Overview of Ohio budget proposal

Medicaid expansion, K-12 education and tax cuts

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Key findings

- Proposal boosts state coffers with at least $2 billion that historically had been directed to local governments, libraries and schools.
- Medicaid expansion will pay for itself and add $404 million to state budget.
- A billion dollars is programmed for tax cuts, with the wealthiest seeing the greatest benefit.
- Ohio's safety net is threadbare. Nearly 300,000 Ohio children live in deep poverty.

Introduction

The proposed budget for fiscal years 2014-15 brings more money to the state by accepting millions of federal dollars for Medicaid and keeping revenue sharing funds that would have historically gone to local governments, libraries and schools. At the same time, aggressive savings and tax cuts prevent restoration of services and further drain limited resources.

Many public services remain inadequate four years after the official end of the recession: an estimated 30,000 Ohioans are on waiting lists for services for developmentally disabled citizens, while local communities that lost half of their state support are privatizing services, dimming streetlights and raising fees. The state is going from being a "high-tuition, high-financial-aid state" to one where tuition is high and aid is low. Deep poverty remains a real problem – of the more than 640,000 Ohio children living in poverty in Ohio, nearly 300,000 live in extreme poverty, which is below 50 percent of the federal poverty level. Of those, 115,000 are children living in families receiving Ohio Works First cash assistance. An additional 100,000 children live with families that receive only food stamps and have no cash income.[1]

Expanding Medicaid is the most important public policy decision of a generation: it brings enormous benefits to Ohioans and to the state. However, more should be done to restore the safety net and other eroded public services. The billion dollars in tax cuts in the proposed budget, plus hundreds of millions more anticipated as the Rainy Day fund overflows into the "Income Tax Relief Fund," should instead be used to relieve the suffering of children and families in poverty, to help restore local finances, and to invest in assets that help build a brighter future for all Ohioans.

Expenditures

According to the Ohio Legislative Service Commission, appropriations within the all-funds budget proposed by the governor total $59.6 billion in fiscal year 2014 and $62.6 billion in fiscal year 2015. This would be an increase over the two-year budget period of $13 billion or 12.1 percent compared the current budget. The all-funds budget is not an accurate reflection of the use of state taxpayer dollars because it contains federal funds, dedicated fees, trust funds and other allocations. The

[1] Testimony of Director Jack Frech of Athens County, Ohio, delivered to the Health and Human Service Subcommittee of the House Finance and Appropriations Committee, March 12, 2013. See appendix for a copy of the testimony.

General Revenue Fund (GRF), supported by state tax dollars, is a better indicator – although in Ohio, the GRF contains some federal dollars. Proposed GRF appropriations of $30.5 billion in FY2014 and $32.6 billion in FY 2015 would lift state spending in the coming biennium $9.2 billion above the current budget; when federal funds are removed, the increase in GRF is $3.7 billion, a 9.4 percent increase over the current budget. If expenditures other than Medicaid are the focus, the increase is even smaller.

The GRF is buoyed by improved economic conditions, but it is also bolstered by tax revenues formerly dedicated to local governments, schools and libraries through the Local Government Fund, the Public Library Fund, and tax reimbursements. These revenues will continue to boost state GRF revenues by at least a billion dollars annually in each of the next two fiscal years under current law, when contrasted with historical revenue sharing. [2]

The executive budget proposal for fiscal years 2014-15 reorders priorities moderately. Health reform drives the largest change with influx of federal dollars. Primary and secondary education will see increased state GRF funding of a billion dollars ($1.2 billion on an all-funds basis, not including property tax relief apportioned to education funding); this does not quite restore cuts in the current two-year budget compared to the prior one and is complicated by increased funding for privatization efforts. Higher education sees some restoration relative to cuts in the current budget. Programs and agencies in human services other than Medicaid see flat funding, after inflation. While the numbers are big, the basic trends remain the same.

Figure 1 illustrates how the share of the GRF spent on health services has risen since 1975 while human-services funding has fallen to the point that share of spending on corrections now matches that of human services. Investment in higher education has also fallen. Funding for K-12 education dropped initially, but rose for a time as legal action over inequity in funding drove renewed state support. Local government aid has declined sharply since the middle of the past decade.

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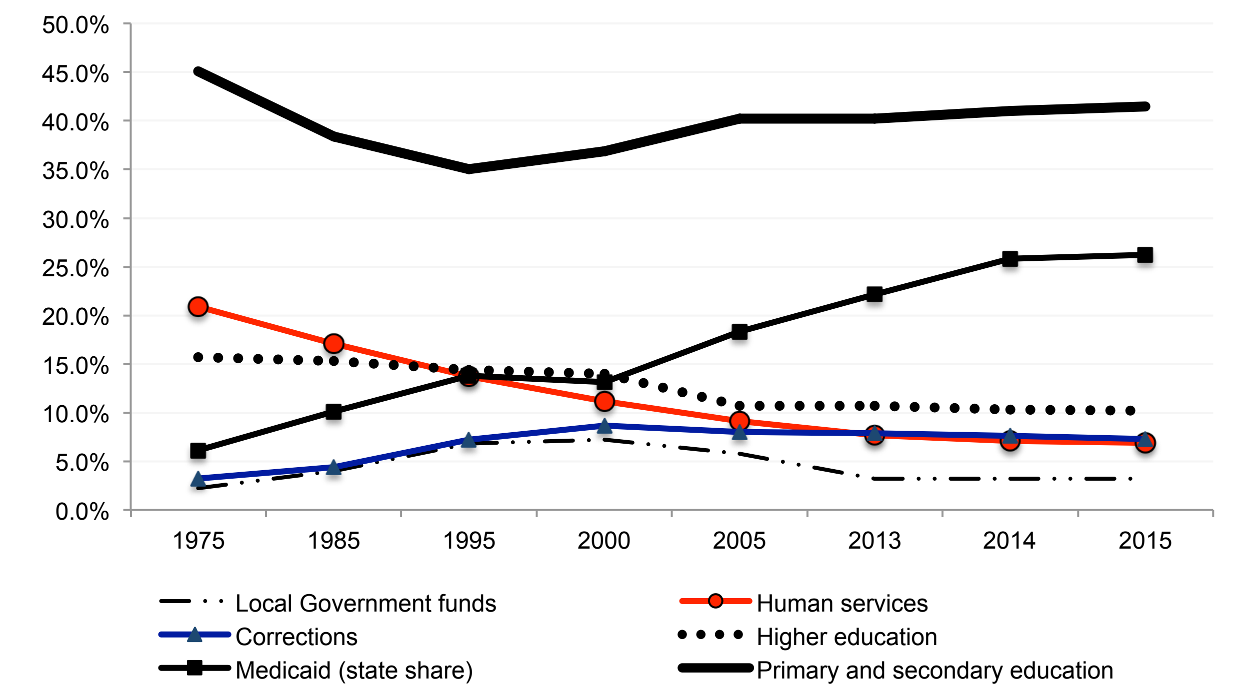
[2] The tax reimbursements were for the loss of local tangible personal property tax and utility taxes, eliminated by the state in tax overhauls since 2000.

