November 2017

Budget

Ohio's 2018-19 Budget in Review

Wendy Patton

Introduction

Ohio legislators forged the new budget for fiscal years 2018 and 2019 as tax collections fell short of projections and opioid deaths soared. Forecasts underpinning the 2018-19 budget dropped by $1 billion between the first revenue forecast of the Ohio Legislative Service Commission, presented in February, and the last one, in June.[1] Legislators scrambled to find money to stem the opioid 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 as the Governor suggested. Instead they imposed cuts, large and small, across state and local government.

This report describes the new budget for fiscal years (FY) 2018-19 and compares it with appropriations in the prior, two-year budget for FY 2016-17. Policy Matters Ohio released budget snapshots called post budget bites in key areas as finalized data became available; links to those pieces are provided. Recommendations are summarized at the end.

BUDGET BASICS: THE GENERAL REVENUE FUND

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. *State-only* funds in the GRF total $45.4 billion ($22.5 in 2018 and $23.0 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.

BEYOND THE GENERAL REVENUE FUND

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

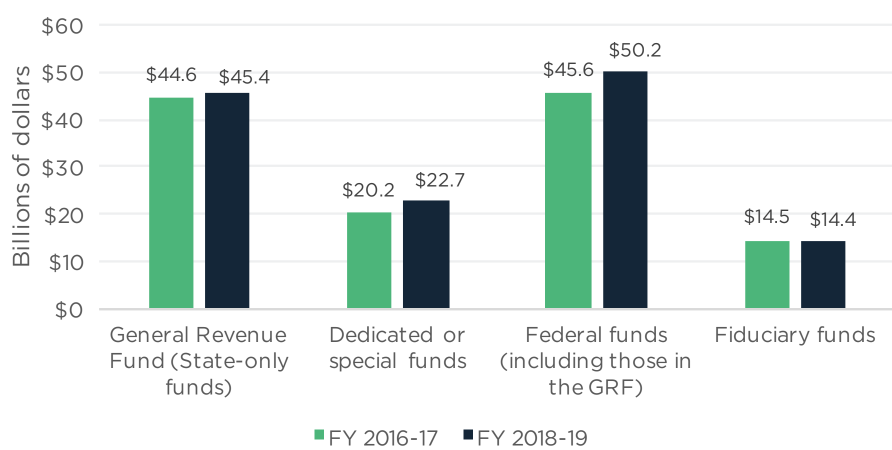
[1] Based on Ohio Legislative Service Commission (LSC) updated forecast for the FY 2018-19 budget which projected a decline of $1,021 over the biennium compared to the initial LSC forecast. The updated forecast of the Ohio Office of Budget and Management projected a decline of $949 million of which $934 million were to be GRF tax revenues.

$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.[2]

Chart 1 shows the “all funds” budget, including federal funds, special or dedicated purpose funds, fiduciary funds and general revenue funds. More than a third of Ohio’s budget is from federal dollars. Fiduciary funds, like the local sales tax, are collected by the state and passed through to other entities. The Dedicated Purpose Budget Fund Group consists of funds that receive specific revenues for activities conducted in accordance with the law. This is a new designation: the executive budget document for 2018-19 explains that funds in this new budget fund group were formerly part of the General Services Budget Fund Group or the State Special Revenue Budget Fund Group. Figure 1 illustrates changes in major fund groups in the new operating budget compared to the prior budget.

Chart 1

Changes in major fund categories, budget for FY 2016-17 and for FY 2018-19 (billions of dollars, not adjusted for inflation)



Source: Policy Matters, based on Ohio LSC Budget in Detail, as enacted, with 2017 actual expenditures.

The GRF shrinks slightly in the FY 2018-19 budget compared to the prior one, while special or dedicated purpose funds and federal funds increase. This is due in part to an accounting change, not a change in policy. Legislators moved a health care provider tax on Medicaid managed care services from the base of the sales tax, which is in the GRF, to the insurance tax, which is not. As a result, both the state funds raised by this tax and the federal Medicaid dollars that matched those funds moved out of the GRF.

TAXPAYER REVENUES IN THE GENERAL REVENUE FUND

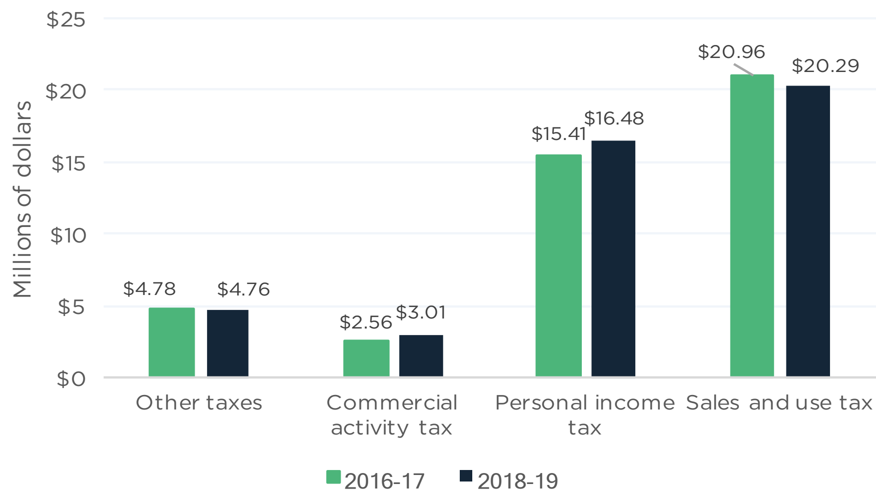
State taxpayer funds come primarily from the personal income tax and the sales tax (Chart 2). Ohio is one of just seven states without a corporate profits tax. The Commercial Activity Tax, a tax on gross receipts in Ohio, is the state’s primary business tax. We also have a financial

