

State Budgeting Matters

Volume 5 • Issue 7
April 1, 2009

By Richard G. Sheridan, Financial Consultant
The Center for Community Solutions

FY 2010 – FY 2011

State Budget: Paramount Considerations

The governor faces many challenges in producing and maintaining a balanced budget that meets Ohio's needs.

This series is an opportunity for our readers to get involved by e-mailing their Ohio budget questions to our Ohio budget expert, Richard G. Sheridan, at rsheridan@CommunitySolutions.com.

Please note that Richard G. Sheridan's opinions are not necessarily those of The Center for Community Solutions.

The House of Representatives' leadership has announced that in three weeks it will be prepared to vote on Substitute House Bill (H.B.) 1, the state's omnibus operating budget bill for the FY 2010 – FY 2011 biennium. Meanwhile, revenues for the current fiscal year continue to fall below the latest (December, 2008) revisions, raising questions about when and how this problem will be resolved and what the implications of these lower tax receipts are on the revenue estimates used by the governor in the submission of his budget request for the coming biennium. And, there are significant questions about the implications on the following (FY 2012 – FY 2013) biennium of various non-recurring one-time receipts to support proposed FY 2010 – FY 2011 spending. Equally important are questions about how long the current recession will last, whether the state and nation will slip into a depression, and how long the state can avoid the inevitable need to increase its tax receipts. As the House prepares to vote on its own version of the next budget these considerations should be not be overlooked.

Continuing Revenue Shortfalls

In order to balance the current fiscal year's General Revenue Fund (GRF) operating budget the governor announced a series of reductions in authorized appropriations for selected agencies and programs. These accounted for less than one-half of the proposed solution to the problem of continued declining tax receipts resulting from the deterioration of the economy; the rest was made up by "raiding" non-GRF rotary fund balances, using accounting gimmicks, and other one-time, non-recurring revenue bolsterers. The governor's budget made revenue estimates based on economic assumptions that are now looking to be too optimistic, judging by the fact that tax receipts for the current year are now \$185 million below the December revised estimates and the governor's own council of economic advisors, in March, revised downward the indicators used in the development of the governor's budget request. It would be a grave mistake if the House of Representatives, in the preparation of Substitute H.B. 1, failed to take these facts into account.

In the matter of FY 2009, it appears that the federal stimulus money will bail the state out. The governor is assuming that he will have \$814.9 million in what are called "enhanced" federal Medicaid matching funds available to use in FY 2009. That means that an equal amount of budgeted state GRF moneys planned to be used to support Medicaid can instead be diverted to support other appropria-



1226 Huron Road East
Suite 300
Cleveland, OH 44115
(216) 781-2944
www.CommunitySolutions.com

tions or, in other words, make up for the continuing decline in tax revenues. It would even appear that the additional federal money will permit the state to end FY 2009 with a balance higher than previously assumed. The Strickland administration has not, however, revised its FY 2009 tax receipt estimates to reflect the continuing decline below the December estimates, nor has it described how it plans to address the shortfall. Even if the enhanced federal Medicaid matching moneys are to be the “solution,” they do not alter the fact that state GRF tax revenues are in a free-fall and that has implications for the next and future biennia.

What is happening to personal income taxes (now \$35 million below December estimates) and sales taxes (\$105 million below), needs to be factored into the decision of what revenue estimates to use for the coming biennium. It is incumbent on the administration to: (1) officially revise the FY 2009 revenue estimates once again; (2) describe its solution to the FY 2009 budget problem; and (3) present the legislature with revised revenue forecasts for the upcoming biennium before the House acts on H.B. 1. Failure to do so will not make the problem go away; it will simply shift the problem to the Senate. The longer these problems are not addressed, the more limited the options to solve them will be.

Also of concern should be the question of how long the current recession is likely to last and whether the state and nation will slip into a depression.

