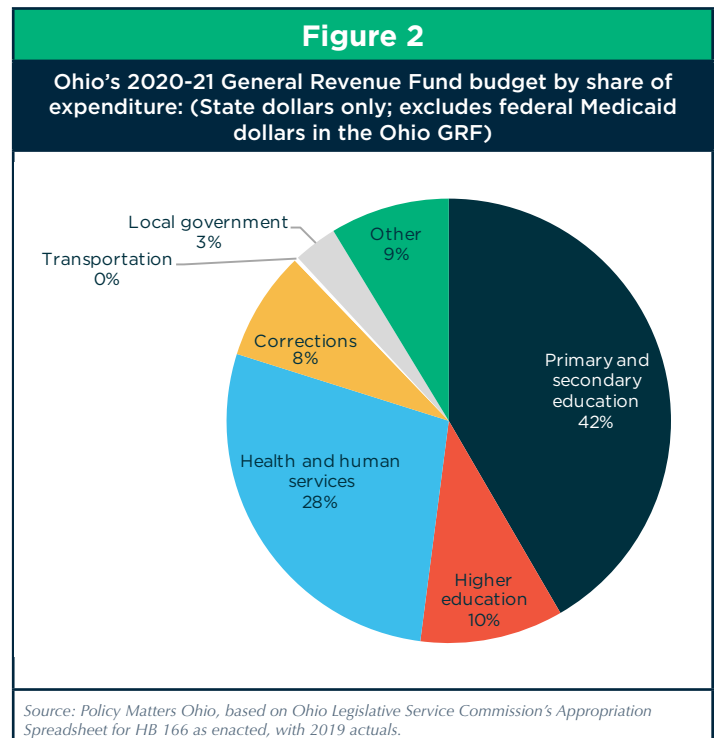
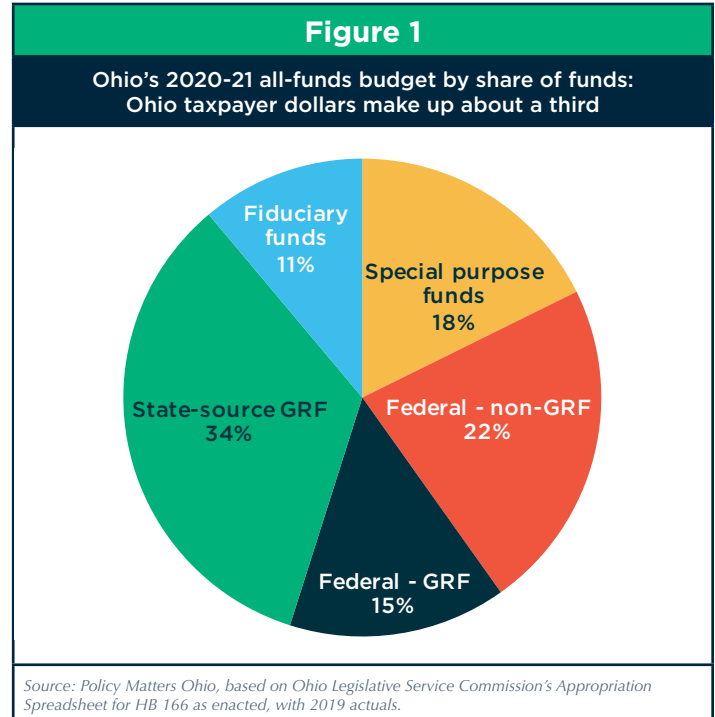
Overview of the operating budget

Ohio has five different budgets that legislators enact during each two-year session of each General Assembly: The main operating budget, the transportation budget, the Bureau of Workers Compensation budget, the Industrial Commission budget and the capital budget. This report focuses on the main operating budget, the largest of the budget bills and the one that supports most state government programs.

Within the main operating budget, there are four primary types of funds: the General Revenue Fund, made up of state tax collections; federal funds, allocated by Congress; special purpose funds, paid for by fees or assessments related to what they are spent on, and fiduciary or pass-through funds, which pass through the state accounts and are distributed to other levels of government (like the local sales tax the state collects and distributes back to counties and transit agencies).

Most budget analysis focuses on the General Revenue Fund (GRF), because lawmakers prioritize use of state taxpayer dollars in this fund. When the budget is analyzed across all types of funds - including but going beyond GRF dollars - it is referred to as the "all-funds budget." Figure 1 shows the all-funds budget. Federal funds make up 37% and fiduciary funds another 11%. Special purpose funds make up 18%. Just over a third - 34% - of the total is made up of state taxpayer dollars in the GRF.

Ohio's lawmakers place not only state taxpayer funds in the GRF, but also a substantial share of federal Medicaid dollars. Ohio is not the only state to do this, but it's not a common practice. Figure 2 shows how state dollars (not including those federal Medicaid dollars) are used in the GRF. A little more than half supports education, from pre-K to higher education (52%). A little more than a quarter supports health and human services (28%); 8% is used in the



correctional system and 3% is shared with local government. Less than one percent supports public transit. The remaining 9% supports all the other services of state government: the Departments of Natural Resources, Agriculture, Commerce, Development, Administrative Services and others.

