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CLEVELAND: 3631 PERKINS AVENUE SUITE 4C - EAST • CLEVELAND, OHIO, 44114 • TEL: 216/361-9801 • FAX: 216/361-9810
COLUMBUS: 300 EAST BROAD STREET, SUITE 490 • COLUMBUS, OHIO, 43215 • TEL: 614/ 221-4505 • FAX: 614/ 224-8132
HTTP://WWW.POLICYMATTERSOHIO.ORG

BUDGET BRIEF

Slash, Seize and Sell: The Executive Budget Blue Book Proposals

Wendy Patton

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Introduction

Governor Kasich's executive budget slashes a wide swath of services, seizes revenue from local governments, libraries and schools, and sells public assets, including 5 prisons and the liquor distribution business. The Executive Budget calls for no ongoing revenue increases.[1] Meanwhile, the tax cuts that are slicing state revenues by $2 billion a year are continued and no effort is made to limit the $7 billion in annual tax credits, exemptions and deductions in the tax code.

This document provides a brief overview of major changes this budget will bring to Ohio. The cuts to services used by low- and middle-income families are extraordinary, including an apparent $1.4 billion reduction in Medicaid, a $2.3 billion cut to public education and $1 billion cut to local governments. A proposed rebalancing of long-term care between nursing homes and home care and prison sentencing reform are positive initiatives that stakeholders have sought. However, it is unclear if the funds needed to properly administer these major changes are provided. The continuing income tax cut and tax loopholes favor top earners and corporations.

Overview

The Great Recession hit Ohio's economy hard and is not easing quickly. During the past two years, unemployment here has fallen, but lingers above 9 percent. An increasing number of families have turned to safety net services: According to the Association of Second Harvest Food banks there has been a 40% increase in Food Assistance (SNAP/food stamp) caseloads since the beginning of the Great Recession. There has been a 25% increase in need for cash assistance and Medicaid.

Last summer, the Legislative Service Commission quantified the budget deficit at eight billion dollars, which included funds from the Recovery Act of 2009 and an $855 million tax cut, part of the final phase of the tax overhaul of 2005.[2] On March 24, 2011, Budget Director Tim Keen published an accounting of how that budget deficit was quantified and filled.[3] According to Keen, the budget shortfall identified was $7.7 billion. In his tally of how the budget shortfall is filled, a significant share is addressed through a reduction in Medicaid spending ($1.34 billion) and reduction in spending in other agencies ($1.84 billion); from recapture of revenue sharing funds presently provided to local governments, schools and libraries ($2.23 billion); through changes and revisions to the revenue base ($794 million) and one-time revenues from sale of state assets, lapses and transfers, and debt restructuring ($1.49 billion).

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[1] A modest amount of revenue stems from the expansion of Medicaid managed care plans, which means somewhat greater sales-tax revenues.

[2] This was the last year of a five-year, 21 percent reduction in the state income tax.

[3] Gongwer Ohio March 24, 2011; 'Budget Gap – Detail".

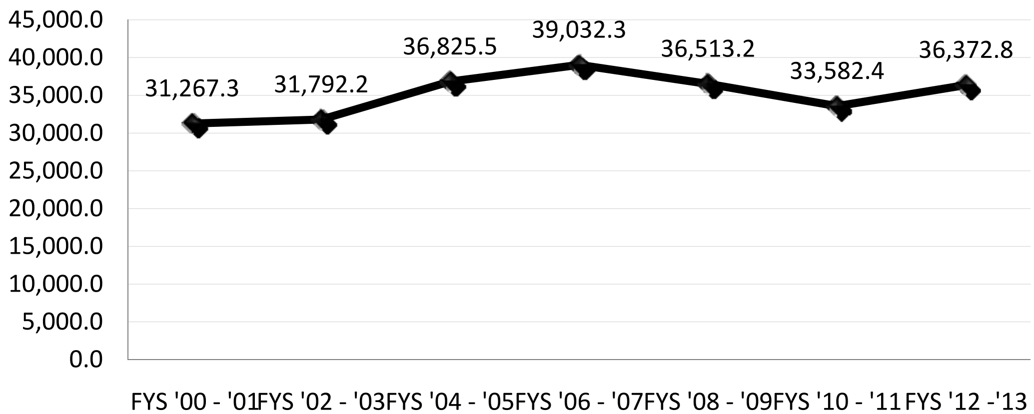
While the Kasich Administration offers a balanced budget, a structural imbalance remains within the revenue system. The cuts to existing programs are substantial and across the board. In this issue brief, we include an overview of the structural revenue problems, discuss the seizing of local government funds and local government tax replacement funds; describe reductions in K-12 education, and identify reductions in key programs in higher education, health and human services. We conclude that a more balanced approach to the budget, one that includes revenues as well as cuts, would prepare a better base for Ohio's growth. As more information becomes available Policy Matters Ohio will add to this analysis of the proposed budget.