The Length of the Recession/Depression

The same economists, who failed to predict the current recession, or its depth, are now busily prognosticating about when it will end. The most optimistic appear to see recovery by January, 2010, while the most pessimistic see the country falling into what could be a five-year depression. The reality is that no one can see into the future and economics has long been labeled the “dismal science” for good reason. What is supported by substantial evidence, however, is that whenever recovery, as measured by increases in the Gross Domestic Product (GDP), occurs it will take years for employment levels to increase to pre-

recession levels and this means that state revenues, so largely dependent on personal income and spending, will require several years after “recovery” to return to prior levels. Here’s the evidence from prior recessions.

The Nelson A. Rockefeller Institute of Government, an independent state and local government research organization, just recently completed an analysis of what states should expect to happen to their finances after the current recession ends.¹ What they found was that in the last two recessions (1990 and 2001), it took at least five years for tax revenue to re-attain its pre-crisis peak. They used the data on these, and the 1981, recessions to examine what could happen to state finances after the current recession ends, using an optimistic scenario and a less optimistic one.

On the optimistic side, they concluded that if the tax revenue fall-off and recovery are much like that of the 1990 fiscal crisis, when the federal stimulus aid goes away in FY 2011 – FY 2012, states could face a fiscal gap (the difference between current spending and current revenues) of 4 percent of general fund expenditures. For Ohio, that would suggest a budget gap of \$840 million in FY 2012. And that does not take into account the loss of non-federal, one-time resources totaling about another \$7.4 billion in the governor’s proposed operating budget, or the fiscal effect of permanent structural tax reductions implemented over the course of the last five years.

Using alternative assumptions, which are not even the worst-case scenario, they assumed that the fiscal downturn will be worse than the 2001 downturn and will last longer. Under this scenario “tax revenue begins to recover in FY 2010 – FY 2011 as the recovery takes hold, but sales taxes in particular grow relatively slowly during the recovery as consumers work to restore savings and assets after massive losses in their stock market holdings and home values.”² Under this scenario the budget gap for FY 2012 would be 7 percent. In Ohio, that would be about \$1.5 billion for the year.

1 Donald J. Boyd, “What Will Happen to State Budgets When the Money Runs Out?” The Nelson A. Rockefeller Institute of Government, New York, February 19, 2009.

2 *Ibid*, p.3.

The Center on Budget and Policy Priorities has estimated even larger annual deficits after the recession ends, and using the Rockefeller methodology their figures would lead to gaps close to 9 percent. These budget gap estimates are based on national averages and do not account for the fact that some states have taken actions to insure that the budget gaps will be even greater. In Ohio, the decision to reduce personal income tax liabilities by 21 percent will increase the size of the budget gap. And, so will the decision (if ultimately accepted by the legislature) to use up the state's Rainy Day Fund as well as other non-recurring revenue sources to balance the upcoming state budget.

It is important to note that even under the most optimistic assumptions, the recovery of state revenues will not occur rapidly and will not be high enough to forestall significant budget cuts and/or tax increases for FY 2012 and beyond. It is important for state decision-makers to factor this into their actions on the upcoming budget. If tax increases will be needed, addressing that issue now means that they can be smaller than they will have to be when the federal and non-federal, one-time revenues used to balance the upcoming budget disappear. They also give the legislature time to consider the structural problems that exist in Ohio's tax system.

In 2002 and 2003, The Center for Community Solutions conducted an extensive study of Ohio's tax structure³ and reached the conclusion that the following changes were needed if our tax system were to meet the five guiding principles of a quality state and local tax structure (simplicity, equity, stability, neutrality, and competitiveness):

- Every year, corporations are paying a significantly smaller percent of overall state tax collections.
- The state tax rate is too high and the base is too narrow.
- Local governments are levying wealth-based property taxes that are protected against the loss of revenues resulting from heavy reliance on

³ Richard G. Sheridan, David A. Ellis, Ph.D., and Richard Marountas, *Taxing Issues, The 10 Volume Study of Ohio's Tax Structure*, Federation for Community Planning (now The Center for Community Solutions), Cleveland, Ohio, various release dates, 2002 and 2003.

economically sensitive personal income and sales taxes; the state, without a state property tax, has no similar protection.