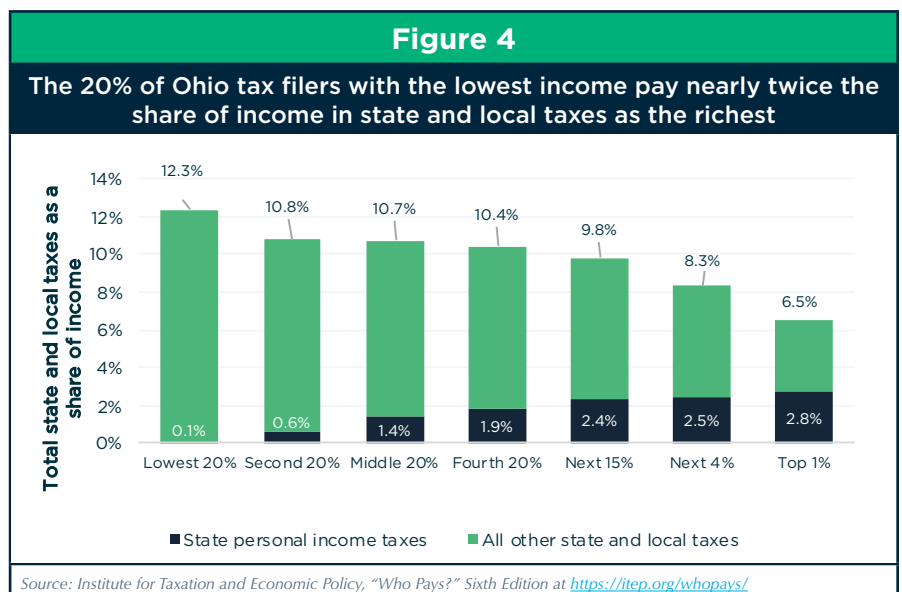
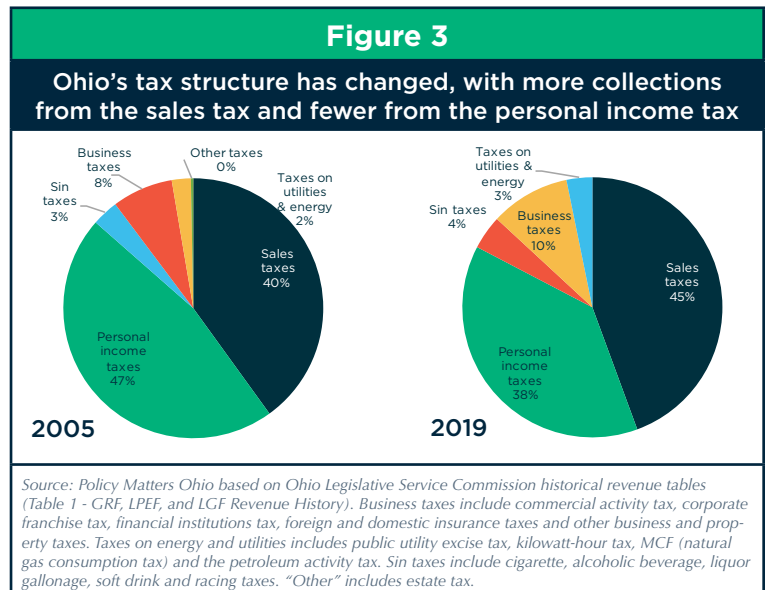
To support public services, Ohio relies primarily on revenues collected from the sales tax and the personal income tax. Unlike all but six other states, Ohio does not tax corporate profits. Instead there is a small tax on gross receipts, the commercial activity tax. Figure 3 compares the tax structure of the state in 2005 and 2019.

The share of state revenues coming from the personal income tax has fallen by 29% since 2005, while the share of revenues from the sales tax increased by 19%. This contributed to the increasing unfairness of Ohio's state and local tax structure.

Ohio has a graduated income tax: Everyone pays the same tax rate on the same amount of income, but as income rises, incrementally higher rates are applied to higher bands ("brackets") of income. This tax is based on the principle of "ability to pay," and adds a measure of fairness to Ohio's state and local tax structure.

Figure 4 totals state and local taxes as a share of income by income group. The blue bar shows the state personal income tax, the only measure based on ability to pay. It takes a larger share of income of the wealthiest tax filers compared to the poorest, unlike the other taxes. The state personal income tax prevents the inequality in the state and local tax system from being worse.

The following sections look at changes in tax policy and at appropriations in the major agencies in the budget, including education (at all levels), health and human services, corrections and local government funding. One section looks at major initiatives - like the H2Ohio fund - that cut across agencies. Another section looks at changes in funding for small but important agencies, commissions or programs. Each section gives overall funding levels and highlights various programs within agencies.