Revenues

Ohio's budget problem is a revenue problem. We have not come to grips with the revenue drain caused by House Bill 66—the 2005 tax overhaul—which, combined with the weak economy, has decimated tax revenue.[4] Even with the recent upturn in revenues, in FY10-11, we will at the end of the FY 2012-13 biennium be down by nearly $5.5 billion in tax revenue compared to the FY06-07 biennium.[5]

The biggest part of this is the 2005 tax changes (Taxation Dept. estimate of $2 billion in FY2010). Before any changes in the tax system, OBM estimates revenues will grow by $2.8 billion in FY12-13 from the current two-year period. However, that said, tax revenue is still expected to be down more than $2.6 billion in the upcoming biennium compared to what it was six years earlier, in FY06-07 (Figure 1). The revenue shortfall is much greater than that when you factor in inflation and the normal growth in revenue that typically occurs.

Figure 1: Trends in State Revenues, 2000-2013 (millions of dollars, not adjusted for inflation)



Source: Policy Matters Ohio, Office of Budget & Management, as reported by Legislative Service Commission

Inflation has eroded the purchasing power of state tax revenues over time. Tax collections would have to have been $5 billion higher a decade ago to compensate for inflation (Table 2).

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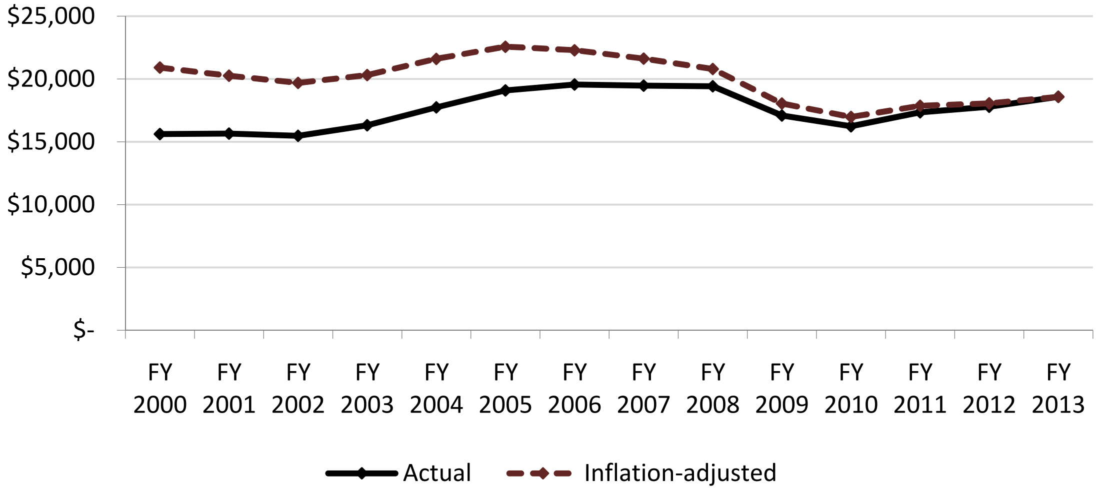
4 These tax cuts also favored top earners. See for instance "Who Pays? A Distributional Analysis of the Tax Systems in All 50 States," November 2009, at http://www.policymattersohio.org/WhoPays2009.htm

5 Ohio Legislative Service Commission, Forecast of GRF Revenues and Medicaid Expenditures for the FY12-13 Biennial Budget, Testimony before the House Finance and Appropriations Committee, March 16, 2011.

Figure 2: GRF revenues – nominal and adjusted for inflation – 2000 to 2013 (Millions of dollars)



Source: Policy Matters Ohio, Office of Budget & Management, as reported by Legislative Service Commission; modest inflation of 1 percent is assumed for 2011-2013.

