Policy Matters Ohio

Budget & Tax
January 2015

A budget that works, 2016-17

Ten years of tax cuts have not helped Ohio's economy and have damaged schools, public health and other foundations of prosperity. Lawmakers need to do a U-turn, putting Ohio back on a path to economic growth by ensuring we have the resources we need to invest in good schools, top-flight colleges, a sound transportation system, and healthy, productive families. They have the opportunity to do so with the introduction of the proposed budget for the next two years, fiscal years (FY) 2016 and 2017.

Key findings

- State revenues in the General Revenue Fund are lower in the current budget, adjusted for inflation, than in FY 2008-09.
- Tax cuts since 2005 worth $3 billion limit funding for schools, parks and other services that matter to Ohioans.
- Through 2014, growth in state revenues comes from cuts to local governments, special district levies and schools.
- Legislators need to restore equality in taxation and adequately fund services Ohio families depend on.

This document contains our ideas for change, with a focus on restoring key services and building the base for a vibrant, equitable, and sustainable Ohio. We highlight selected public services that the state budget funds: education, health care, and human services, as well as selected local government funding and services. These services were chosen either because of their importance to Ohio families and the state economy or because they are a focus area of Policy Matters Ohio. There are, of course other important items for the state to support.

The State budget: A plan for our future

The state budget is the two-year blueprint for the services Ohioans depend on for a healthy environment and clean water, thriving communities, safe streets, and opportunity for children to grow and learn. The current state budget continued a tax-cutting agenda begun in 2005 that has led to underfunding of important services. In our last budget report, we noted that Ohio, the seventh-most populated state with the eighth-largest value of goods and services (or Gross State Product), had dropped near the bottom 20 percent of states in rankings that measure quality of life and investment in residents. We remain too close to the bottom in too many areas, or are headed in the wrong direction:

- **Health:** The Health Policy Institute of Ohio ranks Ohio 47th among the 50 states in their new dashboard for state health value, which means Ohioans are living less healthy lives and spending more on health care than people in most other states.[1]

[1] Health Policy Institute of Ohio, "HIPO health value dashboard," at http://www.healthpolicyohio.org/tools/dashboards/

- **Infant Mortality:** Ohio ranks 48th in the nation for infant mortality and 50th in the nation for African-American infant mortality.[2]
- **K-12 education**: Our scores fell from B to C in Education Week's report card for 2014, and the state fell from fifth in the nation in 2010 to 18th in 2014.[3] We get a B in the Chamber of Commerce's "Leaders and Laggards" report card, but a D for lack of improvement since 2014.[4]
- **Higher education**: In 2012 we ranked 36th in state support for higher education per $1,000 of personal income and in 2014, we ranked 38th.[5]
- **Student aid/college loan burden**: Ohio's need-based financial aid saw one of the nation's largest declines in the past decade.[6] Because tuition is high and financial aid low, Ohio's university students have the 11th highest average debt in the nation.[7]
- **Protecting kids**: Ohio ranks well in the Kids Rights analysis of child protective services,[8] but with just 8 percent of the bill picked up by the state, we are last in *state* funding for these important services.[9]
- **Public childcare assistance:** Ohio's eligibility level for low-income workers to get childcare assistance was near the bottom of the 50 states in 2014.[10]
- **Public transit**: Ohio's $0.63 transit spending per capita ranks among the lowest in the nation (38th out of 51), just below South Dakota.[11]

Lawmakers have cut taxes and services claiming this will stimulate job creation and boost tax revenue, but that has not happened. Ohio is a state with average taxes; state and local taxes *together* make up the same share of personal income in Ohio – 10.3 percent – as they

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[2] "Ohio ranks 48th in the nation for infant mortality and 50th in the nation for African-American infant mortality in 2011, the latest year available, according to the Centers for Disease Control", Plain Dealer editorial board, December 29, 2014 at http://www.cleveland.com/opinion/index.ssf/2014/12/curbing_infant_mortality_has_t.html

[3] Education Week, "Ohio earns a "C" on state report card, ranks 18th in the nation, January 2, 2015 at http://www.edweek.org/ew/qc/2015/state-highlights/2015/01/08/ohio-education-ranking.html

[4] Chamber of Commerce, "Leaders & Laggards" Report card for K-12 education at http://www.leadersandlaggards.org/sites/default/files/LeadersLaggards_Ohio2_0.pdf

[5] State, Local and Federal Fiscal Support for Higher Education per $1000 of State Personal Income, FY1961 to FY2014, Post-Secondary Education Opportunity at www.postsecondary.org

[6] "State Need-Based Grant Aid, 1979 – 2012," Post Secondary Education Opportunity, Volume # 254, August 2013 at www.postsecondary.org

[7] Project on Student Debt, Institute for College Access and Success, http://www.projectonstudentdebt.org/state_by_state-data.php

[8] Rights for Kids Ranking: 2012 at http://rightforkids.org/files/8113/4064/8461/FGA-RightForKidsBook-web-single-pages.pdf

[9] Public Children's Services Association of Ohio, "PCSAO 2014 MBR submission" at http://www.pcsao.org/PCSAOTools/2014/Execs%20Mtng%201-14/PCSAO2014MBRFinancingProposal.pdf

[10] Karen Schulman and Helen Blank, "Turning the Corner: State Childcare Assistance Policies 2014," National Women's Law Center at http://www.nwlc.org/sites/default/files/pdfs/nwlc_2014statechildcareassistancereport-final.pdf

[11] Ohio Department of Transportation, Ohio Statewide Transit Needs Study, 2014 at http://www.dot.state.oh.us/Divisions/Planning/Transit/TransitNeedsStudy/Documents/FindingsSnapshotLetterSize.pdf

do nationally.[12] Yet, Ohio lags national averages on many measures of job creation and business growth:

- **Employment growth lags the nation:** The nation has more jobs now than before the recession, but Ohio has still not caught up to pre-recession employment levels. Nor have more recent job gains matched the national average.[13]
- **Poverty has stayed at high levels:** The share of Ohioans living at the federal poverty level grew slightly from 15.8 percent in 2010 to 16 percent in 2013.
- **Business creation:** Ohio ranks 48th among the states in business creation per 1,000 workers.[14]
- **Low-wage jobs in the economy:** Eleven out of the top twelve largest occupational categories in Ohio pay so little at the median they leave a parent with two kids in or close to poverty.[15]
- **Small business ownership:** We rank 37th in small business ownership rate.[16]
- **Job creation:** Ohio's job growth (weighted by state population) ranked 32nd among the states and District of Columbia in 2014,[17] down from 22nd in 2011.[18]

What the tax cuts have done has been to make our state and local tax structure less fair. After a decade of cuts to the personal income tax, the lowest 20 percent of tax filers, earning less than $18,000 per year, on average, pay 11.7 percent of their income in state and local taxes. The top 1 percent, earning more than $356,000, pay 7 percent on average (5.5 percent if the federal deduction of state and local taxes is taken into account).[19] On average, the wealthiest 1 percent have gotten a state tax cut of $20,000 a year since 2005, while the poorest pay $138 a year more and those in the middle pay $65 a year more.[20]

It is time to make improvements in Ohio's economy and quality of life.

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[12] Calculations based on data from United States Department of Commerce, Bureau of the Census, "State and Local Government Finances: 2011-2012," at http://www.census.gov/govs/local/ and United States Department of Commerce, Bureau of Economic Analysis, "Quarterly Personal Income Tables," as released September 30 2014, at http://www.bea.gov/newsreleases/regional/spi/sqpi_newsrelease.htm. The Commerce Department's measure of personal income excludes capital gains income, so it slightly overstates the actual share of income that state and local taxes represent.

[13] Policy Matters Ohio, "Ohio 2014 Job Growth Was Subpar," Jobwatch, January 23, 2015 at http://www.policymattersohio.org/jobwatch-jan2015 and U.S. Department of Labor, Bureau of Labor Statistics, Current Employment Statistics, at http://www.bls.gov/sae/

[14] Corporation for Enterprise Development, 2015 Assets & Opportunity Scorecard

[15] Ohio Labor Market Information data tools, Occupational Wages and Employment at http://ohiolmi.com

[16] Corporation for Enterprise Development's 2015 Assets & Opportunity Scorecard *(Op.Cit.)*

[17] November 2013 to November 2014. Bureau of Labor Statistics, Current Employment Statistics, Change in total nonfarm employment by state, over-the-month and over-the-year, seasonally adjusted, at http://www.bls.gov/sae/#tables

[18] Aaron Marshall, "John Kasich Says Ohio is number 8 in the nation in job creation, number 1 in the Midwest," Politifact, January 6, 2012 at http://www.politifact.com/ohio/statements/2012/jan/06/john-kasich/john-kasich-says-ohio-no-8-job-creation-no-1-midwe/

[19] Institute on Taxation and Economic Policy, "Who Pays?" at www.whopays.org

[20] Zach Schiller, "The Great Ohio Tax Shift," Policy Matters Ohio, Aug. 18, 2014, pp. 5-6, at http://www.policymattersohio.org/wp-content/uploads/2014/08/MAIN-Tax-changes-since-2005-3.pdf. For more details, see section on tax policy, below.

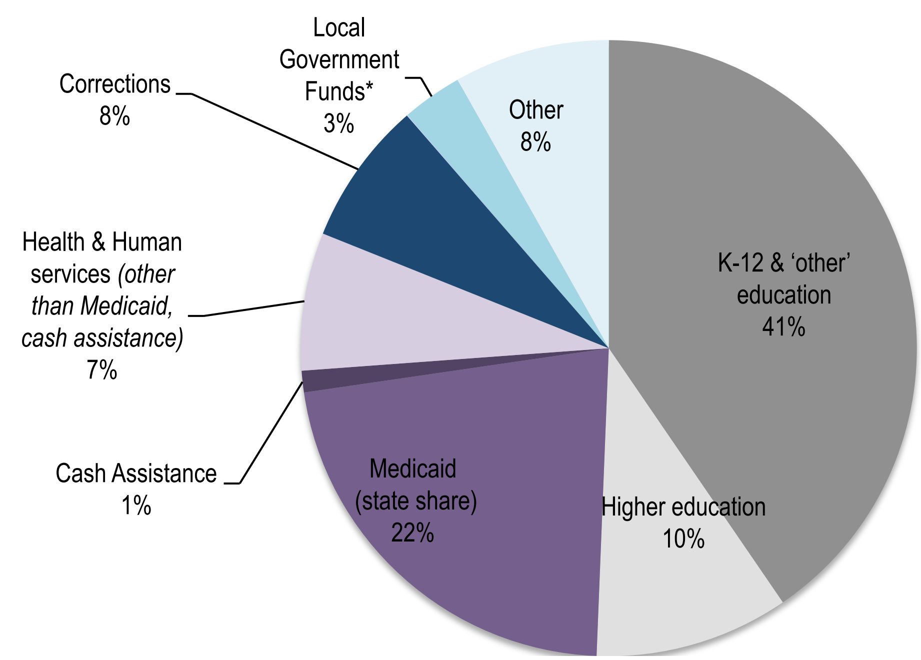
Ohio's General Revenue Fund

Ohio passes a biennial (two-year) budget. Services we depend on, like schools, parks and human services, are mostly funded through the state General Revenue Fund (GRF), where taxpayer dollars are deposited. The last General Assembly appropriated $62 billion for the GRF in the current, two-year budget. State-source revenues, including taxpayer dollars, the lottery profits education fund and local government funds, made up about 70 percent ($43.4 billion). The remainder ($18.5 billion) was federal dollars.

Just over half of the state dollars in the GRF are used for primary, secondary and higher education. Health care – Medicaid – uses another 22 percent. Other human services make up eight percent (including the one percent spent on cash assistance). The rest funds all other services in the GRF, including local government, commerce, agriculture, justice, natural resources, public transit, administration, and other services.