Figure 1

Trends in share of state spending by key function



Source: Policy Matters Ohio, based on the Ohio Legislative Service Commission's Table 2: State only expenditures in the GRF including Lottery Profits and Local Government Funds.

Medicaid expansion

The proposal to embrace Medicaid expansion makes health of Ohioans the big winner in this budget. The American philosopher Ralph Waldo Emerson said: "The first wealth is health." Medicaid expansion represents a major investment in the health – and thus better opportunity for a productive life – for hundreds of thousands of Ohioans. The expansion also brings billions of federal taxpayer dollars into the state, which will create jobs and boost local economies in every one of the state's 88 counties. Most importantly, it provides all Ohioans with access to preventative care, which will stem the rising costs in the system by curtailing health crisis and emergency room treatment. According to the Governor's Office of Health Transformation, benefits include:[3]

- An additional 275,000 low-income Ohioans will be brought into the medical system and gain access to a doctor and preventive care;
- Medicaid expansion will bring $2.4 billion into the state over the biennium, $13 billion over seven years;
- The expansion will cover health services now paid for locally, freeing up $100 million in local levy dollars, which were badly eroded from loss of state tax reimbursements.
- The state will benefit from cost savings as a result of the expansion – $404 million will be freed up for other uses.

[3] Governor's Office of Health Transformation, "Health Transformation Budget Priorities," Testimony to the House Finance and Appropriations Committee. 2/14/2013 at http://1.usa.gov/10iRrhT.

In addition to the benefits outlined above, a study by the Ohio State University, the Urban Institute, and REMI, Inc., predict additional positive impacts of Medicaid expansion, including 27,000 jobs and $1.4 billion in enhanced state revenues over nine years.[4]

A choice to not expand could have negative consequences. At present, the federal government provides hundreds of millions of dollars each year to help hospitals take care of people who come to the emergency room but have no insurance. Medicaid expansion will help prevent this by giving people access to preventative care in a doctor's office, and will make sure that everyone treated in an emergency room is insured privately or through Medicaid. The need for emergency care will be reduced and payments brought under control. For states that do not expand, people will continue to need emergency room crisis care, but the federal dollars cushioning coverage of the uninsured will be greatly reduced as the rest of the country gets with the health reform program. Hospitals in those states could suffer great fiscal stress. The system of care could be reduced, especially in low-income communities.

Other Health and Human Services

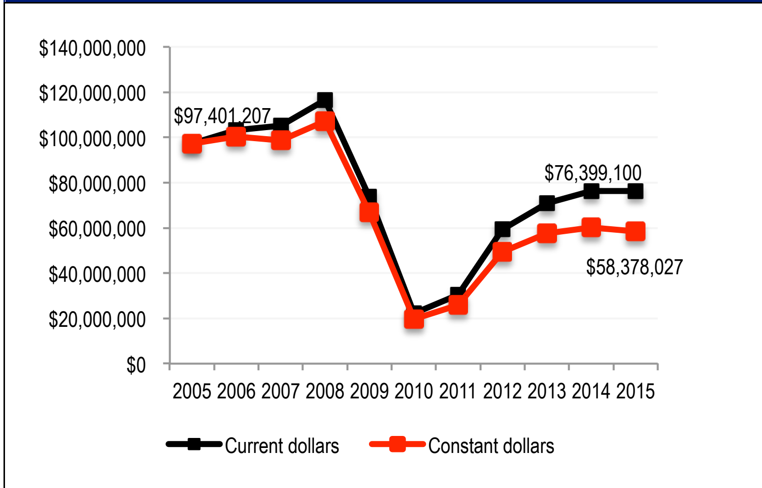
Apart from Medicaid expansion – which more than pays for itself – GRF expenditures of state funds (net of federal dollars in the budget) are flat funded or even decrease for many non-Medicaid health and human services over the biennium.[5] Medicaid expansion will allow expanded services in mental health and addiction services, developmental disabilities and aging. However, state support for critical human services, particularly at the community level, has been eroded for a long time. As the state economy improves, eroded services should be restored.

Although the Legislative Service Commission budget analysis projects a decline in GRF for the newly merged mental health and addiction services agency, much may be attributed in part to line item reorganization for that agency and the new department of Medicaid. Funding for some key community services, however, are reduced or flat-lined. For example, key lines funding community services (the non-criminal justice share of 038401 in Addiction Services and 335419 and 335505 in Mental Health) are combined in a new line (335421 "Continuum of Care"), but funding in the budget proposed for fiscal years 2014-15 is flat in current dollars and has declined in constant (inflation-adjusted) dollars (Figure 2). Inflation erodes the value of current dollars, while recession increases need. Erosion of community mental health is long-term; restoration will take strategic and long-term increased investment.

[4] Health Policy Institute of Ohio at http://bit.ly/ZLGk5r.
[5] This includes the Ohio Department of Job and Family Services, the new Department of Mental Health and Addiction Services, the Department of Health, the Department of Developmental Disabilities and the Department of Aging.