Recapture of funds promised to local governments

Weakness in tax revenue helps explain why the state is seizing $2.1 billion in revenue that would go to schools and local governments (Table 1). That is a broken promise, or better put, a set of broken promises, since those were largely revenues that the state agreed to pay when it took away local tax revenues (whether the original sales tax for the Local Government Fund, the public utility excise tax with electric deregulation in 2001, or the tangible personal property tax in 2005-8).

Table 1: Funding redirected to the state from schools, local governments and libraries

Entity	Fund number	SFY 2010-2011	SFY 2012-2013	Change, biennium to biennium	% change
Schools					
Public utilities*	7053	$170,976,647	$64,000,000	($106,976,647)	-62.60%
TPP replacement*	7047	$2,191,559,489	$1,197,000,000	($994,559,489)	-45.40%
	TOTAL	**$2,362,536,136**	**$1,261,000,000**	**($1,101,536,136)**	**-46.60%**
Local governments					
Public utilities*	7054	$174,531,759	$27,000,000	($147,531,759)	-84.50%
TPP replacement*	7081	$887,918,184	$472,000,000	($415,918,184)	-46.80%
LGF	7069	$1,306,794,520	$865,000,000	($441,794,520)	-33.80%
	TOTAL	**$2,369,244,463**	**$1,364,000,000**	**($1,005,244,463)**	**-42.40%**
TOTAL		**$4,731,780,599**	**$2,625,000,000**	**($2,106,780,599)**	**-44.52%**

Source: Policy Matters Ohio based on Executive Budget Proposal for 2012-13
*Note: Tangible Personal Property Tax replacement and Public Utility Tax Replacement

Taking away major revenue sources will add pressure on localities, making them more reliant on local revenues and therefore less likely to want to share with others. This will make regional cooperation more, not less, difficult. We have already seen how this works with the libraries, after they got 23% cuts in the last budget. Libraries put 71 levies on the ballot last year, up from 45 in 2009 and double the number of any other year since 1980. Libraries see another 5 percent cut proposed in the

Kasich budget, with 2013 forecasts of $345 million coming in at 95 percent of the revised estimate for 2011 of $362 million.[6]

While promises to local governments and counties around taxes are eliminated, none of the exemptions, credits and deductions in the state tax code, including special interest tax loopholes for businesses, is reduced. These amount to more than $7 billion a year,[7] as detailed in a report on these "tax expenditures" by the Ohio Department of Taxation released as a part of Gov. Kasich's budget. "Tax expenditures result in a loss of tax revenue to state government, thereby reducing the funds available for other government programs," ODT noted in the report. "In essence, a tax expenditure has the same fiscal impact as a direct government expenditure." While the report estimates foregone revenue, which is not necessarily exactly what the state would get if a tax expenditure was repealed, it indicates that the benefits of these exemptions, credits and deductions are prodigious.

K-12 Education

The Kasich administration has stated that its allocation of state funds "was completed in a manner that ensures districts which are most heavily reliant on state assistance did not bear the greatest burden from the expiration of the federal stimulus funds (SFSF)."[8] This effort to protect Ohio's neediest children in districts most dependent on state assistance is laudable. Nevertheless, a big-picture analysis by Policy Matters shows that the Kasich administration has proposed cutting state funding for education by more than $918 million (a cut of 5.6 percent) when the 2012-13 executive proposal is compared to the 2010-11budget. As Figure 2 shows, about $200 million is shifted to the General Revenue Fund for education in the governor's proposal. This amounts to an increase of 1 percent from 2011 to 2012 and an additional 1.4 percent from 2012 to 2013. This increase, however, is rendered meaningless by the state's proposed seizure of more than $1.1 billion in education funding over the two-year period through phase-out of the business tangible personal property tax and the shift to the state of taxes districts receive as a result of utility deregulation.

Table 2: Education budget cuts (2010-11 vs 2012-13, state and federal)

Budget Fund Group	Increase (decrease) from FY10-11 to FY12-13	Percent change
General Revenue	$ 201,281,000	+1.6
General Revenue Fund Stimulus	$ (875,016,000)	-100
General Services	$ 32,518,000	+64.2
Federal Special Revenue	$ (562,667,000)	-11.5
State Special Revenue (non-state sources)*	$ 5,248,042	+35.7
State Special Revenue (state sources)	$ 7,277,651	+8.8
Lottery Profit Education	$ (58,000,000)	-4.0
Revenue Distribution	$ (1,101,536,000)	-46.6
Total cuts to state and federal funds	**$ (2,350,894,307)**	**-10.6**
Total cuts to state funds only	**$ (918,459,349)**	**-5.6**