[2] Inflation adjustment is in 2016 dollars, and is based on the CPU-R-S series of the Bureau of Labor Statistics. FY 2017 index increase is taken from the CPI-U. Fiscal year inflation in 2018 and 2019 is based on the Ohio LSC June 22, 2017 revenue forecast.

institutions tax, insurance taxes, several taxes on utilities, taxes on alcohol and tobacco products, and other smaller taxes.

Chart 2

Tax revenue sources in the Ohio 2016-17 and 2018-19 budgets



Source: Policy Matters, based on Ohio LSC June 22, 2017 forecast for the Ohio Budget and Ohio LSC Budget Footnotes, July 2017 (for 2017 figures). Note: This chart portrays actual revenue collections for FY 2016-17 but projected collections for FY 2018-19.

Chart 2 shows a slight decline in overall sales tax receipts in the FY 2018-19 budget because of the previously mentioned movement of the Medicaid managed care tax out of the sales tax base. An increase is projected for the personal income tax; a rebound in collections is forecast, following a slight decline in FY 2017.

Ohio's tax system is regressive: the lower your income, the higher the share of income you pay in state and local taxes. This has worsened in recent years as the state cut the personal income tax, based on ability to pay, and moved to greater reliance on the sales tax, which falls more heavily on lower- and middle-income taxpayers.

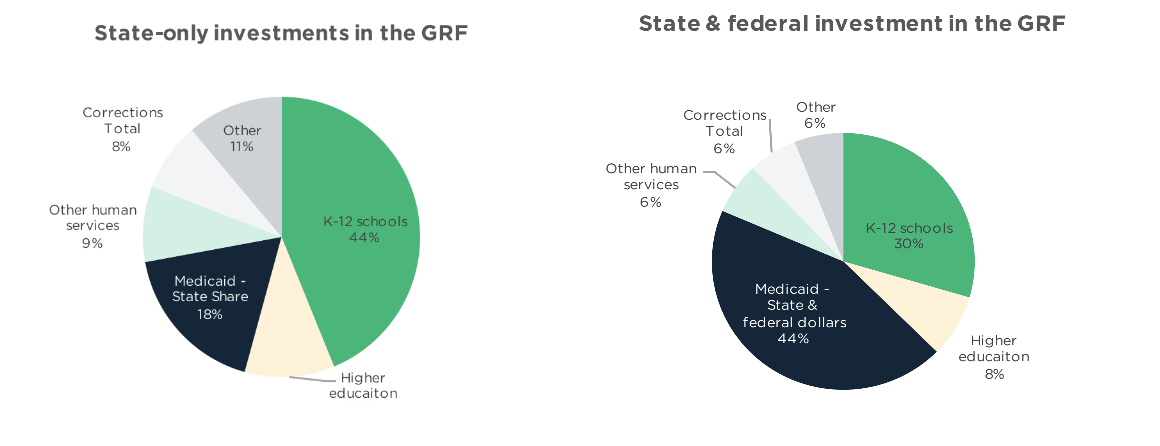
The operating budget for FY 2018-19 does not cut state income taxes, an important positive policy shift. However, it introduces new tax breaks and loopholes, which further drain resources needed for public services.

USES OF REVENUES IN THE STATE BUDGET

Chart 3 shows the uses of funds in the GRF. Schools are the largest investment funded by state dollars. Medicaid becomes the largest expenditure when federal dollars are factored in. This highlights the importance of federal funding in Medicaid. Medicaid is Ohio's largest insurer, covering 3 million Ohioans, over a quarter of residents. The federal government pays over than two-thirds of each Medicaid dollar, across all programs.

Chart 3

State-only revenue compared to state and federal dollars combined in the 2018-19 GRF

