

Tax & Budget

Ohio's 2018-19 budget in review

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Ohio legislators forged the new budget for fiscal years 2018 and 2019 as tax collections fell and opioid deaths soared. Legislators scrambled to find money to stem the drug epidemic. They cut, earmarked and redirected funds to addiction treatment and ancillary services, taking a share from cities, on the front lines of the drug crisis. They did not eliminate the Medicaid expansion - the primary tool to help the addicted - although some tried, and the threat lingers. They dispensed with the income tax cuts routinely included in Kasich budgets, but also failed to close tax loopholes and modernize the severance tax for fracking. Instead they imposed cuts, large and small, across state and local government.

OVERVIEW

Every two years, the state of Ohio passes an operating budget that outlines what will be spent on education, health and public services, based on revenue from state taxes, the federal government and other sources. Federal and state laws dictate the use of much of the money. Funds raised from state taxes in the General Revenue Fund (GRF) are the most flexible. Lawmakers decide how to raise revenue for and how much to spend on GRF line items like schools, higher education, parks, local government, health, human services and more.

Ohio puts some federal Medicaid funds in the GRF: these make up about 30 percent of total GRF funding. Between state dollars and Medicaid funds, Ohio's GRF expenditures will total \$65.5 billion in the two-year budget for FY 2018-19 (\$32.2 billion in 2018 and \$33.3 billion in 2019), slightly less than the prior budget for FY 2016-17, which totaled \$68.1 billion. *State-only* funds in the GRF total \$45.4 billion (\$22.5 billion in 2018 and \$23 billion in 2019), \$857 million or 1.9 percent more in FY 2018-19 than in FY 2016-17. This increase does not keep up with projected inflation of 3.9 percent over the two years of the new budget.

The GRF is one of several funds in the Ohio operating budget. Taking all funds into account, the overall operating budget for FY 2018-19 will be \$132.8 billion (\$65.7 billion in FY 2018 and \$67.1 billion in 2019). It grows by \$7.9 billion, an increase of 6.3 percent over the two-year period. Adjusted for inflation, the increase is 2.3 percent.

The operating budget for FY 2018-19 does not cut state income taxes, an important positive policy shift. However, it introduces new tax breaks and loopholes, which further drain resources needed for public services



RECOMMENDATIONS

Tax policy - Ohio does not raise enough revenue to make important investments. State lawmakers could raise what is needed, and make the system fairer, by eliminating unnecessary tax breaks and revamping Ohio's tax system.

Local government - Ohio's cooperative partnership between state and local governments should be restored with better funding of the Local Government Fund and permanent replacement of local sales tax revenues lost to counties and transit agencies in this budget.

Public transit - The Statewide Transit Needs study recommended investment of \$120 million a year in public transit through GRF and federal highway flex funds. Yet state funding in 2018-19 is entirely offset as the sales tax base is narrowed, hurting transit agency tax revenues.

K-12 Education - The state is shortchanging many districts and providing meager increases less than inflation to others. Policymakers should adequately fund schools and stop diverting funding for public school districts to less effective charters and voucher programs.

State Share of Instruction - Lawmakers need to lower tuition through better state support. High tuition deters students from college and makes it difficult to complete.

Financial Aid - Ohio is facing a college affordability crisis. Legislators should fund the Ohio College Opportunity Grant at \$250 million a year, as originally intended.

Mental Health and Addiction Services - Lawmakers funded services to stem the drug epidemic, but with one-time fixes, earmarked or redirected from other uses. This will be a long-term fight that will need sustainable sources of state funding.

Protective services - Lawmakers increased funding for children's services for families afflicted by the drug epidemic. Lawmakers should also provide additional funding for adult protective services, as financial abuse is a growing problem.

Corrections - Sustained funding for community corrections, coupled with mental health and addiction treatment in the community, will help reduce Ohio's high levels of incarceration.

Medicaid - Ohio needs lawmakers to safeguard the life-saving potential of Medicaid. They should not eliminate or freeze the Medicaid expansion. They should not impose work requirements and premiums as a component of health care for the poorest Ohioans.

Child care and early education - Lawmakers should allow families earning up to 200 percent of poverty to get childcare aid and boost childcare provider rates to enhance quality of care.

Food and shelter - The state should boost food aid by \$10 million a year and provide additional dedicated GRF or increase local mortgage transfer fees to restore the Housing Trust Fund to meet need for affordable housing and shelter for the homeless across the state.