Source: Policy Matters Ohio, based on Office of Budget and Management, 2012-13 Executive Budget proposal.
*Some funds in the State Special Revenue fund come from private sources, such as grants

[6] Telephone conversation with Christopher Hall of the Ohio Department of Taxation 4/6/2011; the five percent cut is not reflected in 2012 numbers because of the interaction between the expiration of temporary law setting the distribution at 1.97 percent of GRF revenues and the timing of distribution, which causes one month (July), to be distributed at the level of prior law, 2.2 percent of GRF tax revenues – which inflates the total allocation for 2012.
[7] "$7 Billion in Tax Breaks, and Nobody's Watching," Policy Matters Ohio, March 2011, available at http://www.policymattersohio.org/TaxExpenditures2011.htm
[8] State Funding Explanation_03 24 2011.pdf, retrieved from Ohio Office and Budget and Management at http://obm.ohio.gov/SectionPages/Budget/FY1213/SchoolFunding.aspx.

In nominal dollars, total state funding peaked in 2009 at just over $9.5 billion, a 23 percent increase from the $7.7 billion spent by the state in 2003; in its 2012-13 executive budget, the Kasich administration has proposed a drop below 2003 levels by the second year of the biennium, a 1 percent drop over 10 years. When adjusted for inflation, however, state funding remained relatively flat from 2003 through 2009, increasing by only 5 percent. Using this measure, state funding will drop 20 percent from 2003 to 2013 under the governor's proposal, with the biggest decrease occurring in 2010 (state funding gaps in FY2010 and FY2011 were filled using federal money). Year-to-year drops for the coming biennium are more than 6 percent from FY2011 to FY 2012, and an additional 4 percent from FY 2012 to FY 2013.[9] For school districts falling off the cliff of the federal relief funding available in the last biennium, this is a severe blow.

Since the mid-1990s, Ohio has dramatically expanded of charter schools and vouchers. The state currently has three voucher programs – the Cleveland program, the Educational Choice voucher statewide, and the autism voucher. Since the legislature passed the state's first charter law in 1997, Ohio has seen rapid growth of charters as well, with more than 320 operating in the state during the 2009-10 school year. Funds for school vouchers and publicly funded, privately run charters are deducted from the districts where participating students live. Table 3 shows that increases in state funding have been more than accounted for by money deducted from state funds directed to school districts.

Table 3: Changes in state funding for K-12 education, share for charters & vouchers (millions of dollars)

Fiscal year	Increase (decrease) in state funding	Total charter/voucher deduction
03	$ 193	$ 221
04	$ 242	$ 317
05	$ 258	$ 442
06	$ 184	$ 507
07	$ 451	$ 572
08	$ 315	$ 627
09	$ 315	$ 702
10	$(1,329)	$ 752
11	$ 91	$ 798
12	$ (403)	$1,087*
13	$ (198)	$1,271*

Source: Policy Matters Ohio, based on Ohio Office of Budget and Management, Executive Budget, 2012-13.
*Estimate by Policy Matters Ohio assuming half of voucher slots filled in 2012 and all 60,000 slots filled in 2013; half of special education voucher slots filled in 2012 and all slots filled in 2013; and 18 percent growth in charter school enrollment each year.

The Kasich administration's stated goal to protect Ohio's neediest children (those in districts most reliant on state assistance) will be unmet unless changes are made to how charters and vouchers are administered, monitored and funded. Current policies, and plans for expansion, result in destabilizing struggling school districts by draining money, resources and students away.

[9] Using Consumer Price Index, all figures in 2011 dollars. Estimated inflation for 2012 is 1.6 percent according to the Survey of Professional Forecasters (http://web.rollins.edu/~wseyfried/forecast.htm) and the same levels are assumed for 2013.

Higher education

The proposed FY 2012-13 budget contains a decrease of 10.5 percent in 2012 and 3.7 percent in 2013 (Table 4).