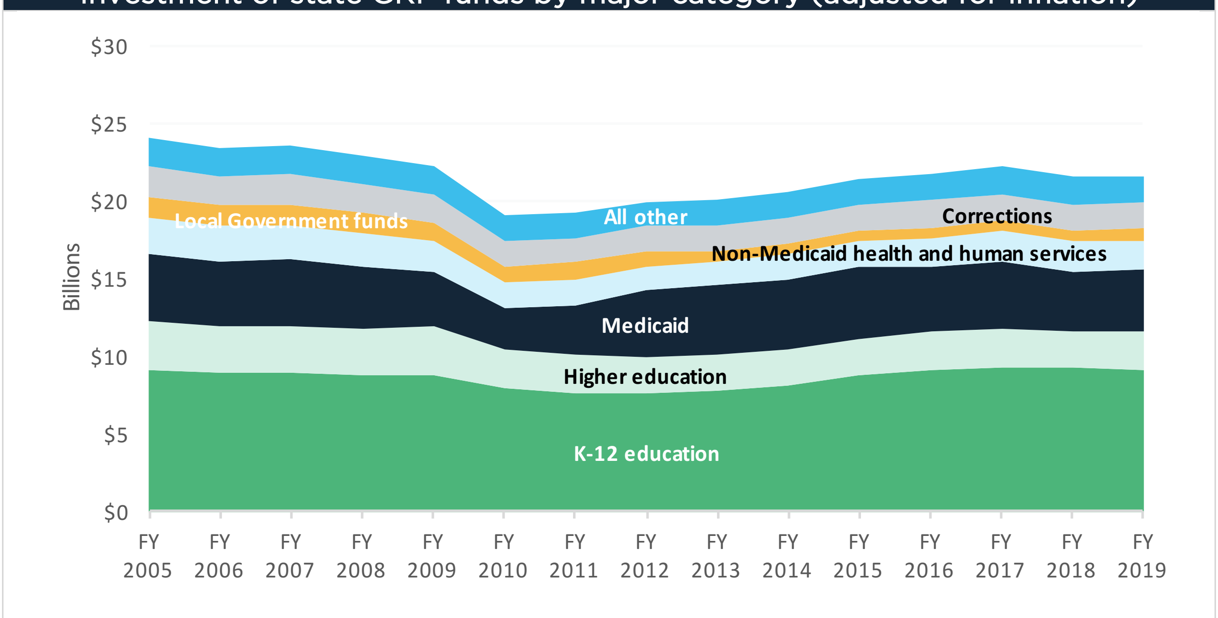


Source: Source: Policy Matters, based on Ohio LSC historical expenditures tables 2 and 3

Ohio government spending as a share of the state economy has fallen since 2005. State-source GRF spending as a share of Ohio's gross domestic product fell by 13.2 percent between 2005 and 2013. On an inflation-adjusted basis, Ohio will spend 10 percent less on public services in the GRF than in 2005. Chart 4 shows inflation-adjusted spending of state tax dollars in the GRF since 2005.

Chart 4

Investment of state GRF funds by major category (adjusted for inflation)



Source: Source: Policy Matters, based on Ohio LSC Table 2: Historical expenditures in the GRF: state-only funds, including Lottery Profits Education Fund and Local Government Funds

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Because of decline in state investment, Ohio has fewer librarians, guidance counselors and art, music and gym teachers in our schools. Public universities and community colleges have among the highest tuition in the nation as a share of household income, and need-based financial aid has been greatly reduced. Fewer families get help with childcare now than in 2010. These are just a few examples of the outcomes of diminished investment.

The next section reviews changes in the 2018-19 budget in taxes and spending on local government, transit, schools, higher education, corrections, health and human services. We discuss new funding to stem the opioid epidemic, and shortfalls in funding for food, shelter and childcare, which workers in Ohio's low-wage labor market require to meet basic needs.

TAX POLICY IN THE STATE BUDGET

For the first time in years, the Ohio General Assembly approved a budget that doesn't significantly cut ongoing revenues for public services or shift taxes onto those who can least afford it. There is no new round of income tax cuts.

Ohio has cut personal and business income taxes for most of the last dozen years. These cuts sapped the state of billions of dollars a year in vitally needed revenue and weighted the tax system in favor of the wealthiest at the expense of low- and middle-income Ohioans.
The budget for 2018-19 included new tax policies. While the legislature did not approve a big, regressive tax cut, it still passed a range of new or expanded special-interest tax breaks. The budget also:

- Cut the amount of municipal income tax some businesses pay on their profits, and set up a parallel state collection system that companies can use instead of filing with municipal tax authorities. Together, these moves will reduce municipal revenues and undercut cities' authority over an important funding source
- Cut property taxes for farmers
- Cut two brackets out of the state income tax, eliminating the tax for a small number of low-income taxpayers
- Changed the way appeals of some tax decisions are made
- Forced some out-of-state online retailers to collect the Ohio sales tax
- Provided an amnesty for those who haven't paid taxes they owe

The sales-tax provision will help level the playing field between Main Street and online retailers and collect revenue that is already due. The elimination of the two lowest income-tax brackets will save taxpayers making between $10,000 and $10,500 a year a total of $2 million in 2019, according to the state budget office, a tiny step toward a more balanced tax system. And the budget bill will bring more transparency for a number of business tax breaks.

The changes to the local income tax erode municipalities' control over an important tax. Changes to the property tax on agricultural land may be helpful to some farmers, but at the expense of school districts and residential taxpayers, who could pay more in some places. Instead of slashing unneeded tax breaks, or even taking modest steps to rein some in, the General Assembly added more. These include expanding the income-tax deduction for college savings accounts, which favors affluent taxpayers and is unlikely to significantly

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increase college attendance for low-income Ohioans; extending the poorly targeted sales-tax holiday for another year; and lowering taxes on "premium cigars." Thankfully, Gov. Kasich vetoed a number of the most costly tax breaks the General Assembly approved. According to the budget office, over the two-year budget Kasich's tax break vetoes saved $581 million.