Figure 1

Major categories of investment in Ohio's General Revenue Fund, FY 2014



Source: Policy Matters Ohio based on Legislative Service Commission's Historical Revenue Tables (Table1: State taxpayer funds, Lottery Profits Education Fund and Local Government Funds.)

In inflation-adjusted dollars, with revenues from state sources – including tax revenues, lottery profits education fund and local government funds – Ohio spent 1.9 percent less in FY 2014-15 than in FY 2008-09, the first full year of the recession.

Lawmakers have cut taxes nearly every year since 2005, costing the state about $3 billion a year – nearly a dime out of every budget dollar. These cuts went mostly to businesses, which no longer pay a tax on corporate profits, and affluent individuals, who got most of income tax rate cuts of nearly 29 percent since 2005. The estate tax was eliminated in 2013; the local share of the estate tax brought local governments an average of $231.9 million yearly in the decade before it was eliminated. [21] Other new tax breaks, such as a new tax deduction for business income, are reducing revenue, while new taxes on casinos and racinos have not made up the difference in overall lost revenues during the past four years. (These changes are explained in more detail in the sections on tax policy, below.)

The state got money for tax cuts and spending in the last two budgets by taking funds from cities, other local governments and schools. The state cut the primary revenue sharing program for local government, the "Local Government Fund," in half in the budget for FY 2012-13 and reduced tax reimbursements to local governments - promised when the state eliminated local taxes earlier in the decade - by nearly two-thirds. Tax reimbursements for local health and human services alone dropped by $210 million over the level of funding in the prior budget, for FY 2010-11.[22] In the same period, tax reimbursements for schools dropped by $1.2 billion. (These figures are not adjusted for inflation). Libraries, which saw their funds slashed in the state budget for FYs 2010-11, were trimmed further. The state General Revenue Fund was $1.55 billion higher in both FY13 and FY14 because of these revenue diversions (Figure 2).[23] These changes continued and were increased in the FY14-15 budget as property tax relief was reduced to bring in more dollars to the state.

Figure 2 shows calculations by budget watcher Howard Fleeter on the amounts added to state coffers because of these policy changes. Fleeter's figures show that without the resources redirected from schools and local governments, excluded in baseline revenues below, state tax revenue had not fully recovered from the recession as of FY201

[21] Ohio Department of Taxation, Tax Data Series, Estate Tax, at http://www.tax.ohio.gov/tax_analysis/tax_data_series/estate/publications_tds_estate.aspx

[22] Wendy Patton, "Intensifying Impact," Policy Matters Ohio, November 13, 2012 at http://www.policymattersohio.org/county-budgets-nov2012

[23] Fleeter, Howard, "Fiscal Year 2014: End-of Year Bottom Line: Plus $955 Million," On The Money, A Hannah News Service Publication, Vol. 130, No. 38, July 25, 2014. Fleeter reviewed the effects of the FY2012-2013 changes. The FY2014-2015 budget included another cutback in state aid: Reimbursements to schools and local governments for a share of new and replacement property tax levies were eliminated. The Office of Budget and Management estimated at the time that this would reduce state expenditures and increase local property taxes by $34 million in FY15and $96 million in FY16. See OBM, Estimates of HB 59 Tax Reform Package.

Figure 2

Ohio's tax revenues in the General Fund were boosted by cuts to local governments and schools

(billions of dollars - not adjusted for inflation)

Source: Policy Matters Ohio, based on Howard Fleeter, "Fiscal Year 2014: End-of Year Bottom Line: Plus $955 Million," On The Money, A Hannah News Service Publication, Vol. 130, No. 38, July 25, 2014.

In the next section, we look at investment by category and agency, with a focus on education, health and human services, local government, clean energy and public transit.

Education

K-12 Education: We are spending less on K-12 education now than in the recession. Funding for Ohio's K-12 schools, in direct state dollars through formula funding and tax reimbursements, has fallen in the current, biennial budget by $619.9 million dollars since the budget of FY 2010-11. This figure is not adjusted for inflation, and does not include federal Recovery Act dollars, provided in 2010 and 2011 to help states during the recession. If Recovery Act dollars are factored in, Ohio's K-12 schools are operating with $1.553 billion less than they were in FY 2010-11 (Table 1).

Table 1

K-12 formula funding and tax replacement has fallen since FY2010-11

	FY 2010-11	FY 2012-13	FY 2014-15 (estimate)	FY 2014-15 compared to FY 2010-11	Percent change
School District Formula Aid					
Joint Vocational Formula Aid	$524.0	$526.0	$544.3	$20.3	3.9%
Total Formula Aid	**$13,575.5**	**$13,110.7**	**$14,185.9**	**$610.4**	**4.5%**
TPP Reimbursement - Business	$2,093.7	$1,210.4	$964.0	-$1,129.7	-54.0%
TPP Reimbursement - Public Utility	$156.7	$59.6	$56.0	-$100.7	-64.3%
Total Reimbursements	**$2,250.4**	**$1,270.0**	**$1,020.0**	**-$1,230.4**	**-54.7%**
Formula & Reimbursements	**$15,825.8**	**$14,380.8**	**$15,205.9**	**-$619.9**	**-3.9%**
Federal Stimulus	$933.1	$0.0	$0.0	-$933.1	-100.0%
GRAND TOTAL	**$16,758.9**	**$14,380.8**	**$15,205.9**	**-$1,553.0**	**-9.3%**

Source: Policy Matters Ohio, based on Legislative Service Commission "Budget in Detail" spreadsheets, Ohio Department of Education final payment reports and e-mailed communication with LSC <<date>>

The decrease in funding coincided with a drop in school performance. Ohio has fallen from a ranking of fifth in educational quality in 2010 to eighteenth, according to Education Week. The state gets a C in the annual ranking.[24] We get a B in the Chamber of Commerce's "Leaders and Laggards" education report card, but a D for lack of improvement since 2007.[25]

Charter schools, or "community schools"[26] as they are officially called in Ohio, received more than $900 million in the last school year.[27] Ohio lawmakers approved the creation of charter schools in 1997, and currently about 124,000 students (7 percent of Ohio's school kids) attend 372 charter schools statewide.[28] Ohio also has a growing voucher program that uses public dollars to pay for students to attend private schools. In 2011, about 15,000

[24] Education Week, "Ohio earns a "C" on state report card, ranks 18th in the nation, January 2, 2015 at http://www.edweek.org/ew/qc/2015/state-highlights/2015/01/08/ohio-education-ranking.html

[25] Chamber of Commerce, "Leaders & Laggards" Report card for K-12 education at http://www.leadersandlaggards.org/sites/default/files/LeadersLaggards_Ohio2_0.pdf

[26] According to the 2012-13 annual report for charter, or "community," schools on the Ohio Department of Education's website: "Community schools are public, nonprofit, nonsectarian schools operating independently of any school district, but under a contract with a sponsoring entity whose authority is established in statute or approved by the Ohio Department of Education. While community schools receive state and federal funds, they are purposefully designed to have greater operational autonomy…". http://education.ohio.gov/getattachment/Topics/School-Choice/Community-Schools/Forms-and-Program-Information-for-Community-School/Annual-Reports-on-Ohio-Community-Schools/ODE-2013-Community-Schools-Annual-v4.pdf.aspx

[27] Ohio Department of Education, Community School Payment Reports, 2014 (final) at http://education.ohio.gov/getattachment/Topics/Finance-and-Funding/State-Funding-For-Schools/Community-School-Funding/Community-School-Payment-Reports/FY2014-final-1-payment-updated.pdf.aspx

[28] Thomas B. Fordham Institute, "Ohio Charter School Fact Sheet," August 2014 at http://www.edexcellencemedia.net/public/2014/20140819Ohio-Charter-School-Fact-Sheet.pdf

students used the EdChoice vouchers, although 30,000 were available.[29] In 2014, about 18,000 used the vouchers, although 60,000 were available..[30]

The growing public investment in private education has not yielded a strong return. On average, students in Ohio charter schools perform worse than students in traditional public schools in both reading and mathematics, according to a recent analysis by Stanford University's Center for Research of Educational Outcomes.[31]

Ohio cannot build an equitable future unless children from all walks of life want to attend high-quality public schools.

The 131st General Assembly should reverse the reduction of funding for public education. Legislators should scrutinize the inefficient and poorly performing charter school industry and ensure all kids are being taught in excellent schools.

Higher Education: Ohio ranks poorly across many measures of higher education, including accessibility, cost, the increasing burden of student loans, and the availability of financial aid based on student need. This is bad news for students and Ohioans who need to improve their job skills for better employment opportunities. Ultimately, short-changing higher education hurts us all by undercutting the competitiveness of Ohio's workforce.

Higher education in Ohio remains expensive, even though our tuition and fees have not increased as quickly as in other states. Last year tuition and fees at Ohio's two-year public institutions were the 12th highest in the nation.[32] Ohio was the 16th most expensive state for four-year colleges and universities.[33]

In his October 31, 2014, letter to Ohio's budget director, Tim Keen, about priorities for Ohio's system of higher education, Ohio Board of Regents Chancellor John Carey challenged the state to make higher education more affordable without lowering quality

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[29] Molly Bloom, "Ohio has more vouchers than it knows what to do with," StateImpact Ohio, November 21, 2012 at http://stateimpact.npr.org/ohio/2012/11/21/ohio-has-more-vouchers-than-it-knows-what-to-do-with/

[30] Catherine Candisky, Vouchers available to more Ohio students, Columbus Dispatch, January 20, 2015 at http://www.dispatch.com/content/stories/local/2015/01/20/vouchers-available-to-more.html; also Benjamin Lanka, "As Ohio Vouchers Expand, Thousands Remain Unused, Cincinnati Enquirer, January 24, 2015 at http://www.cincinnati.com/story/news/education/2015/01/24/ohio-vouchers-expand-thousands-remain-unused/22292553/; Ohio School Choice at http://www.scohio.org/school-options/choose-school-options/private-school/ohioscholarships/edchoice.html and Denise Smith Amos, "Ohio voucher program expands to include more students," Cincinnati.com, August 24, 2013 http://www.scohio.org/school-options/choose-school-options/private-school/ohioscholarships/edchoice.html

[31] Patrick O'Donnell, "Ohio's charter school performance is "grim" and needs state attention, Stanford researcher tells the City Club," Plain Dealer, December 10, 2014 at http://www.cleveland.com/metro/index.ssf/2014/12/ohios_charter_school_performan.html

[32] The College Board, Annual Survey of Colleges, Tuition and Fees by Sector and State over Time, available at http://trends.collegeboard.org/college-pricing/figures-tables/tuition-fees-sector-state-time#Key Points, all in 2014 dollars. Covers 2014-15.

[33] *Id.*

and to increase the number of students who complete college .[34] Initiatives like those proposed by the Chancellor – funding for on-line programs for adults and student success grants to help institutions adopt innovative programs to increase attainment, may help some students earn their degrees and some campuses to improve retention rates. But these ideas fall short of addressing the fundamental problems with higher education in Ohio: prices are steep and need-based financial aid is low. We need aggressive reinvestment in "State Share of Instruction" (SSI), which supports classroom instruction and helps keep tuition costs down. And we must have restoration and expansion of need-based financial aid, which helps low-income students pay for and complete college.

One factor behind the higher education sticker shock is long-term, diminished funding for SSI. As Chancellor Carey rightly noted, boosting the state share of funding for instruction *"….is a priority to help keep the cost of college affordable; any reduction in state support has historically led to corresponding increases by the schools in tuition and fees.*"[35]

In inflation-adjusted dollars, Ohio is spending less in the current budget for SSI than in the budget for FY 2008-09. Because Ohio institutions are already pricey, capping tuition and fees has not been enough to make higher education affordable. Increased state funding of instruction can help bring student costs down.