Table 4. Biennial funding for Ohio Board of Regents (millions of dollars)

State fund	FY2010-11	FY2012-13	Difference	Change
State GRF	$4,405,865	$4,529,771	$123,906	2.8%
Stimulus	$589,825	$-	$(589,825)	-100.0%
GSF	$9,029	$43,168	$34,139	378.1%
Federal special revenue	$74,296	$70,096	$(4,200)	-5.7%
State special revenue	$4,075	$24,829	$20,754	509.3%
Third Frontier	$13,877	$16,000	$2,123	15.3%
Totals	**$5,096,967**	**$4,683,864**	**$(413,103)**	**-8.1%**

Source: Policy Matters Ohio, based on Executive Budget Proposal for Ohio, 2012-13

Table 4 illustrates that within the proposed executive budget, general revenue funding for higher education increases by 2.8% or $123 million. The largest component is from robust growth of 13.9 percent within the 'Facilities and Debt Service' group, which increases over the biennium by $59.91 million dollars. The biennial increase in the General Services appropriation is due to the creation of a new statewide cooperative education and internship program. The State Special Revenue fund grows by about $20 million because of the merger of the Tuition Trust Authority into the Board of Regents, as per the 128th General Assembly. Although there is growth of some program areas within the Board of Regents Budget, failure to replace the state fiscal stabilization funds in the State Share of Instruction (SSI) leads to a shortfall in the funding for basic instruction (Table 5). Combined with a proposed tuition cap of 3.5 percent, this may encourage universities to seek a privatized 'charter' status that would offer flexibility such as, possibly, evading tuition caps, as in the charter university program in Virginia.[10]

Table 5: Detail from GRF: State Share of Instruction (millions of dollars)

Budget Fund	FY2010-11	FY2012-13	$ change	% change
State Share of Instruction (SSI)	$3,387,343	*$3,486,755*	*$77,622*	*2.3%*
Federal Stimulus in the SSI	*589,825*	*$-*	*$(589,825)*	*100.0%*
TOTAL	**$3,977,168**	**$3,486,755**	**$(490,413)**	**12.3%**

Source: Policy Matters Ohio, based on Executive Budget Proposal for Ohio, 2012-13

The Executive Budget Proposal's 'Blue Book' states an objective of increasing the number of students who have access to college by providing financial aid awards, but the line item for the Ohio College Opportunity Grant is cut by 5 percent in 2012 and remains flat-funded in 2013.

Medicaid and health Services

Reductions in Medicaid spending is listed as one of the key means for filling the budget shortfall. According to Budget Director Tim Keene, $1.3 billion dollars will come out of the system. Change in natural caseload, cost, and use of services; higher costs due to policy changes and savings and cost avoidance from adjustments to utilization, provider and service cuts are part of the projected changes in the Medicaid budget. As proposed in the executive budget, some significant policy changes, like creating the unified long term care system, do not have costs or savings attributed to them. Undoubtedly,

[10] Virginia introduced charter university status in 2005; Virginia Commonwealth University raised tuition by 24 percent in the current year. Sarah Kaminsky, Ohio Chapter of the American Association of University Professors, "Charter Universities would be bad for students, taxpayers," The Columbus Dispatch, March 12, 2011.

costs or savings will accrue to those initiatives if not this biennium then the next. While the detail will be revealed in the analysis of legislative language, key policy changes in Medicaid services include:

- Long Term Services and Supports (LTSS) and behavioral and mental health services will be transferred and funded through the Ohio Department of Job & Family Services.
- There are to be no changes to overall Medicaid eligibility or cuts to optional services provided under Ohio's Medicaid program. Client advocates strongly recommended this approach, which we consider to be a positive element of the Kasich budget.
- The biggest gain is in rebalancing of care between nursing homes and home care. Significant consolidation within the Department of Job and Family Services is expected to bring efficiencies, although clarity awaits release of the legislative language.

The sweeping policy changes in health care are not without risk. Proposed changes in Unified Long Term Services and Supports System (LTSS) gives an example of the risk. The Kasich budget has accepted the recommendation of stakeholders to have a 50/50 balance between institutional and home/community-based care and services. Advocates estimate that $500 million in savings will result from this change. There are to be two levels of care, one for nursing facilities and one for home and community-based services. The policy change means that more people who currently go into a nursing home will stay in the community. These patients, on average, will have higher acuity rates and need more services than those served by home and community-based programs in the past. Yet the budget proposes to pay providers less, reimburse less for services, and reduce funding for the community organizations that provide assessments and care coordination services.