BUDGET POLICY

Policy Matters Ohio released a series of 11 Post Budget Bites, each providing two pages of analysis on key spending areas for the state. These brief, digestible analyses included:

- Post 2018-2019 Budget Bite: Food and Shelter
- Post 2018-2019 Budget Bite: Public Childcare and Early Education
- Post 2018-2019 Budget Bite: Public Transit
- Post 2018-2019 Budget Bite: Local Government
- Post 2018-2019 Budget Bite: Mental Health and Addiction Services
- Post 2018-2019 Budget Bite: Medicaid
- Post 2018-2019 Budget Bite: Alternatives to Incarceration
- Post 2018-2019 Budget Bite: Protective Services
- Post 2018-2019 Budget Bite: K-12 Education
- Post 2018-2019 Budget Bite: Public Higher Education
- Post 2018-2019 Budget Bite: Affordable College

Below we provide some essential details from each of the Post Budget Bites, but readers who would like more information on any of these areas should click on the links above.

LOCAL GOVERNMENT AND PUBLIC TRANSIT

Local governments lose again - Local governments in Ohio – counties, cities and towns and the many special districts that provide services like children's services, fire and emergency services and mental health services – have lost $1.2 billion a year in state funding since 2010 on an inflation-adjusted (apples-to-apples) basis. There are more losses in the new budget. Local governments will get an estimated $72 million less from revenue sharing (Local Government Funds, Casino Funds and the property tax rollback); dedicated funds for libraries and infrastructure; and changes in taxes, including the phase-out of tax replacements for tangible personal property taxes (TPP) the state eliminated in past years. Losses include:

- Changes to the way agricultural land is valued is expected to reduce funds to local governments by $13 million in 2018, a sum that rises to $21 million in 2020
- The repeal of the throwback rule, under which companies paid municipal income tax on profits from sales in cities where they do not regularly solicit sales. The Regional Income Tax Agency, which collects the tax for about 270 communities, conservatively estimated the loss to those cities and villages at $11 million annually
- The state imposed additional damage on municipal revenue collections with a new tax loophole in the municipal income tax and will start to collect some municipal corporate profit taxes, which cities argue will reduce oversight and accountability. Some claim it will cost them revenues as well

In addition to the losses described above, changes to the state sales tax base will take an additional $158 million from county revenues annually after transition funds provided in 2018 run out. In response to federal requirements, lawmakers moved Medicaid managed care services from the sales tax base. They protected the state budget but failed to safeguard counties and transit agencies. Counties stand to lose an estimated $158 million annual revenue stream as a result. The 2018-19 budget includes a temporary, one-year transition fund, but after that, the revenue is gone.

Cities and larger villages lose $30 million a year - $17.65 million as the state redirected dollars from the Local Government to drug epidemic services and $12 million as lawmakers made permanent a dedicated funding line for townships.

Local governments are on the front lines of the drug epidemic. They assist the most with food and shelter. They are responsible for the majority of miles of roads and bridges and infrastructure like water and sewers. Ongoing cuts threaten the quality of life in many Ohio communities.

Public transit goes over the cliff - Public transit is a crucial service in Ohio, helping millions get to work, school, and appointments every day. While Ohio's ridership is 14th highest in the country, the state provides little support, compared to other states.[3] The 2018-2019 budget continues this trend, providing $39.5 million per year from state funds, about $80 million less than it should, according to the Ohio Department of Transportation's Statewide Transit Needs Study.

The state contribution to public transit is made through a combination of federal and state funds. Federal funds come from the National Highway Trust Fund 'flex' dollars, which provide $33 million per year in the two-year budget. The General Revenue Fund (GRF), made up of state taxpayer dollars, provides $6.5 million.[4]

The eight transit agencies that levy a local sales tax on the state base, like counties, face lost revenue with the removal of Medicaid managed care services from the sales tax. Transit agencies lose $38.6 million. This is another blow to people living in cities: Cleveland, Youngstown, Columbus, Dayton, Akron, and Canton. Like counties, transit agencies get help from the transition fund in 2018. But it is a one-time fix. The loss faced by just these eight agencies is nearly as large as the entire state appropriation for public transit for one year

Transit is integral to getting around an urban state like Ohio. Lawmakers should increase highway flex funds to at least $50 million a year, increase GRF funding of public transit, and find sustainable revenue that lets the state contribute its fair share to public transit, an estimated $120 million a year, rising to $185 million a year by 2025.

EDUCATION

K-12 education falls behind inflation - Public education is the backbone of our communities and keeps our economy strong. It prepares children for higher education, the workforce, and civic life. The General Assembly's funding for school districts has varied over time, but over the past decade, cuts and inflation have reduced state aid to schools. Overall formula funding

[3] Midwest Energy News puts Ohio 9th from the bottom, behind Texas and Kansas: http://bit.ly/2zAVKkH
[4] The state also appropriates another $33.2 million in federal formula funds for mass transit, but this is not a decision point for state legislators.

plus the remaining tangible personal property tax (TPP) replacements that go directly to school districts fall by an estimated 7.6 percent between 2010 and 2019, adjusted for inflation. The number of pupils is also forecast to fall, but less sharply.[5]