Lack of need-based aid makes college less affordable for thousands of would-be students and makes it harder for those in college to finish. Ohio has one need-based aid program, the Ohio College Opportunity Grant (OCOG). Its funding was slashed during the 2009 recession. New rules mandating that Pell awards be deducted from institutional tuition and fees before calculating OCOG amounts were also implemented. These changes reduced OCOG and eliminated eligibility for students at community colleges and branch campuses.

Given insufficient state support and decreasing financial aid, the loan burden for Ohio students is high. Students at four-year colleges and universities in Ohio have the 11th-highest average debt in the nation.[36] Price and debt matter to all students, but they are more likely to keep low-income students from attending and succeeding.[37]

If the Kasich administration is serious about helping more people graduate, need-based aid, should be restored. Boosting OCOG from the current annual level of about $90 million to the 2008 level of $148 million and reopening eligibility for students at two-year public schools would help low-income and working students get into and through community college, one of the least expensive pathways to higher education and skills.

Underfunding higher education has consequences for all of us. High-wage states are

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[34] Budget letter from Chancellor John Carey to Budget Director Tim Keen, dated October 31, 2014, obtained through Gongwer Ohio.
[35] *Id.*
[36] Project on Student Debt, Ohio data, for 2012-13, available at http://projectonstudentdebt.org/state_by_state-view2014.php?area=OH.
[37] *See,* Nathan E. Lassila, "Effects of Tuition Price, Grant Aid, and Institutional Revenue on Low-Income Student enrollment, Journal of Student Financial Aid, 2011.

typically states with a well-educated workforce.[38] Increases in state productivity are also strongly linked to how well-educated the workforce is.[39] Ohio ranks 32nd among states for the number of adults with an associate's degree or more.[40] We could do better by reinvesting in State Share of Instruction and the Ohio College Opportunity Grant.

Early care and education: Only 7 percent of Ohio's at-risk four-year olds are in state-funded early learning programs. The $32 million added to the budget for FY 2014-15 expanded early learning slots but outcomes were disappointing. The new slots were for half days, but low-income families eligible for the program need full-day child care while the parents are at work.[41] Quality early learning opportunity for children from low-income families is critical to boosting their opportunities as well as to ensuring the state has the workforce it needs – but it must also serve as childcare for working parents.

All of Ohio's three- and four-year-olds of low- and moderate-income families should have access to the educational opportunity they need to enter kindergarten ready to learn and keep up with their peers in reading and math. They also need quality care while their parents work. Ensuring high quality preschool for young children should be a priority for policymakers. Childcare and early learning need to be addressed together, and meaningful steps will require more money.

Childcare cracks and canyons: The childcare "cliff " describes a situation in which a parent cannot take a raise or a higher-paid job for fear of losing valuable childcare assistance. In Ohio, few program participants make it to the cliff.[42] Most fall through cracks in the program (they lose eligibility because of too many days missed, verification notices lost, lack of proper documentation or other slip-ups in paperwork or program rules). Then they find themselves in the canyon: they can't re-enroll unless they take a job earning less than about 125 percent of poverty (in 2014, a parent of two could earn no more than $24,420 or $11.71 per hour.).[43] To help parents keep jobs and ensure their kids have stable care, the 131st General Assembly needs to:

- **Eliminate the canyon:** Only 3 other states had eligibility lower than Ohio for getting into the childcare program in 2013.[44] If eligibility is raised – to 130 percent of poverty, as proposed in Director Cynthia Dungey's budget letter[45] – Ohio would

[38] Noah Berger and Peter Fisher, "A Well-Educated Workforce is Key to State Prosperity," Economic Policy Institute, August 2013, available at http://www.epi.org/publication/states-education-productivity-growth-foundations/.
[39] *Id.*
[40] Working Poor Families Project, Population Reference Bureau, analysis of 2012 American Community Survey data. In Ohio 37.7 percent of adults between the ages of 25 and 54 have at least an associate's degree.
[41] Gongwer Ohio, "Senator Peggy Lehner to continue efforts to fund, overhaul early childhood programs, 11/6/2014 at http://www.gongwer-oh.com/programming/news.cfm?article_ID=832150205#sthash.9nmNhvel.dpbs
[42] Policy Matters Ohio, based on data and analysis provided by the Ohio Department of Job and Family Services office of Communications, dated April 4, 2014.
[43] Schulman and Blank, *Op.Cit.*
[44] Schulman and Blank, *Op.Cit.*
[45] Letter fro ODJFS director Cynthia Dungey to OBM Director Tim Keen, October 31, 2014, obtained from Gongwer-Ohio.

still be among the bottom 10 states for initial eligibility.[46] Ohio should get ahead of the curve by restoring initial eligibility to 200 percent of poverty. This would give some help to a single parent with two young kids earning $30,000-$39,000.

- **Fix the cracks with continuous, 12-month childcare eligibility:** Some changes in rules within the public childcare program could make it work better for families in the hyper-flexible, churning low-wage labor market. It is easy for parents to lose eligibility as hours, shifts, and even jobs change, but kids need stability to learn and develop emotionally. Stability can be improved by making sure a child can stay in the same classroom for a full year regardless of what happens to a parent's job or schedule. The budget bill of 2014 improved the program by allowing three months of continuous eligibility. This was a step forward, but given the instability of jobs that pay low wages, we need to do better than that.

Local Government

Ohio is more dependent on local government public services than most states. For example, Ohio ranks last in state funding for children's services, and first in local financing of these services. The state historically provided flexible funding to local government, allowing localities to address their own needs. This fiscal partnership dated back to the establishment of the Local Government Fund in the 1930's. Even before that, inheritance tax revenues were shared between state and local governments. Since 2012, the state has partially dismantled this fiscal partnership: it cut Local Government Funds, eliminated most tax replacements for local taxes the state abolished in the past decade, and did away with the estate tax (which has been primarily paid by the wealthy). It ended the property tax rollback (property tax relief) for new levies. Overall state aid to local government – across many program areas and not including loss of the estate tax – is down by $418 million a year compared to 2010. Adjusted for inflation to 2013 dollars, the loss is $813 million.[47]

Ability to raise local taxes languishes: Many Ohio communities have not recovered from the recession. The property tax base – the value of homes, business property and other real estate that a locality can tax – will not reach its 2008 level until at least 2017.[48] State funding cuts have worsened the situation. Localities employ 41,100 fewer people than they did in November 2007. Almost a third of Ohio communities and counties had fund reserves below recommended levels or, in the case of townships, expenditures that exceeded revenues, in 2012. Many towns and cities have increased local taxes to try to compensate for state funding cuts and lagging tax bases.

The structure of state and local services and financing depends on a strong state and local fiscal partnership. This partnership should be restored, not further dismantled, in the FY 2016-17 budget.

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[46] Budget letter of Director Cynthia Dungey to OBM Director Timothy Keen, dated October 31, 2014, obtained through Gongwer-Ohio. 2013 eligibility levels of 50 states obtained at the data tool section of the National Center for Children in Poverty Website at http://www.nccp.org/tools/policy/

[47] Wendy Patton and Zach Schiller, "Trouble at City Halls: Localities struggle with damaged tax base, state cuts," Policy Matters Ohio January 7, 2015 at http://www.nytimes.com/2013/03/02/opinion/the-business-case-for-early-childhood-education.html?_r=0

[48] *Id.*

Foreclosure, demolition and rehabilitation: Though the pace of foreclosures has slowed since the height of the foreclosure crisis, the rate is still nearly double what it was before the run-up in predatory lending. Ohio faces an enormous challenge in recovering. In Cuyahoga County alone, foreclosures have vacated 24,000 homes, of which 10,000 or more need to be demolished. The projected cost: more than $100 million for residential properties alone.[49] A conservative estimate by the Thriving Communities Institute found that Ohio had 50,000 vacant homes that required demolition. Even with local initiatives, resources from the federal government, and money from a national mortgage settlement, the cost of dealing with this blight will run hundreds of millions of dollars, which presents a challenge to the budgets of many jurisdictions.

The state, with expertise and wherewithal in bond financing, home rehabilitation, weatherization and brownfield redevelopment, is well positioned to develop a state and local partnership to repair neighborhoods and communities damaged in the recession. This could rebuild local wealth, create jobs, and restore blighted property to use. At the same time, it could boost local tax bases – a winning combination.

Health and human services

The Kasich Administration expanded Medicaid, a tremendous benefit to low-income families. The need for health insurance for low-income Ohioans has been demonstrated by strong enrollment in Medicaid expansion, which exceeded official expectations by 24 percent.[50] At the same time, other decisions of the Kasich Administration and the General Assembly have worked against the poor.

Ohio's low-wage economy provides a backdrop for discussions of public assistance and poverty going on in various new initiatives, offices, committees and commissions over the fall. Table 2 shows the dozen largest occupational categories in Ohio. Only one – registered nurse – provides a living wage that allows a family of three to be self-sufficient anywhere in Ohio. Median wages of the other occupations listed in Table 2 leave a family of three living in or close to poverty.

[49] Vacant and Abandoned Property Action Council, "Housing and Community Development Recommendations for Cuyahoga County Executive Armond Budish," Nov. 4, 2014 and Thriving Communities Institute (http://www.thrivingcommunitiesinstitute.org), cited in Wendy Patton and Zach Schiller, "Hard Times at City Halls: Communities struggle with damaged tax base, state cuts," January 7, 2015 at http://www.policymattersohio.org/hard-times-jan2015

[50] Jon Honeck, A Tale of Three Programs: Participation in SNAP and OWF Falls as Medicaid Enrollment Grows, Center for Community Solutions, *State Budgeting Matters* Volume 11, Number 1 January, 2015 at http://ccs.memberclicks.net/assets/docs/State_Budgeting_Matters/2015/sbmv11n1_taleof3programs_honeck_final011315.pdf

Table 2			
Only 1 of Ohio's 12 largest job categories pay enough at the median for a parent with two children to be self-sufficient			
Occupation	**Employment**	**Median Wage**	**Median Annual Wage**
Combined Food Prep. & Serving	162,750	$8.85	$18,407
Retail Salespersons	156,010	$9.90	$20,600
Registered Nurses	124,400	$29.64	$61,644
Cashiers	115,130	$9.19	$19,108
Office Clerks (General)	99,250	$13.61	$28,292
Laborers, Freight Stock, Material Movers	98,510	$11.12	$23,129
Waiters and Waitresses	85,230	$8.86	$18,437
Janitors & Cleaners (not Maids)	82,340	$10.43	$21,695
Stock Clerks & Order Fillers	77,870	$11.16	$23,210
Customer Service Reps.	77,630	$15.26	$31,745
Nursing Assistants	69,390	$11.55	$24,023
Home Health Aides	68,900	$9.71	$20,208

Source: Policy Matters Ohio, based on data from the Ohio Department of Job and Family Services "Occupational Employment and Wages" data tool, obtained 1/24/2015.
Note: A family of three reaches self-sufficiency in some counties in Ohio at 200 percent of the federal poverty level ($39,580). However, in metropolitan areas, the basic family budget for a safe, decent yet modest life can be much higher. A basic family budget in the Cleveland area is 289 percent of poverty. In the Cincinnati area, it is 282 percent of poverty (Economic Policy Institute Basic Family Budget Calculator at http://www.epi.org/resources/budget/)

Health of Ohioans: Ohio ranks 47th among 50 states in the Health Policy Institute of Ohio's dashboard of health indicators.[51] Here are some ways the General Assembly can ensure Ohio becomes healthier:

- **Reauthorize Medicaid coverage for low-income adults:** The Affordable Care Act enabled working poor adults earning up to 138 percent of poverty (about minimum wage for a worker getting between 30 and 40 hours a week) to be insured by Medicaid. In Ohio, 450,000 newly eligible adults signed up for coverage last year.[52] The federal government is paying the entire cost of insuring this group through the end of 2016 and will continue to pay 95 percent in 2017.[53] The most

[51] Health Policy Institute of Ohio, "HPIO health value dashboard," at http://www.healthpolicyohio.org/tools/dashboards/
[52] Ohio Department of Medicaid, Caseload report for November 2014 at http://medicaid.ohio.gov/Portals/0/Resources/Reports/Caseload/2014/11-Caseload.pdf
[53] By contrast, the federal government pays 63 percent of the costs of other enrollee groups in Ohio.

important decision the General Assembly will make this year will be to maintain coverage of the Medicaid expansion group. Ensuring everyone can see a doctor to prevent illness or control chronic disease is essential to improving health in the state.