Figure 2

Change in key community mental health budget lines (in current and constant dollars)



Source: Policy Matters Ohio, based on Ohio Legislative Service Commission 'Budget in Detail.' Inflation adjustment based on CPI-U for fiscal years. Funding for the non-criminal justice component of line 038401 is not included in 2005-2013.

Medicaid expansion will help. Cheri Walter, CEO of the Ohio Association of County Behavioral Health Authorities, and Hubert Wirtz, CEO of the Ohio Council of Behavioral Health and Family Services Providers, pointed out in testimony that the access to a doctor's office provides the opportunity for a "continuum" of care for those who suffer from mental illness, keeping people out of costlier services provided at psychiatric hospitals or prisons. "It will be the biggest investment in this system in decades," Walter said. "The need in our system will be much, much greater if you don't pass Medicaid expansion than if you do."[6] Terry Russell, executive director of NAMI Ohio, said the proposed Medicaid expansion will give local mental health systems "the first real hope of developing the community support systems that were promised with the passage of the Mental Health Act."[7]

House Bill 59's funding proposals for the Ohio Department of Aging include a small increase in GRF (net of Medicaid lines) as well as reorganization of budget lines - with some gain -from other agencies. There are increases in provider rates for adult day care and assisted living, and some additional funding for operating budgets. The proposed budget will see an additional $140 million in federal funds for home and community based care as the state joins a new Medicaid program introduced with the Affordable Care Act, the "Balancing Incentives Payment Program." This does not, however, reverse cuts to such services in the current biennial budget. For example, the current budget cut provider rates of the largest home- and community-based care program that serves seniors, PASSPORT, by 3 percent. Central Ohio Area Agency on Aging Director Cindy Farson pointed out in testimony that two years ago, PASSPORT administrative funding was cut by $3.6 million, in the budget for 2012-13; new enrollment has slowed to less than one percent growth. "The small increases proposed in this budget are not nearly enough to restore the staffing necessary to meet the needs of Ohio's seniors and achieve the goals (for balancing spending on nursing home care with spending on home- and community-based services) set forth by the governor," she said.[8]

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[6] The Hannah Report, 3/7/2013.
[7] Gongwer Ohio News service, 3/7/2013 at http://bit.ly/ZwwuRX.
[8] Gongwer Ohio, 3/7/2013. "*Ms. Farson urged lawmakers to restore more funding for the PASSPORT program. The Medicaid waiver program works to allow senior citizens to remain home instead of being admitted to a nursing home. Two years ago, PASSPORT funding was cut by 10%, or $3.6 million, Ms. Farson said. In part because of the cut, she said, new enrollment has slowed to less than 1% and people have been laid off. The current budget bill only provides for a "fractional" increase in program funding, she said: less than 0.5% in fiscal year 2014 and less than 1% in FY 2015. Ms.*

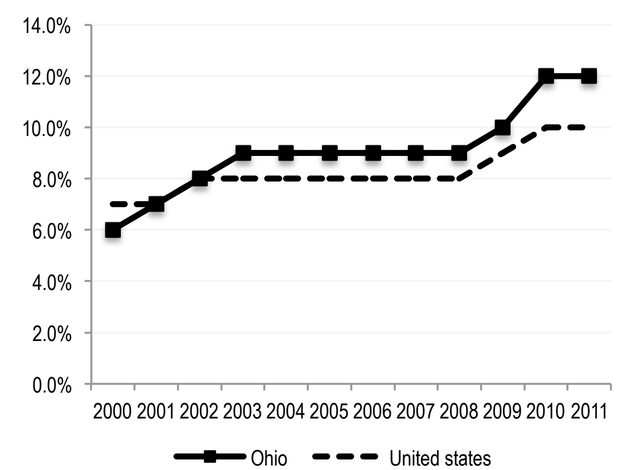
The Department of Developmental Disabilities will see additional funds in Medicaid and other funding. An increase in provider rates for the first time since 2005 could help stabilize the workforce that delivers home health care services to the people served by this agency. Yet services for the developmentally disabled remain inadequate. Gary Tonks, executive director of The Arc of Ohio, which serves the developmentally disabled, pointed out in testimony that state funding for programs and services for individuals with developmental disabilities has been reduced at the state and local level. "Over 30,000 Ohioans with developmental disabilities are currently on our waiting list," he said.[9]

The Ohio Department of Job and Family Services will see less GRF funding in the proposed budget in non-Medicaid areas. Reduced federal funding as a result of the sequester of so-called discretionary spending by the U.S. government will also force cuts.

The Ohio Works First (OWF) program has dropped a lot of participants from its caseload, in part because adults have not been able to meet work requirements in our high unemployment economy. While poverty rates have risen in the state, child participation in OWF has fallen by a third (between January 2011 and January 2013) and adult participation in OWF has plunged by 58 percent.[10] Figure 3 illustrates the rise in extreme child poverty in the state of Ohio and in the nation: this measure, which tracks children living at 50 percent of the federal poverty line, has been rising across the nation but in Ohio, the increase is greater than in the nation.

Figure 3

Trends in extreme child poverty in Ohio and in the nation, 2000-2011



Source: Policy Matters Ohio, based on data for Ohio and the nation at Kids Count Data Center, Annie E. Casey Foundation, at http://datacenter.kidscount.org/data/acrossstates/Rankings.aspx?ind=45.

In testimony, Ohio Department of Job and Family Services Director Michael Colbert told a legislator that 36 percent of OWF recipients were 'sanctioned' - in some cases, removed from the cash assistance rolls - due to inability to meet work requirements.[11] The drop in child participants is far lower. Are parents, sanctioned off OWF, forced to send their children away to others so they can get help? Director Colbert acknowledged concern over the difficulties faced by parents in need of this kind of assistance: problems with child care, transportation to work, and other common needs that can be insurmountable to the very poor.

Farson said Area Agencies on Aging need more funding flexibility so they can shift money to screening, assessment, and provider relations…." http://bit.ly/11M8vlN.

[9] Gongwer Ohio, 3/7/2013 http://bit.ly/ZYM8p5.