Ohio lawmakers continue to underfund K-12 education in the state budget for 2018-19, increasing funding by only 2.7 percent over the last two-year budget. When adjusted for inflation, the state is actually investing less in aid for school districts than it did in 2016. Out of 610 school districts, 221 are flat funded and 147 lose funding.[6]

Charter schools and voucher programs continue to drain resources from public schools, which still educate the vast majority of Ohio's children. In 2018 and 2019, charter schools will siphon off nearly $2 billion from school districts.[7] Money for charter schools is deducted from funding for school districts. On average, charter schools don't perform better than public schools, and they lack the oversight and accountability standards public schools meet. Ohio has five voucher programs that cost $236 million in 2016. Most funding for vouchers is deducted from state aid from the home school district of a voucher student. Although on average students who use vouchers are wealthier than their peers who stay in public school, they perform worse on math and English tests.

Higher education: Scant progress on affordability - Post-secondary education prepares students to meet future challenges and to be productive members of society. The State Share of Instruction (SSI), the main state funding for public colleges, is directly tied to the cost of tuition: when funding is down, tuition goes up. Policy makers increased funding for SSI by just 2 percent in the 2018-19 budget, which does not keep up with inflation.

When state funding is cut, or eroded by inflation, costs are shifted to students. Ohio public universities and community colleges have tuition that is higher than the national average. High tuition contributes to Ohio ranking 45th in college affordability. As a result, 64 percent of Ohio's class of 2016 with bachelor's degrees has student debt, which averages $30,351.

Need based aid needs to be boosted - Ohio has one state source for need-based financial aid – the Ohio College Opportunity Grant (OCOG). The long-term goal was for OCOG to be funded at $250 million a year, to help Ohio students attend the state's many institutions of higher education. In the new budget, lawmakers increased OCOG funding by about $12.9 million (6.9 percent) compared to the prior budget. By 2019, Ohio will spend nearly $101 million on need-based aid. This is a move in the right direction, but it is far too small, leaving the fund almost $150 million a year short of that long-term goal.

In this budget, policymakers earmarked more than $10.9 million in OCOG for proprietary schools. In 2016, $7.3 million in OCOG went to these for-profit schools. This funding provided awards to 10,157 students. For the same amount of OCOG spent at for-profits, public community colleges could have served more than 19,000 students. Lawmakers did not correct this disparity in the latest budget. Instead, the budget continues to steer financial aid

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[5] The National Council on Educational Statistics predicts Ohio's K-12 enrollment will fall by 4.4 percent between 2011 and 2023.
[6] Legislative Service Commission, "House Bill 49 Total Funding for School Districts Final After Vetoes Table," July 2017.
[7] Legislative Service Commission, "Governor's Proposal Community Schools," February 2017.

away from the public system, even though public colleges leave students better off and are more accountable and transparent.

Lawmakers are not investing enough to support a uniformly a strong system of public education, which serves the vast majority of Ohio's students, everywhere in the state They fail to appropriate enough funding for education to keep up with inflation, leaving too many public schools and colleges struggling and falling behind. They siphon too much to poorly-performing privatized schools. Ohio's legislators should recommit to a better and brighter future for our children, boost spending for public education instead of starving it, and make higher education more accessible and affordable, instead of less.

HEALTH AND HUMAN SERVICES

Mental Health and Addiction - One bright spot in the 2018-2019 Ohio budget is the concerted and coordinated effort lawmakers made to steer resources to stem the drug epidemic that has consumed our communities. Close to $200 million was provided across various agencies to address the rising death toll. Lawmakers increased funding for the Department of Mental Health and Addiction Services by 16.4 percent compared to the previous two-year budget and pulled together other investments in public safety, criminal justice, children's services and other services stretched thin by the demands of the epidemic.

Funding to treat addiction was increased, but not sustainably, and threats remain. The funding is largely made of earmarks and funds redirected from other uses – notably, from the portion of the Local Government Fund that goes to cities and larger villages (referred to as the "municipal distribution" of the Local Government Fund).

Attacks on Medicaid in the 2018-19 budget threatened public efforts to stem the epidemic. Most treatment for addiction, closely intertwined with mental health illness, is paid for through Medicaid and Medicaid expansion. The budget bill for 2018-19 would have frozen enrollment, cutting about 500,000 recipients over 18 months.[8] The Governor vetoed this and other threats. But lawmakers could still override the veto and new eligibility restrictions introduced in the budget bill, including premiums and work requirements, will reduce Medicaid's effectiveness as the most critical tool in fighting the epidemic.

Ohio has long had a shortage of treatment beds for mental health and addiction.[9] Local levies have lost millions of dollars as the state phased out TPP tax replacements. There were 11 ballot issues for behavioral health levies, more than usual, as localities ramp up their efforts to save lives. More than half are for new money – more money than they have asked for in the past. The budget for 2018-19 provides new money, but there is a long way to go, and years of work ahead.[10] Addressing the drug epidemic will take a long time, and will need funding on a sustained basis.