- **Don't create barriers to care:** Some states ask the federal government to waive standard Medicaid rules for the Medicaid expansion population. Research dating back to the 1970s demonstrates some changes these states seek, like requiring co-pays and premiums, are barriers to low-income families taking advantage of health care services.[54] These and other things that add cost or administrative complexity should not be incorporated in Ohio's Medicaid program. In particular, proposals to attach work requirements to Medicaid are counter-productive. Ohio's human services system has struggled to meet work requirements under federal programs. Although poverty rose during the recession and has not declined since 2010, the number of people assisted in through federal food and cash assistance programs administered in Ohio has declined precipitously because we lack work slots to enable recipients to meet these requirements.
- **Pay health care workers a living wage:** Home health care is one of Ohio's largest occupational categories, with about 68,900 workers. But the median hourly wage of $9.71 is low.[55] Medicaid dollars support a significant share of the Home Health Care workforce. These jobs are so low-paid that workers frequently rely on public benefits (food assistance, Medicaid and public childcare) to make ends meet.[56] The agencies that employ home health care aides report high annual turnover rates. The churning workforce harms quality of care for elderly and disabled Ohioans. Studies show raising wage rates stabilize care by allowing workers to stick with the job and the clients they care for.[57] A major player in the home health care field, the state could boost wages throughout the industry and improve care by raising the reimbursement rates.

Public health: Ohio's most glaring public health problem is high infant mortality. Ohio ranks 48th in the nation for infant mortality and 50th in the nation for African-American infant mortality in 2011, the latest year available, according to the Centers for Disease Control.[58] The causes are complex. While outcomes of births in hospitals are similar in

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[54] Wendy Patton, "Medicaid expansion benefits Ohio," Policy Matters Ohio, October 21, 2014 at http://www.policymattersohio.org/medicaid-oct2014

[55] Ohio Labor Market Information, Occupational Employment and Wages data tool at http://ohiolmi.com

[56] Rita Price & Ben Southerly, Home care for vulnerable Ohioans leans hard on poorly paid workers, The Columbus Dispatch, December 15, 2014 at http://www.dispatch.com/content/stories/local/2014/12/15/low-wage-care.html

[57] Farida K. Ejaz et. al, "Examining Direct Service Worker Turnover in Ohio," Ohio DSW initiative, February 2013 at https://osuwmcdigital.osu.edu/sitetool/sites/odswpublic/documents/EjazFinalUpdatedReportv3(1).pdf

[58] "Ohio ranks 48th in the nation for infant mortality and 50th in the nation for African-American infant mortality in 2011, the latest year available, according to the Centers for Disease Control", Plain Dealer editorial board, December 29, 2014 at http://www.cleveland.com/opinion/index.ssf/2014/12/curbing_infant_mortality_has_t.html

America to other developed countries with much lower infant mortality rates, the gap widens post-delivery.[59]

- **Fund infant mortality**: Techniques proven to help babies survive are not all covered under Medicaid. Senators Charleta Tavares and Shannon Jones introduced legislation in 2014 (Senate Bill 280) to provide funding for evidence-based interventions to lower Ohio's infant mortality rate. The legislation included an appropriation of $25 million for community-based services through the Ohio Department of Health for services that are not covered by Medicaid.[60] The budget bill for 2016-17 should incorporate and fund the provisions of SB 280.
- **Fund other public health needs:** The October 31 budget letter for the Ohio Department of Health identified a set of needs, including funds for infant mortality, for emergencies like the Toledo water crisis or emerging epidemics, for sewage systems, infectious disease surveillance and lab facilities to test for certain infectious disease agents. Director Richard Hodges proposed using 10 percent of his general fund budget – about $8.5 million a year – for these needs, and more.[61] This is a step in the right direction, but far too low.

Human services: The Mid Biennium Review (MBR) included new initiatives aimed at requiring or helping recipients of public assistance get jobs to reduce reliance on public assistance. The problem is, many enrolled in public assistance programs like Medicaid, food aid, childcare and even cash assistance have a job, but it pays too little to put dinner on the table, see a doctor, or pay for childcare. Reducing public assistance could do harm in today's low-wage economy.

The share of Ohioans living in poverty rose from 15.8 percent of the population (about 1.8 million people) in 2010 to 16 percent in 2013.[62] Yet some policies and programs in Ohio that are supposed to serve the neediest have worked against them.

Ohio's cash assistance program, Ohio Works First, has been cut almost in half since January of 2011. The number of people receiving assistance was reduced by nearly 116,000 as of December 2014.[63] Yet, the poverty rate has not shown a corresponding decline.

The state's own assessment found the decline happened because many enrollees were not

[59] Alice Chen, Emily Oster and Heidi Williams, Cited in Christopher Ingraham, "Our Infant Mortality Rate is a National Embarrassment," The Washington Post (Wonkblog), September 29, 20154 at http://www.washingtonpost.com/blogs/wonkblog/wp/2014/09/29/our-infant-mortality-rate-is-a-national-embarrassment/
[60] "Invest in Children" Infant Mortality Fact Sheet at http://www.investinchildren.cuyahogacounty.us/pdf_investinchildren/en-US/2_11_14_InfantMortalityFactSheet.pdf
[61] Budget letter of Director Richard Hodges to OBM Director Tim Keen for the FY 2016-17 budget, October 31, 2014, obtained through Gongwer-Ohio.
[62] Thomas Gabe, Poverty in the United States: 2013, Congressional Research Service, September 25, 2014 at https://www.fas.org/sgp/crs/misc/RL33069.pdf
[63] Athens County Job and Family Services, based on Business Information Channel data for January 2011 through December, 2014.

able fulfill work requirements. The state has to make sure at least half of adults enrolled in cash assistance that can work, do work at least 20 hours a week. During the recession, many people couldn't find a job. Local human service delivery agencies couldn't place them, either.[64] Some counties offer a sort of volunteer work setting for people who cannot find a job, but even in those places, there may not be enough "slots" for everyone who needs cash assistance.[65] In addition, some were not able to work due to illness, lack of transportation, lack of childcare or other barriers.

If federal work participation rates are not met, the federal government imposes a fine. The Ohio Works First program is delivered at the local level in Ohio, by county departments of job and family services. The counties are responsible for paying the fine. The federal penalty for Ohio's inability to achieve federal work requirements during and after the recession is now more than $200 million. [66]

Counties are ill-prepared to pay. County human service levies lost millions of dollars in tax reimbursements[67] in the budget for FY 2012-13.[68] County commissioners lost half of their Local Government Fund and most tax reimbursements in the same budget. Other state budget cuts have affected many programs delivered locally.[69]

The financially stressed system responded to the fiscal threat of the penalty by strict enforcement of the rules, which led to sharp decline in number of people they were helping.

To restore a service delivery system focused on helping clients succeed and become self-sufficient, the legislature could work with the Administration in several ways:

- **Get the penalty waived or the state pays it off:** The Kasich Administration should work with Ohio's congressional delegation to get the federal penalty forgiven, since Ohio has come into compliance with the work participation rules and has been in compliance for several years. If the federal government will not remove the penalty, the state should pay the fine. This would allow the counties to approach the Ohio Works First program with a primary goal of helping people succeed at the work requirement instead of fear of missing the work requirement mark.

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[64] Public Consulting Group, "Ohio Works First Participation Improvement Project," 5/2013 (p.9). cited in Wendy Patton, "Shrinking aid for Ohio's poorest families," Policy Matters Ohio, November 2013 at http://www.policymattersohio.org/shrinking-nov2013

[65] *Id*.

[66] Joel Potts, Executive Director of Ohio Job and Family Services Directors Association, interview of 1/27/3015.

[67] The state reimbursed schools, local governments and special district levies for revenues lost when the tangible personal property tax was eliminated on businesses and reduced on public utility property in the past decade.

[68] See Wendy Patton, "A Thousand Blows: State Slashes Funding for a Wide Swath of Local Government Services," Policy Matters Ohio, September 2, 2011 at http://www.policymattersohio.org/a-thousand-blows-state-budget-slashes-funding-for-a-wide-swath-of-local-government-services-2and "Intensifying Impact: State budget cuts deepen pain for Ohio communities," November 13, 2012 at http://www.policymattersohio.org/intensifying-impact

[69] "Factsheet: Funding Ohio Communities," Ohio Office of Budget and Management, 2013, cited in Patton & Schiller, "Hard Times at City Halls," (Policy Matters Ohio) *Op.Cit.*

- **Boost support for county human service administration:** State and federal spending in Ohio on administration and systems for the TANF program declined in inflation-adjusted dollars by 34.7 percent between 2008 and 2012 (nationally, the decline was 12.4 percent), according to data compiled by the Center on Budget and Policy Priorities, [70] Sufficient funding for county administration and services should be restored, on an ongoing basis, with a goal of supporting adequate staff to focus on enrollees and help them move out of financial crisis.

Federal food assistance for low-income adults: Of the 1.77 million Ohioans assisted in December of 2014 by the federal 'Supplemental Nutritional Assistance Program" (SNAP – formerly known as food stamps), 1.47 million are children, seniors or disabled.[71] Parents are also assisted under this program.

Rules governing the federal "Supplemental Nutrition Assistance Program" (SNAP, formerly known as food stamps) restrict food aid to three out of every 36 months for adults. There are exemptions for people who work at least 80 hours a month, as are adults with minor children, the elderly and the disabled. The federal government also offers statewide exemptions for states with weak economies. Ohio has been offered this waiver on a state-wide basis since 2007. The Administration turned the waiver down for 71 of Ohio's 88 counties in 2014 and again in 2015. This means additional food aid is needed through state dollars to help the needy who are now filling food banks across Ohio.

To help all those who need food aid, and to make sure as many people as possible can fulfill the work requirements of the SNAP program, Ohio's legislators should:

- **Take the waiver:** Direct the Governor to accept the state-wide waiver of work requirements for all needy people to get food stamps in the current year.
- **Maximize the waiver for future years:** Direct the administration to maximize the waiver for 2016 and 2017. The USDA offers several different ways of calculating economic distress for a waiver of the work requirements. A request can be narrow or wide. Because of slow regional economies and sharp cuts to local government and local human service agencies, the state should maximize federal aid for low-income and needy Ohioans.

The Ohio Association of Foodbanks has a set of budget recommendations that we endorse:

- Provide $20 million per year ($40 million) to the Ohio Association of Foodbanks to support continuation and expansion of the Ohio Food Program and Agricultural Clearance Program.
- Provide continued funding for the Summer Weekend Meals and Innovative Home delivered meals programs to provide meals to low-income children during the summer months when they are without school breakfast and lunch meals.
- Increase state GRF funding to $10 million per year for a specific employment and training program under SNAP to help adults sharpen skills and succeed at jobs.

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[70] Center for Budget and Policy Priorities, TANF-net database.
[71] E-mail from Ben Johnson, Deputy Director of Communications at the Ohio Department of Job and Family Services, dated December 29, 2014.

- Provide legislative authority to the County Departments of Job and Family Services to use all other provisions within the SNAP program to expand federal food aid for everyone who needs it.[72]

Adult Protective services: Mistreatment, neglect and abuse of elderly or disabled adults has been called a 'silent epidemic.' Around 15,000 cases of elder abuse are reported in Ohio every year, but many cases go unreported. A 2010 statewide assessment of family domestic violence in Ohio estimated that about 115,000 seniors experience abuse, neglect or financial exploitation at the hands of a caregiver.