[10] Athens County Job and Family Services, "State Recipients OWF Jan 2011 to present, from BIC Recipients By Program (BICCUB1005)"

[11] Health and Human Service Subcommittee of the House Finance and Appropriations Committee, February 27, 2013.

According to Athens County Job and Family Services Director Jack Frech,[12] 90,000 in Ohio, including more than 50,000 children, have been cut off of the Ohio Works First cash assistance over the past two years. The cash assistance line item in the Temporary Assistance for Needy Families block grant cuts $191 million dollars from the poorest families in the state. Some of the money is programmed in the pending TANF budget to help recipients successfully meet work requirements. Frech included grim statistics on poverty in Ohio in his testimony to the House Health and Human Services Subcommittee:

- More than 640,000 Ohio children live in poverty in Ohio;
- Nearly 300,000 live in extreme poverty, below 50 percent of the federal poverty level;
- Of children in extreme poverty, 115,000 are children in families receiving OWF cash assistance. An additional 100,000 live with families receiving only food stamps, with no cash income;
- A typical Ohio family of two receives only $374 per month in cash assistance and about $370 in food assistance benefits;
- Twenty percent of all households that receive food stamps have no cash income. Food stamps are designed to only meet 75 percent of a family's food needs;
- Transportation is a huge barrier to work participation. County funding for "PRC" ("Prevention, Retention and Contingency" – flexible funding that can help with transportation and other costs) has been cut by over $100 million dollars since 2009, resulting in many counties drastically reducing or eliminating funding for car repairs and transportation.

K-12 education

House Bill 59 would boost state funding for Ohio's primary and secondary schools in fiscal years 2014 and 2015, but would not bring it up to the level provided for K-12 education in the fiscal year 2010-11 budget, either in current or inflation-adjusted dollars. The last five years have challenged schools with a bumpy fiscal ride – federal stimulus dollars that filled a gap in fiscal years 2010 and 2011 were not replaced in the current budget; at the same time, tax reimbursements were substantially reduced. Policy Matters Ohio found through a survey of school districts in 2011 that many were furloughing teachers and aides, cutting course offerings and asking families to pay for extracurricular activities.[13]

Figure 4 compares changes in funding for three biennial budgets – fiscal years 2010-11, 2012-13 (the current budget), and 2014-15 (the proposed budget). Significant cuts in revenue distribution funds in the current budget slow in the proposed budget, but losses in this funding source continue. General revenue funds increase by more than a billion dollars in the proposed budget compared to the current one. The increase is mostly in foundation funding, which gains $905 million. It is important to note, however, that analyses by education groups and media have called into question the administration's stated intention to direct additional funding to poorer districts. Lower-wealth districts, which rely more heavily on state funding, would be more adversely affected by the administration's proposal

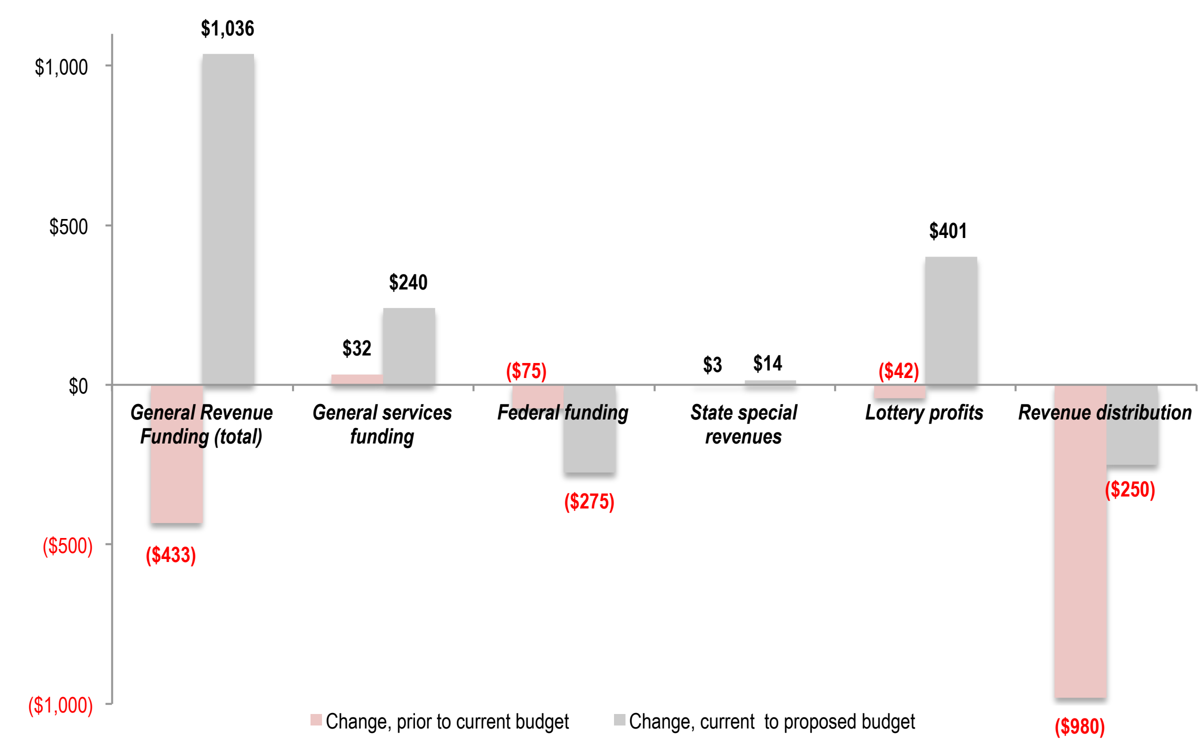
[12] Testimony of Athens County Job and Family Services Director Jack Frech to the Health and Human Services Subcommittee of the House Finance and Appropriations Committee, 3/12/2013.

[13] Patton, Wendy, and Piet van Lier, "The State Budget and Ohio Schools: Big Cuts, Hard Choices, Local Impacts," Policy Matters Ohio, January 2012 at policymattersohio.org/state-budget-ohio-schools-jan2012.

because it begins with a lower base amount than has historically been directed to school districts, according to a coalition of statewide education groups.[14]

Figure 4

Changes in major sources for K-12 education, current budget relative to prior and proposed budgets (In millions, current dollars)



Source: Policy Matters Ohio, based on Office of Budget and Management "Budget Recommendations."