- State and local governments could raise considerably more revenue by including profit-making businesses of nonprofit organizations in the tax base.
- Because of the differences in municipal income tax rates and credits between municipalities, payment of these taxes, especially by businesses, is unduly complex.
- Excessive use of dedication of funds in the state budget results in inequities in setting spending priorities and allocating funds between competing interests.
- The state's general revenue-sharing programs are unduly complex, resulting in considerable costly litigation, and the distribution formulas are not based on the principle of need, nor do they permit health and human service agencies to share in their proceeds.
- The ceiling that is placed on property tax growth needs to be raised or eliminated.
- The system of taxing businesses in Ohio treats businesses that make similar contributions to the Gross State Product differently and inequitably, and results in disincentives to investment in capital and increased productivity.
- As applied to businesses, tax expenditures violate the principle that a tax system should be neutral, result in inequities between businesses, and they are difficult to administer.
- Overall, the state and local government tax structure in Ohio unduly burdens low-income and middle-class taxpayers relative to wealthy taxpayers.

Ignoring these recommendations, as well as those of its own tax study committee, the state legislature addressed its FY 2004 – FY 2005 budget deficit by temporarily increasing the state sales tax by 20 percent. In the following budget, significant tax law changes were made, including a few that were variations on those included in Community Solutions and the legislature's studies, the most notable of which was the phasing out of the corporate franchise tax which, combined with other tax law changes, has had

the effect of shifting more of the burden for supporting the state's GRF onto the backs of individuals and away from businesses while reducing total GRF tax revenues overall.

Taxes paid by businesses have been cut by an average of 50 percent. In 1975, businesses paid 40 percent of state and local taxes; by 2009, the share was 29 percent, and is projected to decrease further to 26.5 percent in 2010.⁴ The promise of these tax law changes was enhanced economic prosperity for the state. Instead, what has been wrought is a huge gap between the money needed to pay for ongoing support for education, health, human services, the environment, the criminal justice system, and the provision of the myriad of other purposes for which state government exists and which are supported by the state's GRF tax system, and the taxes available to pay for them.

While other states only have to contend with the effects of the economic recession on their tax revenues, Ohio has the added burden of having to deal with an ill-advised reduction in taxes that guarantees a huge future budget gap when the state no longer has federal stimulus money and one-time receipts to make up for the reduced tax revenues. Other states have already recognized that even without having reduced taxes, like Ohio, they now must increase their taxes to deal with budget gaps.

Tax Increases in Other States

So far, states have tried to avoid tax increases as a way of balancing their current or upcoming budgets but this appears to be changing. California, Florida, and New York appear to be in the most desperate straits and so, turning to tax increases in those states comes as no surprise. What is surprising is the number of other states now considering doing so, according to the National Conference of State Legislatures⁵:

- Massachusetts lawmakers are considering raising the state's personal income tax and also the sales tax by an unknown amount;

4 The Center for Community Solutions, *Taxing Issues Redux*, Cleveland, Ohio, January 2009.

5 National Conference of State Legislatures, "FY 2010 Actions & Proposals to Balance the Budget: Sales, Corporate Income and Personal Income Taxes," Washington, DC, March, 2009.

- Michigan's governor has proposed changing tax "loopholes;"
- New Jersey's governor has proposed raising taxes by 0.75 percent on those who earn more than \$500,000 per year to increase revenues;
- Arizona's governor has proposed a one-cent increase to the sales tax;
- Oregon's governor has proposed increasing corporate income taxes by an unknown amount; and
- Wisconsin's governor has proposed changes in the corporate tax that would increase state revenue by \$257 million and also increase the taxes paid by those earning more than \$300,000 per year by subjecting them to a 1 percent increase in personal income taxes.

In addition to Wisconsin and New Jersey, more states are turning to raising personal income taxes on the rich.

In Illinois, the governor recently proposed a 50 percent income tax increase that would be balanced by a tripling of the current \$2,000 personal exemption. Legislators appear to be in agreement but suggest that the plan would be modified to protect lower and middle-income taxpayers while concentrating on higher taxes for the rich.⁶ Hawaii and New York are also considering a similar move.