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[8] Ohio House considers overriding Gov. Kasich's veto, September 17 at http://bit.ly/2hi9V6F.
[9] See Treatment Advocacy Center, "Psychiatric Bed Supply Need Per-Capita, September 2016 at http://bit.ly/2zl2nEJ; also, Ben Southerly, "State Psychiatric Beds Fail to Meet Demand," The Columbus Dispatch, April 13, 2014 at http://bit.ly/2ycriJh; Hannah Poturalski, "Ohio has critical shortage of psychiatric hospital beds, March 1, 2015 at http://bit.ly/2h7Z6R3;
[10] Gongwer News- Ohio, "Counties look to voters to bolster funding for services impacted by opiate crisis, November 3, 2017.

Protective services - In response to more children being placed in protective custody due to their parent or guardian's battle with substance abuse, lawmakers increased funding for children's services agencies by $41 million or 36.8 percent. The state should continue to boost funding of children's services. New funding allocated in the 2018-19 budget is helpful, but in many places, it does not meet the need. The phase-out of TPP replacements has drained millions of dollars a year from local children's services levies. In this November election, even following the new state budget's appropriation of additional funds, there were 11 children services levies on county ballots throughout the state. Crawford, Vinton, Licking and Montgomery counties were asking for first-time levies while some others were seeking additional funding through current levies.[11]

Additional funding was not provided in the new budget for adult protective services. Ohio provides far less for adult protective services than other states. The $2.6 million annual funding for this amounts to just $30,000 per year per county. With the drug crisis, the number of reported cases is rising. The *Columbus Dispatch* found an 8 percent increase in reports of senior abuse, neglect and exploitation in the fiscal year that ended June 30, 2016 due to a spike in financial exploitation cases, largely because of addicted relatives. Policy Matters Ohio found a need for funding of between $11 and $30 million, depending on what estimate of abuse and neglect is used, and whether financial exploitation is included. Counties need additional funding to address the silent epidemic of elder abuse, which is worsened as families confront addicted relatives.

Medicaid – Progress in fighting the drug epidemic could be undone if lawmakers make good on a threat to dismantle Medicaid expansion, which provides care for many Ohioans struggling with addiction. Medicaid is Ohio's largest insurer and has been instrumental in providing treatment for people fighting addiction. It provided $650 million of the approximately $1 billion dedicated to stemming the drug epidemic in 2016-2017.

The Medicaid budget consists of a combination of funds including state special purpose and dedicated purpose funds; state share of Medicaid funds in the GRF; federal share of Medicaid funds in the GRF; and other federal Medicaid dollars. Both within and outside the GRF, federal funds have grown the most and now account for $.63 of every Medicaid dollar spent — and an even larger share of children's health care and Medicaid expansion. The 2019-2019 state share of the GRF, the part made up of state taxpayer dollars, decreased in the 2018-19 budget compared to the previous one. It amounts to $5.1 billion in 2018 and $5.4 billion in 2019.

Lawmakers maintained coverage for all groups in this budget. But they included threats to the program, such as a freeze on enrollment for Medicaid expansion which helped more than 500,000 Ohioans with substance use disorder and mental illness get treatment since 2014. Governor Kasich vetoed the proposed freeze, but it may reemerge: vetoes may be overridden until the end of next year.

The budget also included provisions that may impose work requirements or new premiums for Medicaid enrollees, both of which are likely to decrease participation and prevent access to treatment.

[11] Id.

All the progress Ohio has made in curtailing the drug epidemic could be thwarted if people who need it aren't able to get treatment. Protecting Medicaid is crucial. Lawmakers need to maintain the expansion and should not impose new eligibility requirements – premiums and work requirements - on Medicaid recipients.

CORRECTIONS

The Department of Rehabilitation and Corrections (DRC), which runs the state prison system, receives $1.82 billion in Fiscal Year 2018 and over $1.84 billion in 2019, an increase of 8.2 percent over the 2016-2017 budget, not accounting for inflation. DRC takes a bigger slice of General Revenue Funds in this budget; the entire GRF grows just 2.1 percent, but DRC gets a 7.2 percent increase from the GRF alone. This is partly restoration of funds that dwindled over the last decade, and partly new spending connected with the drug crisis.

The 2018-2019 budget showcases smarter ways to approach criminal justice. Funding for community-based correctional services increases by 10 percent, to $54.9 million compared to the prior budget. Communities implement an array of programs including intensive supervision, day reporting, work release, community service, counseling, and electronic monitoring. Ohio's showing an encouraging trend of more investment in community corrections. Figure 11 shows state investment in community based corrections increased over each of the past three budgets, not adjusted for inflation.

Correctional policy in the 2018-2019 budget reflects a growing understanding that we need to be smarter in how we spend criminal justice dollars, choosing programs that are less costly, more effective, and more preventive. Ohio should continue to develop and deepen investments in mental health and addiction services. We must stop sending low level offenders to prisons, where they cannot contribute to their families, and their likelihood of committing subsequent and more serious crimes increases. Policymakers should also expand resources to reintegrate once-incarcerated people into the families and communities that need them.

WORK SUPPORTS

For Ohioans living on the edge of poverty, holding down a job can be difficult, especially when pay is too low to afford food, shelter and child care. Ohio's 2018-2016 state budget failed to make critical investments in these essentials to support workers in low-wage jobs.