Ohio's administrative code mandates provision of adult protective services (APS). The current budget funded adult protective services at $500,000 a year. A $10 million, one-time innovation grant fund was approved in the 2014 budget bill ("Mid-Biennium Review"). A statewide data collection system, a hotline and training curriculum will be developed. Plans of interdisciplinary cooperation and memoranda of agreement are to be signed and counties will receive a one-time payment of $20,000 for joining the process. An "Innovation Fund" for APS was created to encourage collaboration and shared service and to enhance system capacity. Grants of up to $150,000 will be provided to develop replicable models for improving the APS system. Grants of $35,000 each will be available for individual county 'capacity development.'[73]

This is was a good start. But the funding is very low. It will not build the staffing needed to help vulnerable elders. Annual appropriations of $20 million, as recommended by the Ohio Coalition for Adult Protective Services (OCAPS), would allow Ohio counties to address current and rapidly growing future needs.

Children's Services: Ohio's county-administered children services agencies strive for better outcomes for those they serve, employing evidenced-based practices, technology, and regular in-service training to keep children safe and families stable. Nevertheless, Ohio ranks last in the nation in overall State investment for child welfare.[74] Eight percent of Ohio child welfare services are financed by the state. The remainder is split between local and federal funds, but financing is not equal across Ohio's 88 counties, because just 46 counties support a local children services property tax levy.[75] In counties that have such a levy, the average funding is $368 per child under 18 in the county. In counties without a local levy, the average funding is $108.[76]

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[72] According to the Ohio Association of Food Banks, the state has " banked months of exemptions" worth more than $76 million, which can provide additional months of food aid to adults who cannot get work. In addition, up to 15 percent of those without work may be exempted. Ohio needs to make sure all counties are using these provisions to expand food aid as needed.

[73] ODJFS, "Adult Protective Services Development Opportunities Application Packet," at http://www.healthtransformation.ohio.gov/LinkClick.aspx?fileticket=EDCEPkTCwZg%3D&tabid=251

[74] Public Children's Services Association of Ohio, "PCSAO 2014 MBR submission" at http://www.pcsao.org/PCSAOTools/2014/Execs%20Mtng%201-14/PCSAO2014MBRFinancingProposal.pdf

[75] E-mail from Scott Britton, Associate Director of PCSAO, 1/26/2015.

[76] Public Children's Services Association of Ohio, "PCSAO Fact Book for 2013-14" at http://www.pcsao.org/PCSAOFactbook/11thEdition.html

Between 2010 and 2014, the state's GRF sources for Children Services had been reduced by close to 20 percent.[77] Children Services were hard hit because of cuts to the state Child Protection Allocation and the state portion of Adoption Assistance.[78] Cuts to local levies from the state's FY 2012-13 cuts of tax reimbursements reduced local children services levies by another $39 million.[79]

A $10 million innovation fund was established for Child Protective Services in the SFY Mid Biennium Review: $3.2 million was allocated to all 88 counties as a match to federal funds with $6.8 million allocated through a competitive grant. Many counties will not receive those funds. It is not known if this partial restoration of state cuts will be continued or if it is a one-time appropriations. If a partial restoration, funding is needed to be allocated through the state child protection line so that all counties can receive founding.

Other Services for Working Families

Unemployment compensation: Ohio's unemployment compensation (UC) trust fund – the money that pays benefits to unemployed Ohioans – has been broke for six years. Ohio currently owes $1.38 billion to the federal government,[80] which was borrowed to pay UC benefits. The state has paid more than $218.2 million in interest on that debt, and the Department of Job & Family Services has estimated another $54.5 million will be paid by October 2017.[1] At a time when the state has so many unmet needs, it is illogical to be forking over tens of millions of dollars in such interest payments. We need to pay back the debt and build a reserve for the next downturn, while protecting this critical support.

Ohio's unemployment compensation system is paid for by employer taxes. Ohio underfunded its system for many years, so that the trust fund was ill-prepared for the 2007-2009 recession. The recession caused the number of unemployed men and women to skyrocket, increasing benefits paid out. Ohio's unemployment compensation benefits are not overly generous – they average about $320 a week, and relatively fewer unemployed Ohioans qualify for benefits than do jobless workers in most other states.[81]

The key problem is that employer contributions have not been sufficient, leaving the fund ill prepared for economic crisis, when benefit levels increase. Ohio employers pay taxes on only the first $9,000 in each employee's annual wages, or less than a quarter of wages paid. That amount, which is well below the national average, hasn't been raised since 1995; if it

[77] LSC Budget in detail for line items 600533, 600321, 600423, 600528, 600541.
[78] Public Children's Services Association of Ohio, "PCSAO Fact Book for 2013-14" at http://www.pcsao.org/PCSAOFactbook/11thEdition.html
[79] Wendy Patton, "Intensifying Impact: State budget cuts intensify pain for communities," Policy Matters Ohio, November 2012 at http://www.policymattersohio.org/intensifying-impact
[80] U.S. Department of Labor, Employment & Training Administration, Trust Fund Loans, available at http://workforcesecurity.doleta.gov/unemploy/budget.asp#tfloans
[81] U.S. Department of Labor, Employment & Training Administration, Unemployment Insurance Data Summary, 3rd Quarter 2014, at http://workforcesecurity.doleta.gov/unemploy/content/data_stats/datasum14/DataSum_2014_3.pdf and Zach Schiller, "Ohioans Face Tough Test to Receive Unemployment Benefits," Policy Matters Ohio, Jan. 25, 2013, at http://www.policymattersohio.org/unemployment-jan2013

had kept up with inflation since then, it would be more than $14,000. The state has not met generally accepted solvency standards for decades.[82]

While it's not unreasonable that Ohio had to borrow during this period of high and long-term unemployment, clearly Ohio's UC solvency problem was a product of poor policy, not just a poor economy. After years of underfunding this crucial system, Ohio needs to face the need for more adequate financing and in particular, a higher taxable wage base.

Public transit: Ohio's public transit system is severely underfunded. Routinely, less than 1 percent of the state's transportation dollars go towards public transit, earning Ohio the rank of 47th in the nation for its commitment to public transit.[83] In 2014, the state of Ohio spent just $27.3 million of the state's $3 billion transportation budget on public transit ($7.3 million in general revenue funds and $20 million in flexible federal transportation dollars).[84] Nearly all of the $3 billion went towards roads and highways.[85]

Due to persistent underfunding of Ohio's public transit system over decades, The Ohio Department of Transportation's (ODOT) statewide *Transit Needs Study* found an additional $563 million is needed in 2015—$273.5 million is needed just to address system backlog and bring Ohio's transit fleet to a state of good repair; $289.1 million is needed to expand transit service to meet current, unmet demand ($192.4 million for vehicles and infrastructure, $96.7 million for operating costs).[86]

Creating a viable statewide transit system requires a state investment, which will boost our economy and ridership. For public transportation to be a viable option in Ohio, it must be reliable, getting people where they need to go, when they need to get there, in a timely fashion. Urban riders use transit primarily to get to work. Rural transit ridership is made up largely of the elderly and those with disabilities who use it to get to the doctor, the grocery store and to meet other critical needs. Nearly 40 percent of those who use public transit to get to work depend on it as their only means of transportation.[87] This is because cars are expensive to own, operate and maintain. For low-income families they are often prohibitively expensive. For the elderly and those with disabilities, driving a car may not be an option at all. Younger generations, on the other hand, have shown a preference for living in neighborhoods where they can access a good public transit system, even when driving is also an option for them.

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[82] Zach Schiller, "How Ohio Has Underfunded Unemployment Compensation," Policy Matters Ohio, Nov. 24, 2014, available at http://www.policymattersohio.org/2014uc

[83] National Resource Defense Council, *Fighting Oil Addiction: Ranking States' Gasoline Price Vulnerability and Solutions for Change* (November 2012)(pg 12, final column ranking transit spending prioritization) at http://www.nrdc.org/energy/states/files/oil-vulnerability-nov-2012.pdf.

[84] Ohio Department of Transportation, Ohio Statewide Transit Needs Study, 2014 at http://www.dot.state.oh.us/Divisions/Planning/Transit/TransitNeedsStudy/Documents/FindingsSnapshotLetterSize.pdf

[85] Ohio Legislative Services Commission, *Budget in Detail,* http://www.lsc.ohio.gov/fiscal/transportation/transbudget130/budgetindetail-hb51-en.pdf

[86] Ohio Department of Transportation, *Op.Cit.*

[87] 2013 American Community Survey, Means of Transportation to Work

Ohio's 131st General Assembly should pay heed to ODOT's *Transit Needs Study,* and provide the requested $2.5 million in General Revenue Funds in order to develop a longer term funding strategy through improved performance metrics and guidelines, better coordination between human service and public transportation, and grants to encourage transit technology improvements and better passenger information systems.

Low-income Home Weatherization: For low-income families, energy costs can be a financial burden. Roughly one in three Ohio households, 1.4 million in all, are considered "cost burdened" by the U.S. Department of Housing and Urban Development standards, paying more than 30 percent of their annual income on housing and utilities combined.[88] After rent and utility bills, these families have difficulty covering the cost of other necessities such as food, clothing, transportation and medical care. According to the 2013 Home Energy Affordability Gap Report, more than 300,000 Ohio households pay over 30 percent of their annual income on their home energy bills alone.[89]

Fortunately, Ohio has one of the best programs in the nation for weatherizing buildings where low-income families live. Ohio's Home Weatherization Assistance Program (HWAP) reduces energy costs for low-income households and makes it easier for them to meet their basic needs, while also making homes more comfortable and reducing pollution. Due to inadequate state, federal and utility funding, however, we weatherize far too few homes—just 1.2 percent of the 460,000 households that sought emergency utility bill assistance last year received weatherization services. This was far less than one percent of the 1.3 million households technically eligible to receive them.

Ohio would benefit greatly from increased state, federal and utility investments in weatherization. They more than pay for themselves. According to the U.S. Department of Energy, every $1 invested in HWAP generates $2.51 in energy savings and related benefits—$1.80 in reduced energy bills plus 71 cents in benefits to ratepayers, households, and communities. Weatherization not only reduces utility bills for low-income households, it also shrinks utility debt and lowers rates for all households, improves the health and safety of homes, lessens reliance on imported energy, reduces harmful emissions, and increases employment. For every million dollars invested in weatherization, 52 direct jobs and 23 indirect jobs are created, many of which go to lower-income workers.

Ohio's 131st General Assembly should increase the severance tax in Ohio and devote a portion of the proceeds into Ohio's Advanced Energy Fund.[90] Additional funds should come from reinstating the Advanced Energy Fund surcharge on consumer electric bills. Funds should then be invested in low-income home weatherization and other clean energy programs to help secure Ohio's clean energy future.

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[88] 2012 American Community Survey, Selected Housing Characteristics

[89] *The Home Energy Affordability Gap 2013,* May 2014.

[90] The Advanced Energy Fund is a public benefit fund administered by the Ohio Development Services Agency, which has provided grants and loans for energy efficiency and renewable energy projects.

Tax policy

Ohio's state tax system, like those of most states, depends heavily on two major taxes: the personal income tax, and the sales and use tax. These two taxes together account for well over four-fifths of the state's General Revenue Fund tax revenue.[91] Because of cuts in the income tax and the quarter-penny increase in the sales tax, in Fiscal Year 2014 the sales tax brought in more revenue than the income tax for the first time in a quarter century.

The income tax – the only major tax based on ability to pay – needs bolstering. If Ohio is to pay for the education and health care that will produce the workforce of the future, or the services that underpin a good quality of life, it needs a strong income tax.[92] Unfortunately, this tax has been weakened over the past decade, and is about to experience another attack. Gov. Kasich has made clear that he intends to propose additional reductions in the income tax under the illusion that this will help Ohio's economy.