Table 6. Risks in Rebalancing: Reductions that may impact outcomes of new policy proposals

Unified LTSS Cuts	$ Cost/(Savings)	Impact
PASSPORT/Choices, assisted living, and PACE provider rates cut by 3%	($176.4 million)	These providers are paid less than many other providers and were cut in the FYs 2008 and 2009 biennium.
Reduces the per member per month costs for these programs by 8%		Assumes services can be provided at a lower cost by changing utilization protocols. Changes not explicit at this time.
Cuts funding for Area Agencies on Aging by 15%.		Increases workload of these agencies while reducing funding by 15%.

Source: Policy Matters Ohio

Another example is a policy change that would provide home and community based services for the elderly, persons with disabilities, and those with mental illnesses under one umbrella program, referred to as a waiver. Stakeholders have advocated for this policy change. Funding, however, was not sufficient in the current biennium to meet the needs of these population groups and many do without services. The single waiver and other policy changes will provide more flexibility and remove some barriers to service, but the funding proposed is not increased to address current needs.

Behavioral health

While providers describe escalating mental health problems as part of the Great Recession, budget cuts have restricted their ability to help. There is much consolidation within the proposed executive budget.

- Behavioral health is consolidated with physical health in the proposed budget, an improvement that has been advocated by stakeholders. While the Ohio Department of Mental Health appears to face a reduction over the biennium of $242.7 million in state dollars, this is due to a shift of funding responsibilities between local and state government and migration of funds to the Department of Job and Family Services.

- As a result of very tight funding, areas such as community psychiatric supportive treatment will likely reduce service hours and rates. Providers may decrease or deny care based on reduction in reimbursement.
- The residential state supplement line is cut 9.8 percent, over a million dollars, on a biennium-to-biennium basis; the cut between 2011 and 2012 is $522 million, a 10 percent reduction; funding then is flat in 2013.
- Community medication subsidy is cut by almost a million dollars in 2012 over 2011 and then flat funded. This is a reduction of 10 percent over 2011 funding level.
- Behavioral health services for children is absorbed into another agency, and the Family and Children First program is cut by 7.73 percent in the first year of the budget ($116,086) and then flat funded after that.

Other health

General revenue funding to the Ohio Department of Health is reduced by $16.8 million in the GRF monies in the Executive Budget for 2012-13, a reduction of 9.6% over the prior biennium. This results in cuts in programs like:

- Health care quality assurance program is reduced over the biennium by about $1.7 million or 17.4 percent.
- Immunization funding is reduced by approximately $806,000 over the biennium or about 11 percent. This program supported record keeping for immunization, a key component of the maintenance of public health, along with grants to local health departments for immunization awareness, education and outreach services.
- State support for federally qualified health centers is eliminated, taking $2.7 million out of the system for centers that provide access to health care for low income families; these centers are on the block for 60 percent of their federal funding as well.
- Programming for medically handicapped children, which provides subsidy on the local level, will be cut by $1.25 million or 14.27 percent in 2012 and then flat funded in 2013.
- An 11.2 percent reduction in funding for 'Healthy Ohio' programming impacts programs addressing the prevention and reduction of obesity, chronic diseases, intentional and unintentional injuries, sexual assault, and domestic violence. The 'Diabetes Management Program' is eliminated altogether.
- A 21.1 percent cut in 2012 followed by an 0.4 percent increase GRF funding for the Ohio Cancer Incidence Surveillance System.
- Funds to support the Ohio HIV medication subsidy program are cut by 57.4 percent to $8.125 million in 2012 over 2011 funding. The large reduction is due to the Kasich Administration's decision not to replace federal funding made available through the Recovery Act (federal stimulus).
- State support for federally qualified health centers is eliminated, taking $2.7 million out of the system for centers that provide access to health care for low income families; these centers are on the block for 60 percent of their federal funding as well.
- Programming for medically handicapped children, which provides subsidy on the local level, will be cut by $1.25 million or 14.27 percent in 2012 and then flat funded in 2013.

Human Services

Non-Medicaid GRF funding to ODJFS continues to decrease. In 2008, GRF funding was $968 million, and in 2011 it is estimated to be $831 million. This is despite continuing escalation in demand for safety net services. The Ohio Association of Second Harvest Food banks estimates that demand for food stamps has increased by 45 percent since the Great Recession. These new cuts impact the ability of people to find work. They impact social protections. Under the Executive budget proposal, funding for infrastructure to deliver the services people need is reduced in many budget lines. County agencies more flexibility. Already-burdened county agencies may have to choose which vulnerable population to serve. For example, as counties address the operational and funding cuts for county operations, they will have to cut staff, merge or share services with other counties, or reduce/eliminate their Prevention, Retention, Contingency Programs that provides work supports for low-income Ohioans.