Food aid - Although 40 percent of Ohio households struggle to pay for necessities, lawmakers failed to provide support in the 2018-19 budget for growing needs identified by the state's food pantries and affordable housing advocates. Lawmakers provided $20 million a year – the same as in the prior budget – from a combination of state and federal resources for food banks and pantries across the state. Legislators denied a request by the Ohio Association of Foodbanks for a $10 million annual increase in funding.

Affordable housing - In 2015 more than 33,500 Ohioans were homeless and 400,000 spent more than half their income on rent. Over the past 25 years, the Housing Trust Fund has helped 1.8 million people obtain affordable housing. Resources for the Fund mainly come from a share of non-state fees levied by County Recorders' offices, but between 2004 and 2015, collections fell by $43.6 million. Lawmakers rejected a request by a coalition of more than 300 nonprofits and companies for addition support for the fund in the 2018-2019 budget.

Childcare - With 11 out of 13 of Ohio's largest job groups paying less than $34,000 a year, many working parents struggle to find affordable preschool or childcare for their kids. It is harder for Ohio parents to qualify for assistance than it is in 42 other states

In Ohio's public childcare program, the problem is not with a benefit cliff. Taking a promotion or moving to a better paying job will not knock Ohio workers out of public childcare assistance as long as there is no separation – for a job search, a shift change, an illness – that exceeds the time allowed. Parents can continue to get help until they reach 300 percent of the poverty level, as long as they stay with the same employer. The problem is that people in the low wage labor market do not always stay with the same employer and receive steady promotions. Plants and offices open and close. Temporary jobs start and stop. Seasonal jobs change with the seasons.

The problem in Ohio's public childcare program is that income eligibility for getting into the program is far too low. A family can make no more than 130 percent of the federal poverty level to be accepted into the program. If a single parent with two children loses at job at 150 percent of poverty ($30,630) and cannot replace it within the job search timeframe allowed, she must take a job at 130 percent of poverty ($26,546) or less to get back in. She may have to do that, depending on the age of her children, since care for infants and toddlers can be so expensive and public childcare aid essential to her household budget. This situation is not exactly the benefit cliff as typically described, but it can clearly hold families back from advancing within the labor market.

To fix this glitch, Lawmakers should raise the level of initial eligibility to 200 percent of poverty – the level at which families are eligible to get help from food pantries ($40, 850 for a family of three). This would dramatically expand a critical work support and help many struggling families to get ahead.

Ohio reimburses public childcare providers at such a low rate that many cannot improve the quality of care to help kids get ready for school. They can get better reimbursement if they improve their quality of care, but some providers can't afford up-front costs of qualifying for the state's "Step Up to Quality" program. Reimbursement rates need to be increased. If reimbursement rates increase so quality improves, and eligibility, Ohio could rebuild a crumbling infrastructure of early care and education that the youngest children in struggling families need to be successful in school and beyond.

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Summary and Recommendations

This is a lean two-year budget. During the five months that the budget was under discussion, the forecast of state revenues for the new biennium dropped by $1 billion as drug deaths soared in cities across the state. Lawmakers rejected proposals for major new tax cuts, but they didn't close tax breaks or restore tax cuts to raise the revenues. Instead, they relied on short-term strategies to address a long-term problem. Lawmakers took funds from revenue sharing with cities and earmarked other programs for statewide needs related to the drug epidemic in law enforcement, children's services, treatment beds, and other public health uses. This will hurt local governments that are on the front lines of the crisis. To make matters worse, the primary tool in fighting the public health crisis is Medicaid, yet legislators voted to freeze the Medicaid expansion, which serves 700,000 low-income Ohioans – a group into which addicts often fall. Gov. Kasich's veto has prevented this from happening, but it is not yet a closed issue.

There are some bright spots in the budget. New infrastructure for mental health and public safety should save lives. New policies boosting alternatives to incarceration are smart and save money. Preservation of Medicaid expansion, though still under dispute, remains the best policy we have for improving health and fighting the health crisis of the opioid epidemic, while boosting jobs.

More is needed. A dozen years of prioritizing tax cuts has eroded the resources needed to provide for the needs of the population. Tax cuts are sold as a way to create jobs, but they have not done so. National job growth since the tax cutting started in 2005 has been 9.2 percent, but in Ohio it has been just 2.4 percent.[12] In fact, public spending can create more jobs. In Ohio, expanded Medicaid created jobs in places with the highest unemployment. If state lawmakers prioritized investment rather than tax cuts, Ohio would start to move ahead. Recommendations for policy changes are summarized below.