We have seen already what such cuts will do. Since June 2005, when a 21 percent phased-in cut in the income tax was approved, Ohio's economy has seriously underperformed the nation's. The number of jobs has fallen by more than 84,000, or a loss of 1.6 percent, compared to a national gain of 6.4 million, or 4.8 percent.[93] Ohio's real median household income has shrunk compared to the national average.[94] Since state tax cuts must be matched by spending reductions that cost jobs and economic growth, it's unrealistic to expect that they will produce major economic gains.[95] And claims that income taxes are a major reason why people move to other states simply do not hold up to scrutiny.[96]

Tax changes approved by the General Assembly during the past two years on average provided a tax reduction of $8,225 this year for the top 1 percent of Ohioans (with income over $360,000 in 2013), while providing just $56 to the middle fifth of residents (earning between $34,000 and $54,000) and a $7 tax *increase* to the bottom fifth of income earners.[97] If Ohio continues to cut its graduated income tax and make up for a significant share of the revenue with sales-tax increases and similar measures that fall more heavily on lower- and middle-income residents, the same unfair distribution can be expected in future. Even with the income tax, the state and local tax system is slanted against low- and middle-

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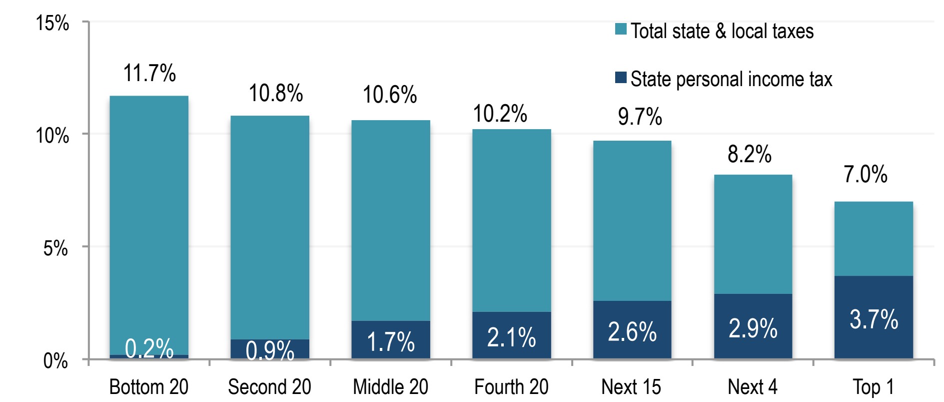
[91] Of course, the property tax is a major source of revenue at the local level.
[92] For more detail on the income tax, see Zach Schiller, "Ohio Needs a Strong Income Tax," Policy Matters Ohio, March 2012, at www.policymattersohio.org/strong-income-tax-feb2012
[93] U.S. Bureau of Labor Statistics, Current Employment Statistics Survey, http://data.bls.gov/cgi-bin/surveymost. Statistics are through December 2014.
[94] U.S. Census Bureau, State Median Income, Annual Social and Economic Supplement, Historical (1984-2013), Median Household Income by State – Single Year Estimates, Table H-8, 2013 Dollars, at https://www.census.gov/hhes/www/income/data/statemedian/
[95] Peter, with Greg LeRoy and Phil Mattera. "Selling Snake Oil to the States: the American Legislative Exchange Council's Flawed Prescriptions for Prosperity." A joint publication of Good Jobs First and the Iowa Policy Project, November 2012, Chapter 3, available at www.goodjobsfirst.org/snakeoiltothestates.
[96] Hanauer, Amy and Tim Krueger, "The Tax Flight Myth," Policy Matters Ohio, March 20, 2013, at http://www.policymattersohio.org/migration-mar2013 and Policy Matters Ohio, "Actually, Money Stays Put," Oct. 23, 2014, at http://www.policymattersohio.org/money-stays
[97] Schiller, Zach, "Ohio's Affluent are Big Beneficiaries of 2013-2014 Tax Changes," Policy Matters Ohio, Oct. 30, 2014, at http://www.policymattersohio.org/affluent-benefit

income Ohioans, who pay a larger share of their income in such taxes than do more affluent Ohioans. Figure 3 shows how much nonelderly Ohioans of different income levels pay on average in state and local taxes as a share of their income, and how the income tax contributes to a fairer tax system.[98]

Figure 3

Ohio state and local taxes as a share of income



Source: Institute on Taxation & Economic Policy. Shows shares of income for non-elderly taxpayers. Figures show permanent law in Ohio enacted through Dec. 31, 2014, at 2012 income levels, not including House Bill 5, the municipal income tax overhaul.

The share of state and local taxes paid by Ohio businesses compared to that paid by individuals has shrunk over the last generation.[99] Ohio is now one of only six states in the country without a tax on corporate profits. Instead, we have a Commercial Activity Tax (CAT) on "gross receipts," or what businesses located anywhere sell in Ohio. Beginning in 2005, this tax replaced two others: our corporate income tax, and a local tax on machinery, equipment, inventory and other tangible property. The CAT is a broader tax than those it replaced, covering most industries and different forms of business organizations. Critically, however, it was designed to bring in far less revenue than the taxes it replaced – and that indeed is what it has done.[100]

[98] Patton, Wendy, "Ohio State and Local Taxes Hit Poor and Middle Class the Hardest," Policy Matters Ohio, Jan. 14, 2015, at http://www.policymattersohio.org/tax-report-jan2015. Income levels for each group are slightly different in this analysis than for others shown in this report because they are for 2012 and cover the non-elderly only.

[99] Schiller, Zach, "Business Tax Revamp: A Deficit in the Making," Policy Matters Ohio, January 2009, at www.policymattersohio.org/business-tax-revamp-a-deficit-in-the-making

[100] Commercial Activity Tax revenue in Fiscal Year 2014 was $1.68 billion (Office of Budget and Management, Disclosure Documents, Appendix A, Updated Dec. 1, 2014, at http://www.obm.ohio.gov/BondsInvestors/disclosure/doc/appendix/Appendix-A.pdf). That compares with $1.1 billion in corporate franchise tax in FY2005, the last year before repeal began, and nearly $1.7 billion in tangible personal property tax in Tax Year 2005 (Ohio Department of Taxation, 2007 Annual Report 2007, at

Altogether, the state is losing about $3 billion a year in revenue from the major tax changes since 2005, which also included the repeal of the estate tax, the creation of casino and racino taxes, and the income-tax cuts and other tax changes over the past two years.[101]

Recent tax policy

While the last two years have not seen an overhaul approaching the one approved in 2005, Ohio's tax system has undergone other major changes recently. Overall, the trend has been for income-tax cuts and a continuation of reducing taxes on the most affluent. To the degree these tax cuts have been paid for, it's largely been in ways that increase the taxes paid most heavily by low- and middle-income Ohioans, such as the sales-tax boost to 5.75 percent. Meanwhile, the General Assembly has continued to add more exemptions and credits, while eliminating just a few. Most notably, the General Assembly reduced personal income tax rates by 10 percent and created a new tax break for business owners that together will siphon off billions of dollars in revenue over the next few years, revenue that is badly needed to restore local services, put teachers back in Ohio's classrooms, control tuition at state colleges, and provide human services.[102]

The legislature paid for these tax cuts in part by using revenue available based on growth the state expects over the two-year budget, and in part by raising other taxes, including the sales tax.[103] As noted above, the net result is a further shift in who pays Ohio's taxes, so that affluent residents on average pay thousands of dollars a year less, middle-income Ohioans see very modest tax cuts, and some of Ohio's poorest residents pay more than they have in the past.

Despite bills offered by legislators on both sides of the aisle and support from different parts of the political spectrum, the General Assembly has not created a mechanism to

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http://www.tax.ohio.gov/communications/publications/annual_reports/2007_annual_report/publications_annual_report_2007.aspx). See also next footnote.

[101] The Ohio Department of Taxation estimated three years ago that the 2005 tax overhaul alone was costing $2.5 billion a year (See Frederick Church, "Understanding the Commercial Activity Tax in the Context of the 2005 Tax Reform Package," Testimony to Legislative Study Committee on Ohio's Tax Structure, Aug. 24, 2011, p. 21). The major tax packages in 2013 and 2014, along with the repeal of the estate tax and creation of the casino and racino revenues, bring the total close to $3 billion. That does not include other tax changes, including some expanded tax expenditures, or any increase in the value of the 2005 tax changes since FY11.

[102] In 2013, the General Assembly cut state income-tax rates by 10 percent over three years, a move that was accelerated last year so the cut occurs over just two years. OBM estimated when the original tax package passed that this would cost almost $2.28 billion over the first two years (Office of Budget and Management, "Estimates of HB 59 Tax Reform Package). Legislation in 2014 to accelerate the income-tax cut, expand the business-income deduction, increase personal exemptions for those with income of $80,000 or less and increase the Earned Income Tax Credit added another $400 million to the tax cuts for 2014. For more details on the tax changes in 2013 and 2014, see Wendy Patton, Zach Schiller and Piet van Lier, "Overview: Ohio's 2014-2015 Budget," Policy Matters Ohio, Oct. 3, 2013, pp. 3-9, at http://www.policymattersohio.org/budget-oct2013, and Zach Schiller, "Cuts and Breaks: Tax Changes in the Mid-Biennium Review," July 2, 2014, at http://www.policymattersohio.org/cuts-and-breaks-mbr-jul-2014

[103] As noted above, some of the available revenue results from the major cuts made in support to local governments. See Wendy Patton, Policy Matters Ohio, "Three Blows to Local Government: Loss in state aid, estate tax, property tax rollback", July 24, 2013 available at www.policymattersohio.org/local-gov-jul2013

review Ohio's $8 billion in annual tax exemptions, credits and deductions, known as tax expenditures.[104] While some of these are productive, others are special-interest giveaways, and receive no regular scrutiny. Indeed, while some unnecessary tax expenditures were eliminated in the past two years, such as one for gambling losses, more new ones were created than old ones repealed.[105] Tax breaks were created or expanded for grain handlers, purchases of computer data center equipment, veterans' organizations, and large employers, among others. One property-tax exemption created in 2013 that benefits fraternal organizations such as the Masons was expanded in 2014 so it likely takes in the Moose as well. This year's mid-biennium budget bill also revised tax breaks that allow investors to more easily receive tax credits for investments in small companies, which merely have to keep paying existing employees – rather than hire more workers - for investors to qualify. And a bill approved in the lame duck session in December provides for a sales-tax holiday, though such measures have not been shown to generate economic growth and are more likely to help wealthier taxpayers, who are more easily able to shift the timing of their purchases.[106] Overall, the cost of such tax expenditures approved in the past two years has risen by hundreds of millions of dollars a year.

By far the largest source of that increase is the income-tax exemption approved in 2013 for business income, which cost more than $300 million its first year.[107] Overnight, this has become the eighth largest tax break in the state tax code.[108] This new tax break is unlikely to generate new jobs.[109] The bulk of Ohio business owners eligible for the break employ no one but themselves. The average business-owner claiming this break for 2013 got $782, not nearly enough to add an employee. Meanwhile, those with the most business income benefitted by far the most: The 5.5 percent of those claiming the break with business income of $200,000 or more received more than a third of the total tax break.[110] In its first

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[104] State of Ohio, The Executive Budget, Fiscal Years 2014 and 2015, The Tax Expenditure Report, Ohio Department of Taxation, at http://media.obm.ohio.gov/OBM/Budget/Documents/operating/fy-14-15/bluebook/budget/Tax_14-15.pdf. Bills in the recently concluded legislative session included House Bill 24 by Rep. Terry Boose, R-Norwalk, and House Bill 81, by Reps. Mike Foley, D-Cleveland, and Denise Driehaus, D-Cincinnati.

[105] Schiller, Zach, Policy Matters Ohio, "Tax breaks grow in new Ohio budget," Aug. 8, 2013, at www.policymattersohio.org/tax-breaks-aug2013.