Childcare

- Child care eligibility is cut to 125% of the federal poverty level for intake, from the current 150%. Families can continue to receive services until their income reaches 200% of the federal poverty level.
- The program in early childcare and education is cut by $24.3 million over the biennium, a 9% cut.

Protective services

- Child, Family and Adult Community & Protective Services – The 600-533 line item, created in the last biennial budget, has been continued in this budget. It is distributed to county JFS agencies using the same formula as Title Twenty funds. The program is cut 10% in SFY12 and then held flat in SFY13, for a total of $13.5M each year.
- Adult Protective Services – Cut 10% in SFY12 and held flat in SFY13, for a total of $366,003 each year. This item, woefully underfunded and now chopped even further, is supposed to support services to aid neglected and abused elderly in all 88 Ohio counties.
- Kinship Permanency Incentive program – the proposed budget completely eliminates funding for this program, which keeps families together by allowing grandparents and other relatives to care for children who otherwise would go to more expensive foster care. It was funded at $3.68M in SFY10 and appropriated $5M in SFY11.
- The Alzheimer's Respite program, funded by federal stimulus dollars, is not renewed, at $2.2 million.

Inspection, oversight or regulation

Within the agencies that serve a business or a regulatory function, budget reductions are as common as they are in health and human services:

- A 6.2 % cut, totaling $888,127, for meat and poultry inspection, food safety, and livestock testing and inspection is proposed for the Ohio Department of Agriculture in the biennial budget. Funding reductions are imposed in 2011, for a 12 percent cut in these aggregate program areas, which are flat funded in 2013.
- Ohio Air Quality Development Authority is losing 95.5% of its funding in 2012 compared with 2011. Part of this is due to transfer of the coal development fund to ODOD. Funding reduction of $9.69 million, biennium to biennium, is on top of the loss of the coal research and development program funds.
- Office of the Consumers' Counsel, which represents residential utility customers, is cut by 48.7% biennium to biennium, with a loss of $7.8 million dollars. The 2011 budget of $8.49 million is reduced to $4.14 million in FY 2012 and that is essentially flat funded in SFY 2013. The year-to year change between 2011 and 2012 is 51.3%. Since this office is funded by fees and not by GRF funding, this reveals a deliberate policy decision separate from the fiscal crisis.

On the positive side, some agencies that oversee services for businesses and residents of the state, which have been poorly funded for the past decade and have, in some cases, towering backlogs, receive additional funding. These agencies include:

- Environmental Review Appeals Commission sees an increase of about 15 percent over the biennium, increasing funding for $487,000 to $585, 000 in 2012 and $545,000 in 2013.
- Board of Tax Appeals, which sees an increase from $1.15 million in 2011 to $1.6 million in 2012 and then to $1.7 million in 2013, an increase of 45 percent over the biennium.
- Department of Agriculture's Division of Weights and Measures – which receives a 200 percent increase in GRF funding, although a reduction in state special revenues (fees).

Prisons – Ohio Department of Rehabilitation and Correction

The Executive Budget sets the stage for sentencing reform, which could help make Ohio's criminal justice system more cost effective, enhance the opportunity for rehabilitation, and lower the cost of re-entry. This is a change Ohio has needed. A lack of clarity in policy, however, leaves room for concern. Although up to 2000 low-level offenders are expected to be controlled outside of prisons due to sentencing reform during the upcoming biennium, programs to accomplish this mission, from halfway houses to community non-residential capacity and parole options, will see slightly less funding, about $440,450 less in 2012 over 2011 and $4.5 million less in 2013. Clearly, some programs will receive more funding, but some will get less. For example, in the Executive Budget's 'Blue Book,' the Ohio Department of Rehabilitation and Correction's GRF line for community misdemeanor services is substantially increased; the one for community parole is substantially decreased (Table 7).