Overall, the proposed budget contains $1.167 billion more dollars for primary and secondary education than the current budget, restoring funding to within 1.5 percent of where it was, on an all-funds basis, in fiscal years 2010-11. Table 1 shows total dollars in the education budget in the prior, current and proposed budgets, based on figures in the Office of Budget and Management's Budget Recommendations document.

[14] Testimony on House Bill 59 by the Buckeye Association of School Administrators, the Ohio Association of School Business Officials, and the Ohio School Boards Association, delivered March 21, 2013, and retrieved at www.ohiohouse.gov/committee/finance-and-appropriations.

Table 1

State K-12 funding over three state budgets, fiscal years 2010 to 2015
(In millions of current dollars)

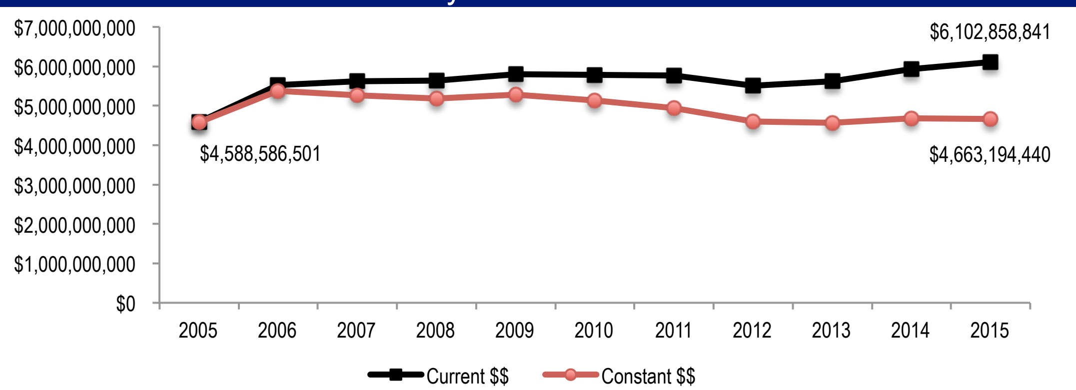
Funding source	FY 2010-11	FY 2012-13	FY 2014-15	Change, 2010-11 to 2014-15 ($)	Change, 2010-11 to 2014-15 (%)
Foundation	$10,618	$11,122	$12,027	$1,409	13.3%
Foundation, fed. stimulus	$933	($0)	$0	($933)	(100%)
Total foundation	**$11,551**	**$11,122**	**$12,027**	**$476**	**4.1%**
Other general revenue	$1,830	$1,826	$1,957	$126	6.9%
General services	$47	$79	$319	$272	579.2%
Federal	$4,365	$4,291	$4,015	($350)	(8%)
State special revenues	$93	$95	$109	$17	18%
Lottery profits	$1,456	$1,414	$1,816	$360	24.7%
Revenue distribution	$2,250	$1,270	$1,020	($1,230)	(54.7%)
Total	**$21,593**	**$20,097**	**$21,263**	**($329)**	**(1.5%)**

Source: Policy Matters Ohio, based Office of Budget and Management's "Budget Recommendations" document for the Executive Budget for 2014-15. Property tax relief is not included in General Revenue Funds.

In reality, inflation erodes the value of current dollars. Figure 5 shows the effect of inflation on foundation funding over the past 10 years, including the proposed budget for fiscal years 2014-15. The restoration proposed in the executive budget is helpful, but between 2005 and 2015, inflation has risen by about 20 percent while foundation funding has risen by 5.3 percent. Schools have been falling further behind as state support lags the consumer price index. Here, too, a long-term investment strategy is needed to bring schools up to a pre-recession level.

Figure 5

Foundation funding in current and constant dollars
Fiscal years 2005 to 2015



Source: Policy Matters Ohio, current dollar figures based on Office of Budget and Management "Budget Recommendations." Inflation adjustment based on CPI-U for fiscal years.

Targeted and one-time funding
Gov. Kasich's "Achievement Everywhere" plan includes a $300 million "Straight-A Fund" to provide "one-time grants to those districts with the will to take on ambitious new strategies for helping their students improve their achievement levels and increase their operational efficiency."[15] No details have been provided as to the criteria by which awards will be determined. Although there may be value in this approach to spurring innovation, the competitive, targeted nature of the fund and its limited time frame mean that it cannot be counted as a restoration of state funding cut or lost over recent years.

The Achievement Everywhere plan also identifies approximately $880 million in "Guarantee Funds" to make up for what would otherwise be cuts in state foundation aid to a majority of school districts. Gov. Kasich and his advisors have called this support unsustainable after the coming biennium and have said they want to wean districts off the guarantee.[16] A predictable school-funding formula that allows schools to plan for the future is a good goal, but one that starves schools of needed resources defeats the purpose of strengthening the state's public education system. Taken together, the Straight-A Fund and the guarantees add up to nearly $1.2 billion, the amount the Kasich administration touts as its increase in school funding.

Privatization
In March, the Ohio Legislative Service Commission released spreadsheets that estimated state funding for Ohio's charter schools under the governor's proposal. According to LSC, an additional $35 million would be redistributed from public schools to charters; as a result, many districts would lose some of their state support to charter schools. This amounts to an average 4.5 percent increase in state aid for charters, according to news reports about the LSC release, without taking into account the $12 million ($100-per-student) in funding boost for charter facilities.[17] The districts that would see the largest share of their funds go to charter schools are among the state's poorest, according to the *Akron Beacon Journal*.[18] This increase to charters at the expense of district schools continues a long-term trend that has seen funding increases for charters outstrip enrollment gains.[19]

The administration's budget proposal also would establish two new school voucher programs. The first, an income-based voucher would enroll kindergarteners in fiscal year 2014 and expand to first-grade students the second year of the budget. The other new program would be available to students in schools that don't meet benchmarks based on the state's third-grade reading guarantee. These programs, along with the state's four existing programs – the Cleveland voucher, the statewide EdChoice program, the autism voucher and the special ed program – have since the 1990s diverted increasing amounts of money from districts while showing at best mixed results academically.