Those who oppose increasing personal income taxes on the very wealthy argue that this will cause them to flee the state taking their capital with them. Not so, according to research undertaken by the New York Times:

"New Jersey raised taxes on the wealthy in 2004, increasing by 2.6 percent the tax rate levied on those making more than \$500,000 a year; and Gov. Jon S. Corzine this month proposed a new increase on high earners. But a study by Professor Massey and two colleagues, published in September, estimated that the previous tax increase cost New Jersey only 50 to 350 existing 'half-millionaire' households—a relatively small number against the total of 44,000 such households in the state."⁷

6 Dave McKinney and Jordan Wilson, "Quinn: Ill. Faces Greatest Crisis of Modern Times," Chicago Sun-Times, March 18, 2009.

7 Nicholas Confessore, "Taxes Not Seen as Making the Rich Flee

That same year, California voters approved a 1 percent income tax surcharge on personal income over \$1 million and instead of losing the wealthy a study showed that between 2004 and 2007, the number of millionaire taxpayers rose by close to 50 percent, “well outpacing the 8.6 percent growth in the total number of those paying personal income tax.”⁸ A similar result was found for New York which imposed a temporary surcharge on incomes of more than \$100,000 between 2003 and 2005.

But, what was politically feasible in 2004 is much more difficult under current economic conditions. Now, there are those who would argue that instead of considering tax increases, even on the very wealthy, the state should begin now to cut its spending. But that has become increasingly difficult considering the nature of state GRF spending and the shift in its nature that occurred as a result of federal actions taken to redress the Great Depression. Considering how closely the federal economic stimulus program mirrors some of President Franklin Roosevelt’s initiatives, at that time, there are some lessons to be learned from what occurred then.

Lessons from the Great Depression

The National Conference of State Legislatures just published a study of state finances in the Great Depression.⁹ Its author, Ron Snell, rightly points out the significant impact that federal actions to address that economic crisis had on state budgets, especially on the purposes of state spending and how money is raised to pay for it. He points out that until the 1930s state governments had only a small impact on American life functioning largely as highway departments with 30 percent of their revenues coming from motor fuel and vehicle licensing taxes and 36 of their spending going for highway construction. Spending on health, hospitals, corrections, welfare, and public assistance, including aid to local governments for those purposes, accounted for less than 18 percent of

total spending. Local governments, which then had responsibility for domestic spending except highway construction, were then spending three times as much as states. Still, health and welfare spending made up less than 5 percent of local government budgets in 1927.¹⁰ That all changed after the Great Depression and the influx of federal funds to deal with it.

Between 1929 and 1936, property taxes, accounting for two-thirds of all state and local government revenue, fell continuously. At the same time, the rise in unemployment occurring during that period resulted in demands for state and local government spending on public assistance “that state and local government were institutionally and financially unprepared to meet.”¹¹ In May, 1933, the Federal Emergency Relief Act (FERA) was passed giving state governments \$500 million to meet the costs of furnishing relief and work relief. One-half of the money was provided as matching money and the rest as competitive grants. Eventually, \$3.1 billion was passed on to states through FERA. Then, in 1935, the federal government created the Aid to Families with Dependent Children (AFDC) program (the precursor to TANF—Temporary Assistance to Needy Families) financing it partially with federal grants.

Between 1927 and 1940, state government spending increased by more than two-and-a-half times and most of the growth was financed by states using new sources of revenue. The first modern general sales tax was created in Mississippi, in 1930; 12 more added the tax in 1933, and nine more by 1940. Twenty states created cigarette taxes in the 1930s, and between 1930 and 1939, 16 states adopted personal income and corporate income taxes.¹²

Clearly, what had happened was the federal government’s provision of money to the states resulted in a change in the role and function of state governments, an increase in spending for welfare and similar health and human services programs and a relative diminution of the role of local governments. Between 1927 and 1940, cash benefits and other assistance to low-income people had grown from almost nothing to 19 percent of spending.

¹⁰ *Ibid.*, p. 3.

¹¹ *Ibid.*, p. 4.

¹² *Ibid.*, pp. 5-6.

New York,” *The New York Times*, March 19, 2009.

⁸ *Ibid.*

⁹ Ronald Snell, “State Finance in the Great Depression,” National Conference of State Legislatures, Denver, Colorado, March, 2009.

