
POLICY MATTERS OHIO

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THE SLASH, SEIZE AND SELL BUDGET SELLS OHIO CITIZENS SHORT

Throughout most of the twentieth century, Ohio was known as a place with good jobs and strong communities. A central location, natural resources, first-rate transportation assets and good infrastructure supported a growing economy and population. A strong union movement ensured shared prosperity in which a growing middle class emerged as industry grew. We invested in education raising high school degree levels from under 25% of the population in 1940 to over 86% by 2009 and college degree rates from under 5% in 1940 to a still too-low 23,6% by 2009. Today, Ohio is among the most urbanized states with 23 world-class universities supporting industries and educating students from across the nation and around the world.

Assaults on jobs, communities and services

Over the past generation, we've deregulated a lot of the economy, reduced business contributions to the state and local budget, and allowed union levels to decline. For these reasons and more, many Ohio jobs have been lost and many Ohio communities weakened. Governor John Kasich has now proposed a biennial budget that seizes, slashes and sells taxpayer assets. The budget seizes funding that usually goes to local government, libraries and schools, instead using it to fill gaps at the state level. It makes deep cuts to public education and diverts more public money for private schools. And it gives this governor and the administration much more power to privatize, reducing legislative oversight. The slash, seize and sell budget sells state assets financed by generations of Ohioans without assuring savings, a market rate of return or adequate service delivery.

The biennial budget slashes:

- \$2.1 billion from K-12 education over the biennium
- \$490 million from higher education's state share of instruction.
- Kinship permanency program, which helped 8000 kids stay with grandparents and other kin, reduced by \$2.7 million.
- Funding to counties for services for families who have adopted special needs kids.
- Early learning initiative cut \$24.4 million.
- Child, family and adult protective services cut by 10%, \$1.5 million.
- More seniors may receive care in their homes but face 23% cut in home service levels, 15% cuts to the Area Agencies on Aging that manage their care, *plus* cuts to provider rates.
- Low-level offenders are expected to serve sentences in the community instead of institutions, but the budget for community and parole services is reduced.

Seizes Resources

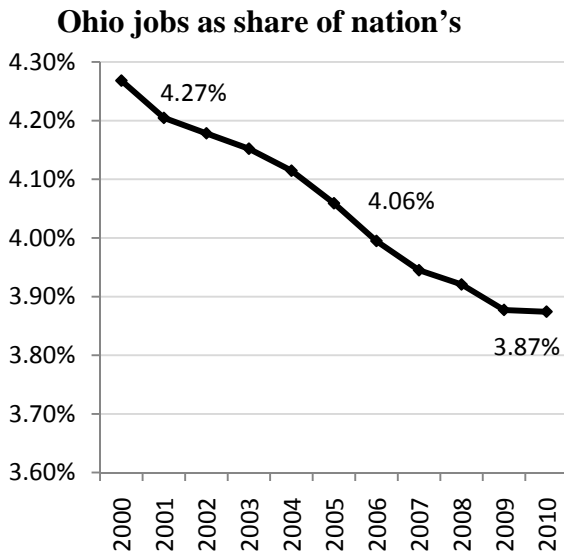
- Local government funds cut by 25% in 2012 and an additional 25% in 2013, reducing allocation by 50% and taking \$441 million from municipalities, counties and townships.
- Another \$563.4 million is seized from tax replacements for local governments, compared with prior biennium.
- \$1.1 billion seized from tax replacements for schools, compared with prior biennium.

Sells assets

- Six prisons are to be sold.
- The state's liquor wholesale business will be privatized.
- Provisions to privatize the turnpike are placed in the budget
- Privatization of economic development services is already in place through JobsOhio; actual outsourcing of funds and services pending.

Ohio has a revenue crisis

In Ohio, the largest tax cut in 70 years preceded the Great Recession. This tax cut took \$2.1 billion a year from Ohio's budget, but it did not bring jobs and economic activity. Ohio's share of U.S. jobs has dropped by 10% over the decade (see chart), continuing even as these reductions were implemented.



Source: Policy Matters based on US DOL, BLS, CES (nonfarm)

A balanced approach is a better solution

The proposed biennial budget only offers spending cuts and sell-offs. It does not consider revenue increases. A smarter approach would include both sides of the ledger by reinstating a corporate income tax, strengthening the income tax and reining in tax expenditures (exemptions and credits):

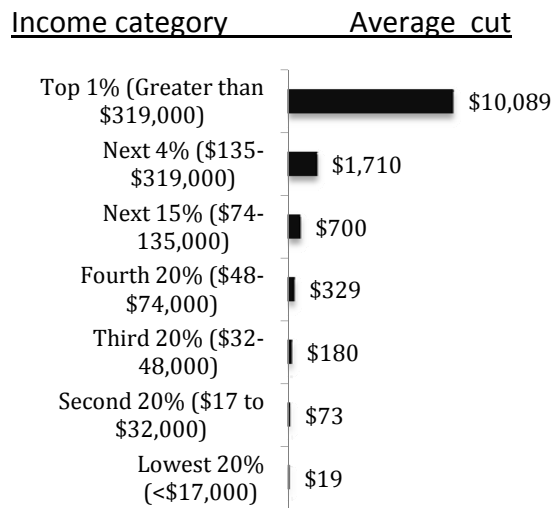
Restore the corporate income tax: The tax overhaul of 2005 phased out Ohio's tax on corporate profits, so we are one of just 6 states without such a tax. That tax should be restored at a lower rate, so companies pay whichever is higher, that tax or the Commercial Activity Tax.

Review and Reduce Tax Expenditures: Our \$7 billion tax expenditure budget was untouched in the budget proposal. Legislators should review tax expenditures, eliminate unnecessary ones and cut the total by 10 percent over the two-year budget. Tax expenditures include the following:

- A tax break for banks that is three-fifths of the tax they pay.
- A \$1.7 billion annual sales-tax exemption for manufacturers on purchases of machinery, equipment, supplies and fuel, unexamined since 1990.
- Special breaks for special industries, such as a sales-tax cap for affluent buyers of timeshares in jet aircraft.
- A credit for previous operating losses against the Commercial Activity Tax – available only to companies that had \$50 million in losses. Small companies with small losses were not eligible.
- Lobbyists and debt collectors don't have to bill their clients for sales tax.

Strengthen the personal income tax: The 2005 cut in personal income taxes favored wealthy Ohioans (see chart.) Overall rates should be maintained at last year's levels, while the old top rate of 7.5% on income over \$201,800 should be restored and a new 8.5% rate created for income over \$500,000.

Average income tax cut from the 2005 tax overhaul



Source: Institute on Taxation and Economic Policy

These three changes would restore revenue so we could preserve and again build good jobs and strong communities in Ohio.