Another provision in HB 59 would require districts to outsource education services if they don't

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[15] Achievement Everywhere: Common Sense for Ohio's Classrooms, retrieved from the governor's website at www.governor.ohio.gov/PrioritiesandInitiatives/K12Education/AchievementEverywherePlan.aspx.
[16] Boss, Charlie, "State's 'guarantee' on school funding may vanish," *Columbus Dispatch*, March 4, 2013.
[17] Livingston, Doug, "Kasich's budget plan lowers aid to public schools, boosts privately run charter schools," Akron Beacon Journal, March 15, 2013, retrieved at http://bit.ly/13WZ9Uk. See also: O'Donnell, Patrick, "Nearly half of Ohio school districts will lose money under Gov. John Kasich's school funding proposal," The Plain Dealer, March 13, 2013, retrieved at http://bit.ly/Yrz5wV.
[18] Livingston, *Akron Beacon Journal*, March 15 2013 at http://bit.ly/13WZ9Uk.
[19] Policy Matters Ohio, "A budget that works – K-12 education lost funding, faced increased privatization." January 2013, available at http://www.policymattersohio.org/?p=14353.

make "consistent progress" with four subgroups of students – gifted, low-income, English language learners, and students with disabilities. The proposal would have state funding that flows to districts for the education of these subgroups diverted to third-party entities. Given the failure of previous privatization efforts to create a stronger K-12 education system in Ohio, this approach would likely further weaken the current system.

Higher Education

Higher education funding is set to receive a badly needed, but markedly insufficient, increase in the proposed budget. The increase does little to offset the rising costs of higher education and does nothing to extend state need-based financial aid to community college students or those enrolled at two-year branch campuses.

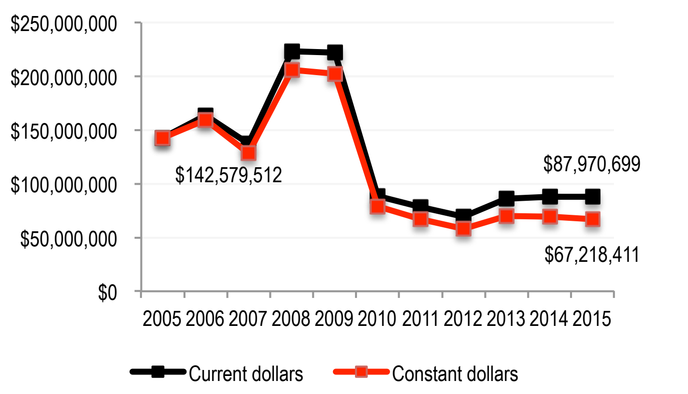
It is expensive to get a college education in Ohio. In 2012, Ohio's average cost of tuition and fees at four-year public colleges and universities was 6.2 percent higher than the national average, and the average cost of community college tuition and fees was 21.9 percent higher.[20] In terms of actual cost, students at community colleges were spending $372.00 more on tuition and fees in the academic years of 2011-12 than in 2008-09. Students at two-year branch campuses spent an extra $428.[21]

Tuition and fees are high in Ohio because state support is low. Ohio has lagged the nation in support for higher education for the past 20 years. In 1991, Ohio dedicated $7.03 per $1,000 in personal income to funding higher education, $1.38 less than the national average.[22] In 2010, Ohio dropped further behind the nation, investing only $4.57 out of every $1,000 in personal income, in higher education.[23] Ohio started out behind and has fallen further.

[20] College Board, Trends in College Pricing: 2012 at http://bit.ly/16iN6zo.
[21] Community Research Partners, "Need-Based Financial Aid," January 2013, available at http://bit.ly/ZZyfXL.
[22] Camou, Michelle, and Wendy Patton, "Deregulation and Higher Education," Policy Matters Ohio, October 2012.
[23] Ibid.

Figure 6

Need-based aid has declined in current and constant dollars over the past decade



Source: Policy Matters Ohio, current dollar data based on Legislative Service Commission 'Budget in Detail.' Inflation adjustment based on CPI-U for fiscal years.

Although the need for need-based financial aid has grown, Ohio has disinvested in aid in current dollars – not adjusted for inflation - by 38 percent since 2005 (Figure 6). Inflation has further eroded the value of state investment. Comparatively, the recommended increase of 13 percent proposed in the executive budget is a drop in the bucket.

The budget also fails to extend need-based aid to students at community colleges and two-year public branch campuses. Students enrolling in these institutions typically face additional barriers to degree completion when compared to their cohorts in private institutions and four-year public institutions.[24] Rather than providing additional aid to these students to support attainment of credentials and degrees, Ohio eliminated need-based aid for these students in 2009.

Over the past 40 years, there has been a 65 percent increase in college participation (nationally) by students in the lowest income quartile.[25] However, too many low-income students are unable to attain their degrees. While nearly 80 percent of students from the top quartile of family income complete their degrees, only about 11 percent of students from the lowest quartile of family income are able to complete.[26] Financial stress takes a toll in the difficult and demanding college classroom. Boosting need-based aid for students, and supporting investment in classroom instruction, should be a priority in Ohio's state budget.

Local government

The state cut funds formerly provided to schools, libraries and local governments in the last budget. Table 2 shows that the net loss in fiscal years 2012-13 compared to the previous biennium was nearly $800 million. In the proposed budget the losses continue, deepened with the final elimination of the estate tax – local governments will see $647.8 million less over the two-year period of the proposed budget.

Anticipated growth of state GRF tax revenues, of which local governments get 1.68 percent through the Local Government Fund (LGF), will drive small increases in LGF monies in fiscal year 2014

[24] *See*, Viany Orozco, Amy Hanauer, Nancy K. Cauthen, Building Ohio's Future Middle Class," Demos, April 2010, available at http://bit.ly/wCAy3U.

[25] Postsecondary Education Opportunity, "Family Income and Educational Attainment, 1970 to 2010," Newsletter #235, January 2012 at http://bit.ly/R41PXE.