[106] Schiller, Zach, "Proposed Ohio Sales Tax Holiday is Poor Policy," Policy Matters Ohio, Dec. 2, 2014, at http://www.policymattersohio.org/dec-2014-taxholiday

[107] Calculated from information provided by the Ohio Department of Taxation, Email from Gary Gudmundson, Dec. 10, 2014. Data covers through Dec. 1, 2014. Calculations based on ODT estimate that the average claimant paid a 4 percent rate on the income they deducted.

[108] See Tax Expenditure Report, op. cit. This tax break allows taxpayers to deduct half of the first $250,000 in business income from passthrough entities on state tax returns. The General Assembly temporarily increased that to 75 percent for 2014.

[109] See Michael Mazerov, Center on Budget and Policy Priorities, Testimony to House Finance and Appropriations Committee On HB 59 Income Tax Plan, March 19, 2013, available at www.policymattersohio.org/mazerov-mar2013, and Zach Schiller, Policy Matters Ohio, "Tax Break for Business Owners Won't Help Ohio Economy," April 2, 2013, available at www.policymattersohio.org/tax-break-apr2013.

[110] That share is based on the taxation department's estimate that taxpayers claiming the break paid an average 4 percent income-tax rate. However, under the state's graduated income tax, rates increase with income, so the average rate paid by those with at least $200,000 in business income was almost certainly higher than the average for all claimants.

year, the amount claimed under this tax break was far below estimates of both the Kasich administration and the Legislative Service Commission, which hardly supports the claims of proponents that this is a badly needed tax break.

The General Assembly also approved numerous other tax changes, including measures such as increases in CAT tax minimums aimed at raising revenue to support a larger income-tax rate cut and the business-income tax exemption. Some of these measures modernized the tax code, such as the move to include digital goods and services, such as video and music downloads, under the sales tax. Others, such as the creation of a state Earned Income Tax Credit (see below) and increases in personal exemptions, reduced the income tax for some low-income Ohioans.

The General Assembly also ended certain state reimbursements to schools and local governments for two property tax relief mechanisms that effectively pay 10 percent and 2.5 percent, respectively, of homeowners' property taxes (the 10 percent rollback covers all residential property owners, while the 2.5 percent rollback covers only owners who live in their homes). The state is continuing to reimburse for existing levies, but not for new or replacement levies. OBM estimated this will save the state $34 million in fiscal year 2015 and $96 million in 2016. The change is likely to make it more difficult for local governments and school districts to win approval of new property-tax levies and is an additional example of the state reducing support to localities. School expert Howard Fleeter noted recently that, "While a single year is not sufficient time to conclude that a trend is in place, the fact that the number of new (school) operating levies placed on the ballot in 2014 (67) was half the number placed on the ballot in 2013 (136) certainly seems suspicious. This issue will bear watching in 2015."[111]

The legislature also means-tested the homestead exemption on local property taxes. This exemption eliminates tax liability for senior homeowners on the first $25,000 in home value. The General Assembly, while keeping the exemption for those already receiving it, scaled it back so that those who turn 65 after the end of 2013 will only be eligible if their income is less than $30,000, as computed for state income-tax purposes.[112] This change moves in the right direction, but it still leaves the homestead exemption out of whack. Thousands of rich Ohioans with homes worth hundreds of thousands of dollars continue to get the exemption, while far less affluent residents just turning 65 won't qualify. A wiser policy would provide the benefits more closely to those who need them, while eliminating them for all those who don't, regardless of whether they are getting the exemption now. One practical option would be to make the exemption available to all senior homeowners with income below $50,000 and property worth less than $150,000. That would allow nearly half of elderly homeowners to qualify, while focusing the benefits.[113]

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[111] Fleeter, Howard, "On The Money," A Hannah News Service Publication, Vol. 130, No. 45, Nov. 7, 2014, p. 4.
[112] The $30,000 limit excludes Social Security retirement income, so it amounts to a higher threshold for most retired homeowners.
[113] See Schiller, Zach, "Homestead Exemption Still Out of Whack," Policy Matters Ohio, Dec. 23, 2013, at http://www.policymattersohio.org/homestead-dec2013#sthash.K462nPaq.dpuf. The paper also presents other options to accomplish this goal.

Separately, the General Assembly also approved an overhaul of the state's law on municipal income tax, despite opposition from cities and villages already affected by previous cuts in state aid. Though it was billed as a measure to increase uniformity, the bill ignored a number of existing loopholes.[114] It preserved a carve-out affluent residents of Cincinnati and Findlay enjoy on income from stock options, and even allowed additional cities to adopt that tax break over the next year. In short, it did not reduce tax avoidance, guarantee a broad tax base, or ensure that those most able to pay are doing so.

Why income tax cuts are a bad idea

Governor Kasich has said he will propose additional income-tax cuts as part of the budget. Tax cuts that aren't fully paid for with other new revenues can be financially irresponsible. Ohio's own experience should convince us: The state found itself in a giant budget hole in early 2011 not just because of recession but because of the $5 billion that tax cuts reduced revenue over the biennium.[115] More recently, Kansas's experience is cautionary: Income-tax cuts have led to a big budget gap and credit-rating downgrades – which force up the state's borrowing costs - without noticeably improving the state economy.[116] The problems there recently led Gov. Sam Brownback to propose increases in tobacco and alcohol taxes and a slowdown in the income-tax cuts.[117]

Though during the last two years Ohio income tax has brought in more revenues than expected, as Fleeter showed (see p. Table 3, page 6, above), state GRF tax revenue has not entirely recovered to pre-recession levels, once the 2011 policies grabbing revenue from schools and local governments are taken into account. Major reductions in the state income tax, which accounts for 39.6 percent of GRF tax revenues in the current two-year budget,[118] would require big chops in services if there were not also increases in other revenues. Governor Kasich indicated recently that he would seek to pay for much of his proposed income-tax cuts with other tax revenues, not by slashing government spending.[119] While that would help protect vital public services if it is approved by the General Assembly, it suggests a continuation of the tax shift to less affluent Ohioans.

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[114] Schiller, Zach, "Municipal Income Tax "Fix" is a Flub," Policy Matters Ohio, Jan. 2, 2013, at http://www.policymattersohio.org/mit-jan2013

[115] See Frederick Church testimony, op.cit.

[116] See Leachman, Michael, "More Bad News for Backers of Kansas Tax Cuts," Off The Charts Blog, Center on Budget and Policy Priorities, Nov. 21, 2014, at http://www.offthechartsblog.org/?s=kansas, which reported the state's nonpartisan Legislative Research Department prediction that personal incomes will grow more slowly in Kansas than in the nation as a whole in 2014 and would continue to lag behind the national rate in 2015, 2016, and 2017, by wide margins. See also Policy Matters Ohio, "Lessons from Kansas' Massive Tax Cut," March 27, 2014, at http://www.policymattersohio.org/kansas-mar2014 and Doug Sheppard, "Kansas Voters Appear Willing to Wait and See on Tax Cuts," State Tax Today, Dec. 16, 2014.

[117] Nagourney, Adam and Shaila Dewan, "G.O.P. Governors Buck Party Line ono Raising Taxes," The New York Times, Jan. 25, 2015, Page 1

[118] Ohio Office of Budget and Management, FY2015 General Revenue Fund Receipts Estimate, Monthly Distribution, and OBM, Monthly Financial Report, July 10, 2014, Table 1.

[119] Governor John Kasich, Year-End Review 2014, Dec. 18, 2014, Ohio Channel, at http://www.ohiochannel.org/MediaLibrary/Collection.aspx?collectionId=108362&action=clear

Gov. Kasich's goal has always been to repeal the income tax altogether.[120] The state sales tax would need to rise by nearly 5 percentage points, to 10.7 percent, to finance repeal of the income tax paid by Ohio residents.[121] This would leave Ohio with a state sales tax far higher than any neighboring state – in fact, Ohio's state sales tax would be the highest in the country. Including local sales taxes, the average sales tax rate across the state would be about 12 percent if the sales tax were increased to pay for all of an income-tax repeal. As a group, the four-fifths of Ohioans with 2013 income below $82,000 would pay more in overall taxes.

This would come on top of the big tax shift that has occurred because of major tax changes over the last decade.[122] Table 3 shows how Ohioans in different income groups fared with the tax changes. Taken as a group, the bottom three-fifths of Ohio taxpayers, with incomes of $54,000 a year or less, are paying more in state and local taxes due to the changes. While the results for individual taxpayers vary, on average, the benefits grow as income increases.

Table 3

Impact of Ohio tax changes on different income groups, 2005 to date

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Income range	**Less than $19,000**	**$19,000 - $34,000**	**$34,000 - $54,000**	**$54,000 - $82,000**	**$82,000 - $151,000**	**$151,000 - $360,000**	**$360,000 or more**
Average income	$11,000	$26,000	$44,000	$66,000	$106,000	$217,000	$1,006,000
Average tax change	+$138	+$142	+$65	-$95	-$609	-$2,919	-$20,477
Tax change as share of income	+1.2%	+0.5%	+0.1%	-0.1%	-0.6%	-1.3%	-2.0%

Source: Institute on Taxation and Economic Policy, July 2014. Covers total 2013 income and includes Ohio residents only. For a complete list of what is covered in the analysis, see The Great Ohio Tax Shift, pp. 5-6, at http://www.policymattersohio.org/wp-content/uploads/2014/08/MAIN-Tax-changes-since-2005-3.pdf

While the very wealthiest got an annual tax cut exceeding $20,000 on average, the lowest-earning 20 percent of Ohioans, who had income of less than $19,000 in 2013, saw their taxes rise slightly, on average. Individuals and families earning in the middle of the income range - $34,000 to $54,000 – also saw a small average increase in taxes, while the wealthiest enjoyed a $20,000 windfall.

[120] Higgs, Robert, "Kasich says he hopes to get income tax rates below 4 percent, won't curtail Ohio's death penalty," The Plain Dealer, Feb. 13, 2014, at http://www.cleveland.com/open/index.ssf/2014/02/kasich_says_he_hopes_to_get_in.html
[121] Schiller, Zach, "Income-Tax Repeal: A Bad Deal for Ohio," Policy Matters Ohio, Apr. 28, 2014, at http://www.policymattersohio.org/repeal-apr2014
[122] For a complete list of what is covered in the analysis, see Zach Schiller, "The Great Ohio Tax Shift," Policy Matters Ohio, Aug. 18, 2014, pp. 5-6, at http://www.policymattersohio.org/wp-content/uploads/2014/08/MAIN-Tax-changes-since-2005-3.pdf

Ohio lawmakers' actions over the last decade have meant lower income taxes and higher sales taxes. Before legislators consider proposals to continue this trend, they should read a September report by Standard & Poor's Rating Services.[123] It found that "increasing income inequality is undermining the rate of state tax revenue growth." S&P also concluded in addition that in addition, the harm was greater in states that relied more heavily on the sales tax. This makes sense: In an era of stagnant or shrinking incomes for most, adopting a tax policy that relies on the poor and the middle class is not a path to greater economic growth or a sustainable revenue stream.[124] And income tax cuts coupled with sales-tax increases have not helped Ohio's economy.

On another major tax debate the General Assembly refused to approve Gov. Kasich's proposal to boost the severance tax on oil and gas producers and use the proceeds for an income tax cut. However, a new proposal is likely to resurface shortly.

Oil and gas severance tax

Ohio has one of the lowest severance taxes of states with oil and gas production – "Two thin dimes" per barrel of oil (to quote Governor Kasich) and three cents per thousand metric cubic feet of dry gas. But many of the proposals lawmakers are discussing feature low rates and generous loopholes.

Meanwhile, communities where fracking is taking place have mounting needs. In 2014, local officials from eastern Ohio told the House Ways and Means committee[125] they need more than $170 million for roads, bridges and water and sewer treatment plants necessary to allow new development in their communities. This was not a complete list: not all local governments in the region spoke.