The big question now is what will be the lasting effect of the current huge influx of federal stimulus moneys on state finances. To the extent that the federal government has directed how those moneys are to be spent, the affects of some of the money will be largely outside of the realm of state decision-making. But, states still have considerable leeway in how to use a good deal of the federal stimulus moneys. To a certain degree, what happens in FY 2012 will depend on decisions made in individual states concerning tax policy and how discretionary federal stimulus funds are used.

How Best to Use Federal Stimulus Funds

Ohio is budgeting to receive \$8,195,612,736 in federal stimulus funds, 27 percent of which is appropriated

to a number of state agencies for use in the current fiscal year (FY 2009) in H.B. 2, the state transportation bill and another \$814.9 million of enhanced federal Medicaid matching moneys is planned to be used in this fiscal year. Half of the \$1.9 billion appropriations in H.B. 2 will go for highway construction, but the other half goes for a host of other programs in the departments of aging, health, education, job and family services, and other state agencies. Of the remainder, \$1.9 billion is appropriated for use in FY 2010 and \$2.7 billion in FY 2011 in H.B. 1, the main operating appropriations bill. These appropriations are being made to 19 different state agencies mostly in restricted special revenue accounts. The amounts being deposited in, and appropriated from, the GRF for the coming biennium are shown in the following table.

Out of almost \$3 billion in one-time federal stimulus moneys proposed to be appropriated out of the

Federal Economic Stimulus Funds Appropriated to the GRF for FY 2010 and FY 2011 by Line Item

Agency	Line Item	FY 2010	FY 2011
ADA	Local Alcohol and Other Drugs Subsidy	\$0	\$2,954,598
AGE	Alzheimer's Respite	\$512,318	\$471,002
AGR	Agriculture Operating	\$1,107,035	\$1,027,758
BOR	State Share of Instruction	\$279,337,545	\$344,705,908
BOR	Need-based Aid	\$50,000,000	\$50,000,000
DMH	Local Mental Health Subsidy	\$44,265,699	\$20,337,002
DMR	MR/DD Subsidy	\$3,085,752	\$1,421,173
DNR	Natural Resources	\$4,886,947	\$4,492,839
DOH	Health-Federal Stimulus	\$2,680,035	\$2,463,903
DOT	Transportation Operating	\$2,181,295	\$2,181,295
DRC	Institutional Operations	\$24,800,000	\$34,200,000
DYS	RECLAIM-Federal Stimulus	\$7,750,000	\$0
EDU	Special Education	\$224,806,500	\$224,806,500
EDU	Foundation Funding	\$277,583,913	\$432,449,362
EDU	Poverty Funding	\$236,199,000	\$236,199,000
JFS	Health Care/Medicaid	\$146,716,419	\$272,439,703
JFS	Adoption Services	\$2,879,655	\$542,053
JFS	Child Care	\$8,915,224	\$13,459,664
	Total	\$1,317,707,337	\$1,644,151,760

GRF for the coming biennium, the general, and in a few cases, the specific, uses of many of them are dictated by federal law. The state cannot decide to take the \$1.6 billion provided for primary and secondary education and instead appropriate it for mental health, for example. However, how that money is spent within the education budget, except for special education, is something for the legislature to determine. This is important because using it in the state's foundation formula, or for poverty funding, virtually guarantees a commitment to future spending (FY 2012 and thereafter), without federal stimulus money support, that will use the inflated funding levels as the base. In other words, the proposed uses of the money virtually guarantee a future commitment to a new, higher level of funding. The same principle applies to all of the proposed GRF spending of the stimulus money as it is proposed to be spent in H.B. 1.

In addition to these GRF spending items, there is at least another \$418 million that is scattered throughout the governor's proposed budget that represents the amount of state money that would have been spent on Medicaid had the federal government not temporarily increased the federal matching formula. Where the governor proposes to spend that money (on specific line items) has not been identified.

In a perfect budget world, the state would appropriate for current expenses only the money that it expects to receive from current, ongoing revenue streams—primarily taxes. It would not tax more than it needs and hoard it in a Rainy Day Fund. If current revenues exceeded current expenses, the difference would be returned to taxpayers in the form of a rebate. If current revenues did not meet projections, current spending would be cut back.