[26] Postsecondary Education Opportunity, "Family Income and Educational Attainment, 1970 to 2010," Newsletter #235, January 2012 at http://www.postsecondary.org/last12/235_112pg1_16.pdf.

compared to the prior year ($15.6 million, or 4.5 percent), and again in fiscal year 2015 compared to fiscal year 2014 (12.8 million or 3.5 percent). When the two-year appropriation in the current budget is compared to the proposed budget, however, it becomes clear that local governments are actually getting $202 million less over the coming biennium. Tax reimbursements also continue to drop. Casino revenues and the broadened sales tax base will not make up for these cuts. By the end of the coming biennium, local governments will have lost nearly half of state revenue sharing, even with new sources taken into account.

Table 2

Tax cuts proposed in executive budget for fiscal years 2014-15

(In millions of dollars)

Program name/line item	FY2010-11	FY2012-13	Change, FY 2010-11 to FY 2012-13	FY 2014-15	Change, FY 2012-13 to FY 2014-15	Change, FY 2010-11 to FY 2014-15	Percent change
TPP tax reimbursement/ 110981	$955.4	$442.5	($512.9)	$254.4	($188.1)	($701.0)	-73.4%
Utility tax reimbursement/ 110954	$165.8	$23.4	($142.4)	$11.2	($12.2)	($154.6)	-93.2%
Local Government Fund/110969	$1,336.2	$942.5	($393.7)	$740.0	($202.5)	($596.2)	-44.6%
Casino Revenues, counties/110633	$0.0	$90.0	$90.0	$327.0	$237.0	$327.0	100.0%
Casino revenues, host cities/110636	$0.0	$8.8	$8.8	$32.1	$23.3	$32.1	100.0%
Estate tax	$532.9	$685.3	$152.4	$60.0	($625.3)	($472.9)	-88.7%
Additional sales tax revenue	$0.0	$0.0	$0.0	$120.0	$120.0	$120.0	100.0%
TOTAL	**$2,990.3**	**$2,192.5**	**($797.8)**	**$1,544.7**	**($647.8)**	**($1,445.6)**	**-48.3%**

Source: Policy Matters Ohio based on executive budget recommendations.

Tax policy

One of the biggest stories of this proposed budget is a billion dollars in tax cuts, and with those cuts an increase in regressivity of state and local taxes. These tax changes include:

- A broadening of the state sales tax to more services, with defined “essential” services (medical, housing, education) exempted. Services would routinely be subject to the sales tax, with a need for special exemption to be removed rather than specific legislative action to add them to the tax code;
- A reduction of the sales tax to 5 percent from 5.5 percent;
- Control by the state and reduction of local sales taxes that piggy-back on the state tax for three years, with a minimum revenue-growth rate guarantee (a floor, not a ceiling);
- Application of a new form of severance tax to horizontally drilled oil and gas;
- The rainy day fund will be filled to its 5 percent of GRF limit and overflow into the Income Tax Relief Fund, which will fund a 4 percent across-the-board cut in the personal income tax

for one year at the cost of $415 million. (This tax provision is not really attributable to revenues in the next biennium, but would occur in the course of the coming fiscal year).

- A permanent, across-the-board personal income tax cut of 20 percent, similar to the 21 percent cut of 2005, this would be taken over the next three years;
- The exclusion of half of business income up to $750,000 from the income taxes of owners of partnerships, S Corporations, sole proprietorships and other businesses organized as "passthrough entities," because their owners are taxed on the business income through the personal income tax;
- The elimination of a handful of the 129 tax exemptions, credits and deductions that together add up to more than $7 billion in annual foregone state revenue.

Table 3

Tax changes proposed in FY 2014-15 executive budget
(In millions of dollars, General Revenue Fund)

	FY 2014	FY 2015
Explicitly subject digital goods and services to sales tax	$15	$15
Repeal sales tax exemption for magazine subscriptions	$7.4	$7.5
State sales tax rate reduction to 5 percent from 5.5 percent on currently taxed goods and services	($621.4)	($875.5)
Repeal gambling loss personal income tax deduction and double exemption for dependents	$33.8	$33.8
Fifty percent exclusion for up to $750,000 of business income taken through personal income tax	($647.5)	($624.8)
Twenty percent personal income tax rate reductions for all brackets	($1,044)	($2,077)
New severance tax rate structure for products from horizontal wells: oil, condensate, wet gas and dry gas	$45	$155
Sales tax changes for counties, transit agencies do not impact state budget	$0	$0
TOTAL	**($290.)**	**($714)**

Source: Policy Matters Ohio based on executive budget recommendations.

The proposed changes in tax policy mean that the state will rely less on Ohio's wealthiest and more on Ohio's middle- and low-income families for revenues. These families already spend a larger share of their income on state and local taxes than the wealthy do. In Ohio, non-elderly taxpayers at the lowest end of the earning scale, that fifth making less than $17,000 in 2010, on average spend 6.7 percent of their income on sales and excise taxes, while those in the top earning 1 percent, making more than $324,000, spend only 1 percent. By contrast, a progressive income tax works the opposite way: the higher one's income, the more personal income tax one pays.[27] Under current tax policy, the wealthiest pay almost a third less in state and local taxes than the poor as a share of income.