Table 7: Changes in ODRC GRF lines related to community control of offenders

	FY2011	FY2012	%change, FY2011-12	FY2013	% change, FY2012-13
Halfway house	42,286,443	43,637,069	3.20%	43,622,104	0.00%
Community non-residential programs	22,431,567	25,859,382	15.30%	25,839,390	-0.10%
Community misdemeanor programs	11,380,242	14,906,800	31.00%	14,906,800	0.00%
Community residential programs	64,281,774	62,692,785	-2.50%	62,477,785	-0.30%
Parole and community operations	73,480,259	64,891,904	-11.70%	60,520,574	-6.70%
Federal grants	280,778	165,096	-41.20%	168,473	2.00%
Transitional control	1,062,473	1,168,843	10.00%	1,213,120	3.80%
State & nonfederal awards	22,088	0	-100.00%	0	-
Offender financial responsibility	936,705	2,400,000	156.20%	2,400,000	0.00%
TOTAL	216,162,329	215,721,879	-0.20%	211,148,246	-2.12%

Source: Policy Matters Ohio, based on the Executive Budget (Blue book) proposal for 2012-13

Policy decisions and actions, some of which will be accomplished through the rule-making procedure rather than through legislation, are not clear, introducing risk into a substantial proposal for change. In addition, five prisons are to be sold, netting the taxpayers $50 million after the outstanding bonds for capital improvements are paid off. The prisons will be privately run. Director Gary Mohr argues that outsourcing the operations will save money by reducing staffing and compensation levels. The budget calls for a 31 percent cut in prison mental health services in the fiscal year beginning July 1, taking funding of $82 million in the current fiscal year to $57.3 million in fiscal 2012 to $50.6 million in 2013. Ohio's prison mental health system was strengthened to avoid further violence after a class-action federal lawsuit filed by inmates in the wake of the 1993 Lucasville prison riot. The decree has expired, and this executive budget moves to roll those improvements back.

Privatization

For the past 35 years Ohio's industrial capacity has seen profound disinvestment: plants have been milked, shuttered and abandoned in every county of the state. The proposed executive budget of the Kasich Administration would put public infrastructure on the block as well. The budget would sell prisons and the liquor wholesale distribution system, open state parks to drilling and logging, and increase opportunity for private operators in education. Outside of the budget, negotiations over privatization of transportation assets move forward with an initial focus on the turnpike. It is not clear what role the General Assembly would have in such discussions.

Five prisons are would be sold for an estimated $200 million, but an estimated three quarters of that money will go to pay off bonds. The state's wholesale liquor operations, which net an estimated $160 million annually for state services, are being sold for $1.2 billion. Taxpayers net less than half of that long-term value after existing bondholders are bought out, but the critical point is that this reduces existing revenue available to the state. Charter schools, charter universities and other semi-private ventures allow private sector partners to profit on shared taxpayer-funded enterprise. These assets have been created by generations of investment by our parents and grandparents. A more balanced approach to the budget, which looks at revenues as well as expenditures, could prevent this disinvestment in the public sector.

Summary and conclusions

These are extraordinary times, and the Kasich budget is an extraordinary document that embodies vast policy changes that will affect the lives of virtually every Ohioan – whether through changes to pensions, care of children or elderly, classroom size, access to safety net services or inspection and regulation. Most of us are affected through budget cuts. Yet the Governor specifically said to the press that there is no need for additional revenues in the budget. On Sunday, March 27, Joe Hallett of the Columbus Dispatch quoted the Governor on revenues:

> *"Let's raise our taxes," Kasich said, facetiously. "That's really going to work for us. What are we going to do with the money we raise? What is it you want to spend it on? Seriously. You want to give more to local governments? Is that going to get businesses in here?".... Referring to higher taxes, he said: "I don't even know what we would do with the extra money."*[11]

Ohio's fiscal crisis is actually caused by a crisis in revenues – tax changes in this decade, coupled with the Great Recession, have rendered the state unable to provide for the needs of Ohioans. Rather than risking enormous policy changes that depend on increased local services that get inadequate funding, the $7 billion in tax expenditures untouched in the Kasich budget should be evaluated and trimmed to adequately fund the success of some positive policy directions. Rather than selling taxpayer assets into a weak market that may ultimately provide windfall profits to investors while further weakening state resources, tax rates on top earners in Ohio should be restored to their 2004 levels. Rather than drilling and logging in state parks and preserves, the corporate tax structure should be retrofitted to bring in the revenue that the previous system generated. We call on the Kasich Administration and legislators to take a balanced approach to this fiscal crisis: to restore necessary revenues to provide the services the citizens need.

[11] Joe Hallett, Joe Hallett commentary: Just mention the 'T word,' and politicians plug their ears, The Columbus Dispatch, March 27, 2011.