Tax policy - Ohio does not raise enough revenue to make important investments in education, health and human services, communities, and services for struggling families. State lawmakers could raise what is needed, and make the system more fair, by eliminating unnecessary tax breaks and revamping Ohio's tax system. That is vital both to provide the revenue we need and rebalance the tax system to rely more heavily on those who can afford to pay. Immediate steps that need to be taken include:

- Eliminate the business income tax break on profits business owners report on their personal income tax forms. This would bring $1 billion back into a system so essential public services can start to rebuild
- Create an ongoing, dedicated source of funds to replace the sales tax revenues that counties and transit agencies have lost by closing unnecessary, uneconomical tax breaks in the state's $9 billion tax expenditure report

[12] June, 2005 to August, 2017, based on U.S. Bureau of Labor Statistics

- Establish a fair severance tax on oil and gas. Ohio has one of the lowest severance taxes in the nation, yet is among the nation's top 10 producing states

Local government - Ohio's cooperative partnership between state and local governments needs to be reconstructed. Lawmakers need to:

- Restore the Local Government Fund and the Public Library Fund
- Restore the Local Government Fund distribution to municipalities and larger villages with an income tax: these funds have been diverted to townships and state services for the drug epidemic. This does not mean that townships should be cut and mental health and addiction treatment be reduced. More funding is needed to support cities and larger villages, as well as townships, and services to stem the drug epidemic
- Replace the MCO tax revenues lost to counties through Local Government Funds or a new revenue source

Public transit – Ohio's lawmakers need to replace the loss of sales tax revenues for harmed transit agencies. It is time to start funding public transit at the level recommended by the Statewide Transit Needs study by investing $120 million through a combination of General Revenue Funds and federal highway flex funds now, and even more in the future, until fleets are upgraded and market demand is met.

- Ohio can boost public transit funding by using more flexible federal highway funds. The Transit Needs study recommends Ohio use $50 million a year in highway "flex" funds for public transit. Ohio's current budget of $33 million falls short of the target.

K-12 Education - Schools needs robust funding to educate students and support their development. The state is shortchanging most districts and providing meager increases that don't keep pace with inflation to others.

- Ohio needs to increase revenue so traditional public schools can be funded in a manner that reflects true cost of educating children and provides greater state aid for student in higher need areas
- To boost funding for traditional public schools, policymakers should stop diverting funding for public schools to less effective charter schools and voucher for private school

State Share of Instruction - Ohio aims to have 65 percent college attainment by 2025, but the state's insufficient funding for higher education does not align with this goal. Lawmakers need to:

- Lower tuition through better state support. High tuition deters students from college and makes it difficult to complete, especially for low-income students

Financial Aid - Ohio is facing an affordability crisis. Our two-year programs are some of the most expensive in the nation. Legislators should:

- Increase financial aid for community college students. Community colleges offer training programs connected to careers and are often the most accessible institutions for low-income and non-traditional learners. Ohio has ostensibly prioritized workforce development, but that is not evident in our financial aid investment.
- Implement the original plan for the Ohio College Opportunity Grant to be funded at $250 million a year, helping far more Ohioans to go to, return to, and complete college

Mental Health and Addiction Services – Lawmakers provided a set of tools for helping communities with the drug epidemic, and more is needed. But funds should not be taken from local government. A better solution is to raise revenues needed for public services by closing unproductive tax breaks or reversing tax cuts.

- Even with the new investment that will provide additional public mental health and detox beds, Ohio lacks the 40 beds per 100,000 recommended
- Medicaid is the backbone of addiction treatment. The Medicaid expansion must be preserved
- The state of Ohio must define mental health and addiction services as an essential health benefit that must be covered by insurance
- Sustainable funding for intensive wrap-around services to help the addicted with ongoing treatment must be provided to protect individuals, families and communities

Protective services - We applaud lawmakers for increasing funding for children's services for families afflicted by the drug epidemic.

- Lawmakers should also provide additional funding for adult protective services, especially as financial abuse is a growing problem. Policy Matters Ohio found a need for funding of between $11 and $30 million a year, depending on what estimate of abuse and neglect is used.

Corrections - Correctional policy in the 2018-2019 budget reflects a growing understanding that we need to be smarter in how we spend criminal justice dollars, choosing programs that are less costly, more effective, and more preventive. This budget moves in the right direction, with more investment in community corrections, drug treatment and probation improvements.

- Ohio should continue to develop and deepen investments in mental health and addiction services
- We must stop sending low level offenders to prisons, where they cannot contribute to their families, and their likelihood of committing subsequent and more serious crimes increases

Medicaid - Implementing eligibility restrictions and reducing Medicaid payments are short-sighted approaches, particularly at this time. Medicaid has been Ohio's most powerful tool in helping Ohioans access life-saving addiction treatment, in response to the rising number of deaths. Ohio needs our lawmakers to safeguard the life-saving potential of Medicaid.

- Don't eliminate or freeze the Medicaid expansion
- Don't impose eligibility requirements - work requirements and premiums - as a component of health care for the poorest Ohioans. This has been shown to reduce enrolment in health care – the last thing Ohio needs as the drug epidemic grows.

Child care and early education - Greater investment is needed to provide well aligned, high-quality childcare and preschool to Ohio's low-income working families. To prepare more Ohio children for the future and help more parents stay at work, state policymakers can:

- Boost base provider rates so providers can boost quality of programming
- Restore initial eligibility for the program to 200 percent of poverty

Food and shelter - State investment of about $20 million a year in food aid is no longer meeting the need, as federal aid shrinks. The $40 million decline in the Housing Trust Fund means there are fewer affordable housing and rehabilitation projects and dwindling ability to help homeless households.

- Increase state support for food aid by $10 million a year
- Provide additional, dedicated GRF or raise county fees to restore the Housing Trust Fund to a level that meets need for affordable housing and shelter for the homeless

Policy Matters Ohio

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