Revenues from the severance tax and the sales tax will be used in the proposed budget to pay for cuts to the personal income tax. A Policy Matters analysis found that while the wealthiest of Ohioans would see, on average, an annual tax cut of $10,369, the bottom 20 percent of earners would see an

[27] Policy Matters Ohio, "Ohio's state and local taxes hit poor and middle class much harder than wealthy," Jan. 30, 2013, at http://www.policymattersohio.org/income-tax-jan2013.

actual tax hike of $63 per year. Those of middle income would see a tiny increase as well.[28] The sales tax needs to be broadened to cover more services, to provide adequate revenue and to make the tax fit with today's economy. However, the regressive impact of expanding the sales tax for those at the bottom of the income scale highlights the need for tax credits to protect household income at these levels. We recommend a sales tax credit and an earned income tax credit to make up for the tax shift to low and middle-income families.[29]

Although cuts in income tax make the overall state and local tax system less fair, proponents claim that they will stimulate job creation. This has not worked in Ohio. In 2005, Ohio's legislature lowered personal income tax rates by 21 percent, eventually phased in over seven years, and overhauled the business tax system. Now fully implemented, the tax code changes eliminate $2.5 billion in revenue every year.[30] Yet Ohio's economy lost 4 percent of its employment base since those tax changes were signed into law in June of 2005, while the nation's employment grew by 1 percent. Tax cuts have not worked in the past to boost Ohio's economy and there is little reason to expect that they will work in the future.[31]

Ohio's state and local taxes as a share of state personal income in fiscal year 2010 were 10.8 percent, almost identical to the national average of 10.7 percent and close to that of our neighbors: Indiana (10.9 percent), Michigan (10.9 percent), Kentucky (10.0 percent), West Virginia (11.3 percent) and Pennsylvania (10.6 percent).[32] A significant body of research finds that state and local reductions do not increase job growth.[33]

The 20 percent personal income tax cut proposed by the Kasich administration would be in addition to a proposed tax cut on business income. Independent contractors and business owners could exclude from state taxes income of up to $750,000 – effectively cutting state taxes in half on business income up to that level. Wealthy Ohioans could see substantial tax cuts as a result. The example contained in the Appendix to the Budget Reforms document that accompanied the release of the executive budget used an example of a limited liability corporation in which each owner reported $500,000 in business earnings.[34] Each one would see a tax cut of $11,820 as a result of this break. The theory is that this will boost hiring, but in practice, businesses hire based on product demand, not based on a tax break that is smaller than a new staffer's salary would be.[35] A substantial amount of this new tax break would go to those with such small business income that it is unlikely to lead to

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[28] Zach Schiller, "Kasich tax proposal would further tilt tax system in favor of the affluent," Policy Matters Ohio, February 2013 at http://www.policymattersohio.org/tax-policy-feb2013.
[29] David Rothstein, "Small Investment, Big Difference: How an Ohio Earned Income Tax Credit would help working families," Policy Matters Ohio, March 2013, at http://www.policymattersohio.org/eitc-mar2013
[30] Testimony of Deputy Tax Commissioner Frederick Church, Legislative Study Committee on Ohio's Tax Structure, Aug. 24, 2011, p. 21.
[31] Zach Schiller, "Kasich tax proposal would further tilt tax system in favor of the affluent," op. cit.
[32] Federation of Tax Administrators, using data from the Census and from the Bureau of Economic Analysis, at http://www.taxadmin.org/fta/rate/10stl_pi.html.
[33] For example, see a recent report by the Center on Budget and Policy Priorities, examining the economic record of states that had approved personal income-tax tax cuts and the economic literature. "State Personal Income Tax Cuts: A Poor Strategy for Economic Growth," by Michael Leachman, Michael Mazerov, Vincent Palacios and Chris Mai, March 21, 2013, at http://www.cbpp.org/cms/index.cfm?fa=view&id=3936.
[34] Ohio Jobs Budget 2.0, "Reforms Book," Table 3 - Example of Tax Savings from Small Business Deduction, p.43
[35] See Michael Mazerov, "Cutting State Personal Income Taxes Won't Help Small Businesses Create Jobs and May Harm State Economies," Center on Budget and Policy Priorities, Feb. 19, 2013, at http://bit.ly/YDQrTw.

meaningful job creation; according to the taxation department, the median amount business owners expected to qualify for this tax break will be able to exclude is just $3,103.[36] Meanwhile, attorneys at big Ohio law firms and others who are unlikely to be engines of job creation would be able to exclude half the compensation from their firms, up to the cap. This tax change also increases the regressivity of Ohio's state tax system: 53 percent of the value of this tax break goes to the top 1 percent of earners, and another 26 percent to the next 4 percent.[37]

In sum, the income tax cuts are expensive, but will not improve the economy of the state. The proposed broadening of the sales tax base makes the tax more effective and stable, but even with a lower rate, it has a negative impact on households of modest income. A sales tax credit and an earned income tax credit could help offset this impact. The severance tax, exported to out-of-state consumers, is a good move, although the rate could be substantially higher and the front-end loopholes eliminated.

Conclusion

The executive budget for fiscal years 2014-15 expands Medicaid, a huge help for communities and families. The proposal also directs more funding to schools, but this boost is complicated by how the funding is directed, by increased funding for charters, and by new voucher programs.

The Kasich administration's budget would also provide large tax cuts for the wealthy and continues what has become a tradition of squeezing funding for health and human services. The budget should instead restore safety net services for the growing number of children in Ohio living in extreme poverty. In time, Medicaid expansion will provide more jobs and benefit local economies. Right now, social services and local government need restoration. Cities across the state are addressing budget shortfalls by curtailing services, furloughing emergency personnel, privatizing public functions and hiking fees. This can hurt quality of life and property values on the local level, as well as increasing costs in ways that hurt middle- and low-income families – for parking, for private pools when the public pools close, for street lights.

More Ohio students need to go to college, yet diminished financial aid and high tuition make that difficult. Over time, state support of higher education as a share of the budget has dropped by a third. Decreasing investment in the engine of the future – a highly skilled workforce – works against necessities needed to drive economic development. Tax cuts do not boost economic competitiveness, but they do take revenues needed for that kind of investment.

All Ohioans have something at stake here: whether we worry about what's going on in our kids' classes, ship our goods on public roads and bridges, enjoy a bicycle ride or a walk in the park, call the fire department when a smoke alarm goes off, park in a city lot, are helped by a health care aide in our home or visit an aged parent in a nursing home. We all are supported by the services of the state. We all have something at stake.

[36] Email from Gary Gudmundson, Ohio Department of Taxation, to Zach Schiller, Policy Matters Ohio, March 1, 2013. Based on 2009 data.
[37] Zach Schiler, "Kasich tax proposal would further tilt tax system in favor of the affluent," Policy Matters Ohio, February 13, 2013 at http://www.policymattersohio.org/tax-policy-feb2013