



State Revenue Update: 2010 Brings Some Good News, but Many Unmet Needs Remain

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Income Tax Freeze Fills K-12 Education Funding Gap with Small Increases for Mental Health Programs and Local Governments

In response to an \$851 million shortfall in the K-12 education budget, the Ohio legislature passed House Bill 318, which temporarily cancelled the final year of a planned five years of personal income tax cuts. The Center for Community Solutions, along other advocates from education and social services, testified in support of the bill. The bill was also supported by the Ohio Business Roundtable.

Income tax rates for calendar years 2009 and 2010 will be 4.2 percent higher than originally planned. For 2009 taxes, the adjustment will take place through the tax tables used on the final return due in April, 2010. A family with a \$40,000 income will pay just \$56 more per year before credits.

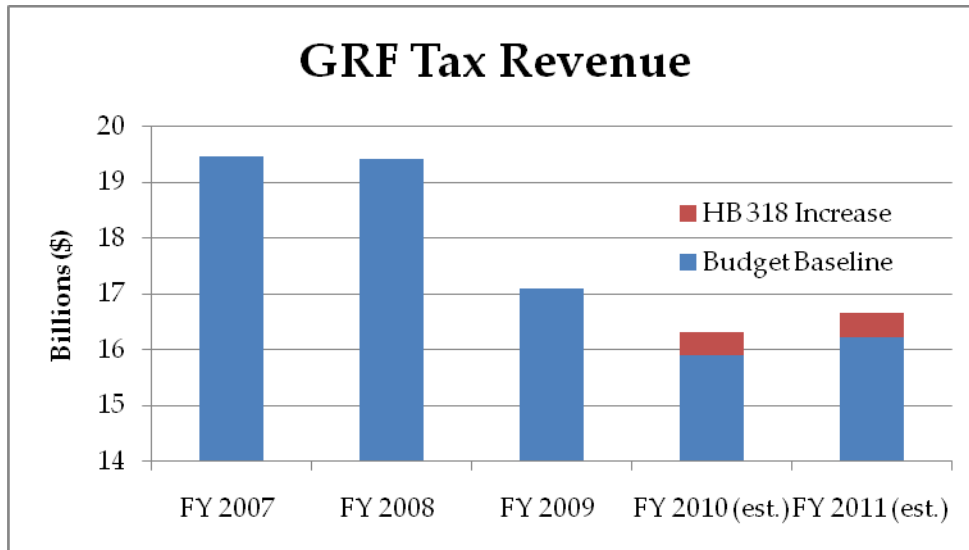
Despite the amount of partisan rhetoric over the bill, most Ohioans were unaware that the state had cut income taxes. According to 2009 poll sponsored by the Campaign to Protect Ohio's Future, only 8 percent of Ohioans knew that their income taxes had been cut each year since 2005.¹

The bill is a small step in the right direction, but it does not address the large shortfalls in many human services programs. The bulk of the new revenue generated by the bill will go the K-12 education budget to fill a gap created by a possible referendum on slot machines at horse racetracks. Community mental health will receive a small \$14.7 million increase to correct an error in the main budget bill, but funding levels are still \$160 million (17 percent) below their post-cut FY 2008-2009 levels. This leaves insufficient funds for treatment services for childless

¹ "Statewide Survey Shows Openness to Balanced Approach to Addressing State Budget Shortfalls to Health and Human Services," Campaign to Protect Ohio's Future, Available at <http://www.protectohio.org/documents/CTPOF%20Press%20Release%20FINAL%2003.25.09.doc>

adults who are not eligible for Medicaid. Local government and libraries automatically receive a share of GRF taxes through revenue distribution funds. Counties and cities will receive approximately \$36 million more over the biennium. State funding for libraries will grow by nearly \$18 million, restoring about 21 percent of the cut they received in the state budget.

The table below shows projected General Revenue Fund (GRF) taxes since FY 2007, with estimated amounts for FY 2010 and FY 2011. Even with the boost from H.B. 318, tax revenue will be \$3.1 billion below FY 2008 levels this year and \$2.8 billion below in FY 2011.



Source: Office of Budget and Management

The bill allows income tax rates to be lowered in 2012, in spite of a projected shortfall of up to \$8 billion over the FY 2012-2013 biennium when federal stimulus funds expire. In light of the large cuts already experienced by health and social service programs, Community Solutions recommends that the state close at least three-fourths of the budget shortfall with new revenues by increasing income tax rates on the wealthy, adjusting the rate on the business commercial activity tax, and closing tax loopholes.

State Wins Appeals Court Case over Tobacco Revenue

One of the uncertainties hanging over the state budget since it was passed in July is the disposition of \$258 million that had formerly been under the control of the Tobacco Use Prevention and Control Foundation. The foundation was shut down by the legislature when it tried to block the use of the funds for economic development legislation in 2008. Since then, the issue has been tied up in court. The budget devoted these funds to protective services for children, an expansion of Medicaid to children in families with income below 300 percent of the federal poverty level, optional Medicaid services for adults, and breast and cervical cancer screening. After losing in trial court, the state won its case at the appeals court level, but the issue is expected to be appealed to the Supreme Court.