In a slightly less than perfect budget world, where revenues fail to meet expectations, and where the state has hoarded past receipts in a Rainy Day Fund and also hoarded balances in non-general revenue funds, the state would use up these one-time resources to avoid cutting current expenses. However, those moneys would be used only to the point where projections of future revenues could reasonably be

expected to rise sufficiently enough to support the current spending levels achieved through being propped-up by the one-time infusions of hoarded moneys. In the alternative, in this slightly less perfect world when revenues failed to meet expectations, there would be no hoarded moneys to use, and accounting gimmicks would be foresworn, so the difference between expected revenues and approved spending would be made up by raising taxes.

The reality is that we do not live in a perfect, or even a less than perfect, budget world. We live in a very imperfect budget world where the order of the day, when current revenues are inadequate to support current spending, is to (1) use up all hoarded money; (2) accelerate revenue collections; (3) extend the state's debt payments; (4) cut spending, usually irrationally, rather than based on measurements of program success and performance; and, finally, when all of this is still inadequate, (5) raise taxes, first temporarily, and then, possibly, permanently.

So far, Ohio has taken the first four steps, in this less than perfect budget world, to deal with its budget problems. The federal government has stepped in and added new, one-time resources to prop-up the state's budget and avoid the dreaded Step Five (raise taxes). In a perfect budget world, the state would use the federal government's one-time money for only so much current spending as a recovered state economy could support with its ongoing revenue stream and the rest would be appropriated for one-time spending purposes. Instead, so far, it appears the legislature is heading toward approving most of the governor's choices on how to deploy those one-time federal funds to increase the spending base for the future beyond the ability of the current state's tax structure, even in an improved economy, to support thus guaranteeing the need to address the issue of raising taxes sometime soon. The longer the matter of the state's tax structure is delayed, the higher the level of increased taxes will have to be.

Another issue related to the receipt of federal stimulus funds concerns the role that the legislature plays.

The Importance of Legislative Oversight

A number of states have recognized the important role that legislators should play in monitoring the use of federal stimulus funds. It is one thing to appropriate the money; it is quite another to continually monitor how it is being spent and, importantly, what the effects, and financial implications, of that spending are. Depending on that continuous review the legislature may well decide to change directions or reconsider earlier appropriations decisions. This is what some states, other than Ohio, are doing:

- The Michigan Senate has voted to create a special committee to provide oversight of stimulus funds;
- Missouri formed the Senate Select Committee on Oversight of Stimulus Funds, which will be charged with studying and analyzing strategies for securing the maximum amount of federal dollars and to issue recommendations to the Senate;
- Montana Senate President Bob Story introduced a bill to create a commission that will include legislators, congressional staff, and private citizens to oversee how the federal stimulus money will be spent by the state;
- Oklahoma House Speaker Chris Benge asked the House Appropriations and Budget Committee to conduct oversight of spending and transparency of stimulus funds as part of its legislative duties;
- The Pennsylvania Senate has proposed legislation to create a bipartisan commission to monitor the use of any stimulus funds;
- Rhode Island is considering current legislation to create a special joint commission to provide oversight of federal stimulus funds;
- The Vermont Speaker of the House has proposed a three-member (one House member, one Senate member, and a member of the governor's administration) to compile and examine information on how federal stimulus funds are spent; and
- The West Virginia House of Delegates established a Select Committee on Stimulus Utilization to review legislation, testimony, evaluate, and make recommendations to the Speaker in regard to any relevant stimulus legislation.¹³

¹³ National Conference of State Legislatures, "State Oversight of

The Aftermath: To Cut? To Tax? Or Both?