Endnotes

1. "Baseline Forecast of GRF Revenues and Medicaid Expenditures for the FY 2020-FY 2021 Biennial Budget Testimony before the Conference Committee on H.B. 166, Ohio Legislative Service Commission, delivered in testimony of Director Mark Flanders, June 25, 2019 at <https://bit.ly/2k2mUuM>
2. These figures are taken from the Ohio Legislative Service Commission's "Budget in Brief," at <https://bit.ly/2ImCOkm>
3. Ohio Legislative Services Commission, "Transportation Budget in Brief," at <https://bit.ly/2MB31oQ>.
4. Schiller, Zach and Wendy Patton, "Overhaul: A Plan to Rebalance Ohio's Income Tax," Policy Matters Ohio, June 26, 2018 at <https://bit.ly/2Q7MHwu>
5. Schiller, Zach, "Ohio Taxes Shift Away From the Wealthy, Again," Policy Matters Ohio, August 8, 2019 at <https://bit.ly/2MqnyyW>
6. Schiller and Patton, "Overhaul," Op. Cit.
7. "Who Pays?" Sixth Edition (2018), Institute for Taxation and Economic Policy at <https://bit.ly/2kqVmiQ>
8. 2020-21 Tax Expenditure Report, Ohio Department of Taxation at <https://bit.ly/2P7SG8z>
9. The nation's employment grew by 11.2% over the 14 years between 2005 and 2018. Ohio's employment grew by 2.5%. Economic Policy Institute, based on BLS Current Employment Statistics (annual summaries - seasonally adjusted).
10. The Ohio Poverty Report, Ohio Development Services Agency, February 2019 at <https://bit.ly/2tsGWhR>
11. Halbert, Hannah, "Working for Less: Too Many Jobs Still Pay Too Little," May 1, 2019 at <https://bit.ly/2Lkv4tz>
12. Schiller and Patton, "Overhaul," Op. Cit.
13. Shiller and Patton, "Overhaul," Op.Cit.
14. Policy Matters Ohio has outlined a plan to improve the fairness of the tax system, raise \$2.6 billion and invest in pre-school, K-12 education, financial aid for college students, local governments and public transit. See Jackson, Victoria, "Investing for Growth," Policy Matters Ohio, February 18, 2018 at <https://bit.ly/2V4um5q>
15. These figures are based on the Ohio Legislative Service Commission (LSC) spreadsheets: "Inflation-Adjusted Foundation Funding and TPP Reimbursements., 2005-2021" and "Nominal Foundation Funding and TPP Reimbursements, 2005-2021," See Figure 5 in the section on Education.
16. Rehabilitation Services Administration, State grants and awards for year ending 9/30/2019 at <https://rsa.ed.gov/programs.cfm?pc=ba-sic-vr&sub=awards> and E-mailed communication from Jordan Ballenger of Disability Rights Ohio to Wendy Patton, Policy Matters Ohio. See section on Health and Human Services.
17. According to the Ohio Association of the Area Agencies on Aging, a boost in rate for personal care workers supporting older people living at home under the PASSPORT and Assisted Living Medicaid waiver programs was approved in the budget. The governor vetoed the measure but the funding is still there. The administration has committed to providing some type of increase, but not the full amount for all the services that had been listed in the budget, because the funding does not cover people served by the MyCare program or the under 60 waiver, Ohio Home Care. E-mailed communication of September 12, 2019.
18. The State Preschool 2018, The National Institute for Early Education Research, Rutgers Graduate School of Education at <https://bit.ly/2kRb5rD>
19. Ullrich, Rebecca, Stephanie Schmit and Ruth Cosse, "Inequitable Access to Child Care Subsidies", CLASP, <https://bit.ly/2UYU8aK>; see section on health and human services.
20. See Ohio Department of Transportation, "Local Gas Tax Revenue" at <https://bit.ly/2muF5Kh> and Patton, Wendy, "State cuts sting Ohio localities," Policy Matters Ohio, Dec. 19, 2016 at <https://bit.ly/2MEX4GM>
21. Schiller and Patton, "Overhaul," Op.Cit.
22. Patton, Wendy, "Medicaid works, work requirements don't," Policy Matters Ohio, February 2, 2018 at <https://bit.ly/2mY3sR1>
23. Legislators considered creating, repealing or changing 27 tax break measures in House Bill 166, the budget bill for 2020-21. The Office of Budget and Management (OBM) and the Legislative Service Commission (LSC) did not quantify all of these, so a complete comparison of tax breaks created or expanded and those reduced or repealed is not possible. To the degree quantification is possible, it appears there is a modest gain in revenue of \$13 million each year million amid the \$9.8 billion given away annually in tax breaks See Patton, Wendy, "Ohio's Ballooning Tax Breaks," Policy Matters Ohio, September 5, 2019 at <https://bit.ly/2ma5nla>