House Bill 375, passed by the House in May, has a severance tax rate so low and is so narrowed by deductions that revenues would not cover the needs of communities where drilling is occurring, let alone provide for a future after the oil is depleted. Legislative Service Commission (LSC) forecasts show that, depending on production levels, local governments might get nothing by fiscal year 2019, or they might get up to $30.4 million, a fraction of immediate needs. Most of the revenues raised by HB 375 are supposed to fund income tax cuts. The benefits to middle-income families would be negligible, perhaps $10 per year on average in 2019, under the highest production estimates.

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[123] Standard & Poor's Ratings Services, RatingsDirect, "Income Inequality Weighs on State Tax Revenues," Sept. 15, 2014, at https://www.globalcreditportal.com/ratingsdirect/renderArticle.do?articleId=1359059&SctArtId=263028&from=CM&nsl_code=LIME&sourceObjectId=8819204&sourceRevId=2&fee_ind=N&exp_date=20240914-19:27:33

[124] See Gardner, Matt, "New S&P Report Helps Make the Case for Progressive State Taxes," Tax Justice Blog, A Project of Citizens for Tax Justice and the Institute on Taxation and Economic Policy, Sept. 15, 2014, at http://www.taxjusticeblog.org/archive/2014/09/new_sp_reports_helps_make_the.php. The S&P report sees income inequality as fundamentally an economic problem, and says "changes to state tax policies alone won't fully reverse any fiscal trends that have emerged as a result." p. 13

[125] Testimony to the 130th Ohio General Assembly's House Ways and Means Committee January 22, 2014 at http://www.ohiohouse.gov/committee/ways-and-means

Legislation with rates up to 7.5 percent on oil and gas have been proposed. Rates in major producing states are much higher, although the costs to communities in some rural, western producing states are lower. Ohio's dense population means community costs of infrastructure and social supports will be much higher than elsewhere. A severance tax should cover those costs, prepare communities for a diversified economic future, and protect the environment.

Policy Matters Ohio has long proposed a rate of 5 percent on all product from the well, with an additional 2.5 percent to be dedicated for a "permanent fund," to help with economic impact after the oil and gas is depleted.

Ohio: A state with average taxes

Ohio is sometimes wrongly portrayed as a high-tax state. Altogether, state and local taxes per capita in Ohio amounted to $4,053 in Fiscal Year 2012, less than the national average of $4,423. Such taxes amounted to 10.3 percent of personal income, the same as the national average.[126] Tax levels are fairly similar across most states.

Nonetheless, lower-income Ohioans pay relatively more in taxes than other state residents. We need to see more equity in our overall state tax system. In the past two years, the General Assembly created and then expanded a new state Earned Income Tax Credit, which allows some working families who qualify for the federal EITC to receive a 10 percent credit on their Ohio income tax. This is a smart policy that takes a step toward correcting a state and local tax code that requires low-income families to pay a larger share of their income than the affluent do. The federal EITC does more than any other program to keep working families out of poverty, and Ohio has joined two dozen other states with their own credits.[127]

However, many of the poorest working Ohioans are unable to qualify for the credit. It is not refundable, meaning that even though low-income Ohioans on average pay more of their income in all taxes combined, they won't qualify if they aren't paying income tax. It also is limited so that those earning more than $20,000 will only be able to receive a credit towards half of their taxable income.[128] Even with the recent expansion, it is below the average value of other state refundable credits (16 percent of the U.S. credit) and remains one of the weakest state EITCs in the nation.[129] As a nonrefundable credit, the Ohio EITC does little to bring about the fundamental policy goals of EITCs – to encourage work, to keep families from falling into poverty, and to bring some balance to our tax code. In order for the Ohio credit to count for working Ohioans, we must address the design flaws: eliminate the cap on those earning more than $20,000 and make the credit refundable.

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[126] *Op.Cit.* (See Footnote 12).
[127] See Halbert, Hannah, "Out-of-Step: More Needed to Make Ohio EITC a Credit that Counts," Policy Matters Ohio, Aug. 26, 2014, at http://www.policymattersohio.org/out-of-step-aug-2014.
[128] Ibid.
[129] Ohio is one of 25 states that have an EITC. Only 3 other states have a completely non-refundable credit like Ohio. No other state uses a cap similar to Ohio, though some have tiered EITC amounts based on family structure or income, or partial refundability. *See,* Institute on Taxation and Economic Policy, "Rewarding Work through State Earned Income Tax Credits," April 2014, available at http://www.itepnet.org/pdf/pb15eitc.pdf.

Ohio needs more tax revenue to pay for public services. We cannot be a successful state when our infant mortality is among the highest in the nation and we languish in the bottom fourth of most national health rankings.[130] We won't thrive when we're cutting college aid more than any other Midwestern state and we have the sixth highest share of students leaving school with debt.[131] And we are held back when tens of thousands of vacant houses, abandoned because of the foreclosure crisis, need to be rehabilitated or torn down.

Most Ohioans, those with middle and low incomes, have seen their wage stagnate and little tax reduction. But Ohio's highest earners have seen their real income increase and their state taxes drop substantially. Given our pressing service needs, top earners should pay more to restore fairness to Ohio's tax structure and ensure it is raising enough revenue to meet our needs for good schools, quality health care and other priorities. So should businesses, which benefited significantly from the 2005 tax overhaul. Companies paid a larger share of the tax load decades ago, and Ohio's economy was stronger than it is today. Ohio should review all tax expenditures, phase out those that are not productive, and eliminate wasteful exemptions. Oil and gas companies that will extract a one-time resource from Ohio should pay what they do in other states, instead of the pittance they do now

Summary and recommendations

State support for critical services like K-12 education, higher education, and many human services has declined over the past five years, hurting quality of life in all communities. This budget should take a more balanced approach by restoring revenue and reversing cuts to schools, local governments and health and human services.

Education

- <u>Restore funding to public schools:</u> The 131st General Assembly should reverse the cuts of tax reimbursement monies to public education. Legislators should scrutinize an inefficient and poorly performing privatized school sector.
- <u>Boost state share of instruction to better control tuition:</u> The State Share of Instruction funding in the Board of Regent's budget should be increased to allow Ohio colleges and universities to reduce tuition.
- <u>Boost OCOG, include community college students</u>: To help more students graduate from college, need-based financial aid through the Ohio College Opportunity Grant should be restored to 2009 levels. Students at two-year public schools – community colleges and branch campuses - should be eligible for need-based grant funding.
- <u>Raise initial eligibility and provide a full year of continuous eligibility for public childcare</u>: Eligibility for public childcare funding should be increased to 200 percent of poverty. Continuous eligibility should be extended to 12 months.
- <u>Quality early learning should be available to all three- and 4-year olds in Ohio.</u> Incentives to boost quality of public childcare should be fully funded. Public pre-K should be available to all children.

[130] Richard Hodges, Director, Ohio Department of Health, Letter to Timothy S. Keen, Director, Ohio Office of Budget and Management, Oct. 31, p. 3, provided by Gongwer News Service
[131] Halbert, Hannah, "Blocking the College Door: Cuts to financial aid lock Ohio students out," Policy Matters Ohio, March 6, 2014, at http://www.policymattersohio.org/ocog-mar2014

Health and Human services

- Maintain the Medicaid expansion: The 450,000 low-income working adults enrolled in the Medicaid expansion must continue to be insured for health care.
- Do not create barriers to care for new Medicaid enrollees: Changes in rules affecting health care coverage for this group should not create unnecessary barriers to care.
- Fund public health: Significantly more resources should be put into public health initiatives to reduce Ohio's infant mortality, control chronic disease, scan the environment for infectious diseases, coordinate public health databases to inform decisions which may need to be made quickly, and address the challenges of a state that ranks 47th in the Health Policy Institute of Ohio's dashboard of health indicators. Legislators should set a goal for moving Ohio down from 47th within a specific timeframe and through specific, legislated action.
- Protective services: Adequate funding should be appropriated on an ongoing basis to boost operational and administrative costs of protective services for children and seniors. The one-time innovation funds for adult protective services and child protective services do not underwrite implementation and operation of plans.
- Eliminate the federal penalty for failure to meet TANF work requirements: The Kasich Administration should work with Ohio's congressional delegation to resolve the threat of a penalty, as counties – already hurt by loss of state aid – would bear the cost of Ohio's inability to meet the work requirements of TANF during the recession. If the federal government refuses to waive the penalty, the state should pay and allow the counties to start serving needy Ohioans again.
- Boost funding for county human service departments: County health and human service administrative funds have been reduced. Additional state support can expand capacity to serve the neediest and coordinate services to better assist people and reduce poverty.
- The state should accept the federal waiver of work requirements for adults without dependents to get SNAP food aid, even if they cannot find 20 hours a week of work.
- The FY 2016-17 budget should provide $20 million per year ($40 million) to the Ohio Association of Foodbanks to support the continuation and expansion of the Ohio Food Program and Agricultural Clearance Program.
- Provide continued funding for the Summer Weekend Meals and Innovative Home delivered meals programs to provide meals to low-income children during the summer months when they are without school breakfast and lunch meals.
- Increase funding to $10 million per year for Food Stamp Employment and Training Program to expand work experience programs, education and training for unemployed and underemployed adults without dependents who, without such support, face limited food aid.

Energy efficiency, rehabilitation and public transit

- Boost Ohio's clean energy economy: Ohio's 131st General Assembly should increase the severance tax in Ohio and set aside a portion of the proceeds into Ohio's Advanced Energy Fund for investment in low-income home weatherization and other clean energy programs.

- Move on the recommendations of the ODOT Transit Needs study: The Ohio Department of Transportation's "Transit Needs Study" of 2014 calls for more than $2.5 million in GRF dollars to initiate a long term strategy for meeting the public transit needs of the future. This request should be fully funded.

Economic opportunity

- Raise the wage: The state should raise the Medicaid reimbursement for home health aides to reduce turnover, move workers toward self-sufficiency and ensure quality care for elderly and disabled Ohioans.
- Stabilize unemployment compensation: While it's not unreasonable that Ohio had to borrow during this period of high and long-term unemployment, it is clear that Ohio's UC solvency problem was a product of poor policy, not just a poor economy. After years of underfunding this crucial system, Ohio needs to face the need for more adequate financing and a higher taxable wage base, in particular.

Local Government

- Restore revenue sharing with local government: Local government funds should be restored and the property tax rollback on new levies reinstated. New ideas learned through the innovation funds may be incorporated in such reinstatement, but the innovation funds did not replace the loss of state aid.
- Address loss to local health and human service levies: The state must either backfill local human service levies eviscerated by loss of tax reimbursements or adequately fund local human services that the lagging property tax base of many local communities struggle to support.
- Partner with locals to mitigate the damage of foreclosure: Create and fund a task force to establish a state-local partnership to restore housing stock and boost property values in community and neighborhood hit hardest by the foreclosure crisis. This could add to the stock of affordable housing, create wealth in low-income communities and create jobs where unemployment is the highest.

Tax policy

To revamp Ohio's tax system so it is adequate for state needs and based on the ability of people to pay, policy makers should:

- Strengthen the income tax by restoring the top income tax rate of 7.5 percent and adding a new, 8.5 percent "half-millionaires' tax" for those earning $500,000 or more per year.
- Review all tax expenditures, repeal unproductive ones and establish sunset dates for all such expenditures.
- Make Ohio's Earned Income Tax Credit refundable and eliminate the cap.
- Levy appropriate taxes on oil and gas companies that extract a one-time resource from Ohio to ensure that they pay what they do in other states, instead of the extremely low rate they now pay in Ohio. Use of these funds should help communities affected by drilling, restore slashed services, and be used in a permanent fund for risk management purposes.
- Restore the overall level of general business taxes so that companies pay a reasonable share of the tax load, as they did in the past.

- Reform the homestead exemption so that benefits go to those who need them, while eliminating them for all those who don't.
- Reject additional efforts to undercut local tax revenues that schools and local governments depend on.