In a recent report the Pew Center on the States made this important observation:

"Some economists warn that deep state spending cuts in times of crisis can prolong downturns by increasing stresses on citizens. Others warn that raising taxes could stifle economic activity in the private sector. But states that make sound policy decisions will play a vital role in stabilizing the effects of recession and engineering a turnaround that benefits the entire nation now and in the future."¹⁴

As desirable as it might be to raise taxes now, in order to minimize the amount of taxes that must be raised to fill the budget gap when the federal economic stimulus and other one-time budget-balancing resources are used up (beginning in FY 2012), the truth is that it will not happen. Even those states that are in worse shape than Ohio are having difficulty gaining the necessary political support to increase general taxes. With respect to cutting spending there is a similar problem. Most of the state's general fund money goes to support education, health, and human services. Cuts in primary and secondary education, considering the nature of school finance, push local school districts into raising taxes, primarily property taxes, locally to make up for state cuts. Since raising local school taxes requires voter approval, unlikely in bad economic times, the alternative is to cut back on spending, most of which is on personnel. Cuts in higher education, result in higher tuition and fees and/or cuts in personnel. Cutting education spending impacts the recession negatively by further reducing economic activity and adding to the state's unemployment rate.

Cutting state support for health and human services is even more difficult when demand is up, as it is during bad economic times. Local governments are hard pressed to meet demands for these kinds of services Federal Stimulus Funds," Denver, Colorado, Updated March 16, 2009.

¹⁴ The Pew Center on the States, "Trade-Off Time: How Four States Continue to Deliver," February, 2009.

even in the best of times and in worse economic times are no more likely to gain local support for property tax increases than school districts are.

Nevertheless, states are cutting education, health, and human services. An ongoing study by the Center on Budget and Policy Priorities finds that as of the middle of March, 34 states, including Ohio, have already enacted such cuts.¹⁵ They report that 18 states have implemented cuts that will affect eligibility for health insurance programs and/or access to health care services; at least 18 have cut medical, rehabilitative, home care, or other services needed by low-income people who are elderly or have disabilities (Ohio plans to close two mental health facilities); 21 states have cut K-12 education; and at least 28 states have cut support to public colleges and universities and/or made large increases in college tuition to make up for insufficient state funding. Some states have ordered across the board cuts and many, including Ohio, have reduced state workforces. All of this is being done to bring budgets in balance even after the federal economic stimulus money is deployed to prevent even larger cuts. But budget cuts to education, health, and human services are ill-timed, serve to hurt the most vulnerable populations, and contribute to continued economic decline and individual stress.

So what should be done?

The Answer: Structural Spending and Taxing Changes

Now is the time for the state to address the structural budget gap problem by fixing its tax structure as well as the state and local structure for the delivery of essential health and human services.

When it comes to what is wrong with Ohio's tax structure, and what should be done about it, there are already several studies that provide all the guidance Ohio's decision-makers need. The needed structural changes identified in the study by The Center for Community Solutions, listed above, are still relevant and should be addressed. Additional studies seem

15 Nicholas Johnson, Phil Oliff, and Jeremy Koulish, "An Update on State Budget Cuts," Center on Budget and Policy Priorities, Washington, DC, Revised March 13, 2009.

unnecessary; acting on those the state already has would seem its best course of action. And there is another important issue to be addressed.

When it comes to health and human services spending in Ohio, there has thus far been little done to study and change the antiquated system that permits the operation of multiple, independent and inequitable local systems for providing mental health/alcohol and addiction services (50 boards), mental retardation/developmental disabilities systems (one in each county), elderly services (29 county or municipal offices on aging), and up to three separate human services agencies per county for job and family services, child welfare, and child support. Ohio runs its essential health and human services programs like its K-12 education system but without the benefit of a formula to provide even the semblance of equalization. The state provides support, using state and federal money, for locally-administered health and human services programs but it is up to each county to come up with enough revenue, generally from voted property tax levies, to make up the difference between what it costs to provide the services and what the state makes available to it. The fact that individual counties have an unequal ability to raise property tax money, because of differences in property valuation, means that individuals receive better or worse services depending on the county in which they live and the generosity of its property taxpayers.

It is time that the state re-examined the whole system of how it delivers and pays for health and human services and it should do so in the context of reviewing and addressing the problems with its state and local revenue structure. If this task is undertaken now, the state can avoid the inevitable fiscal problems it will face in FY 2012, when one-time revenues will no longer be available to prop up the state's budget.

Do You Have Questions about Ohio's Budget?

E-mail your questions to budget expert Richard Sheridan at rsheridan@CommunitySolutions.com.

Answers to your questions could be the topic of future issues!