

Appendix B: Ohio's Structural Deficit

Figure B-1. Relying on One-Time Revenue Expands Structural Deficit

Item	FY 2010	FY 2011	Biennium
Reduction in Debt Service Payments from Refinancing State Debt	\$ 376,700,000	\$ 359,200,000	\$ 735,900,000
Unclaimed Funds Transfer ¹	\$ 225,000,000	\$ 110,000,000	\$ 335,000,000
Cash Raid from Non-GRF Fund 4K90	\$ -	\$ 30,000,000	\$ 30,000,000
Tobacco Court Settlement ²	\$ 80,308,863	\$ 178,314,027	\$ 258,622,890
Loan from Tobacco Securitization Proceeds held by the School Facilities Commission	\$ 200,000,000	\$ 50,000,000	\$ 250,000,000
Federal Stimulus from the State Fiscal Stabilization Fund appropriated to ODE	\$ 387,583,913	\$ 457,449,362	\$ 845,033,275
Federal Stimulus from the State Fiscal Stabilization appropriated to BOR and DRC	\$ 421,050,000	\$ 523,290,000	\$ 944,340,000
Federal Stimulus for Medicaid expenditures (eFMAP) ³	\$ 1,465,600,000	\$ 935,200,000	\$ 2,400,800,000
Federal Stimulus from Title IV-E expenditures that are deposited in the GRF	\$ 4,477,002	\$ 2,181,818	\$ 6,658,820
Other Non-GRF Fund Cash Transfers	\$ 22,500,000	\$ 22,500,000	\$ 45,000,000
Cash Transfers from non-GRF funds due to Employee Furloughs and Other HR Actions	\$ 71,000,000	\$ 71,000,000	\$ 142,000,000
GRF Appropriation Lapses Due to Employee Furloughs and Other HR Actions	\$ 65,000,000	\$ 65,000,000	\$ 130,000,000
Tobacco Interest from Bond Fund	\$ 40,000,000	\$ 25,000,000	\$ 65,000,000
Temporary Reduction in Revenue Sharing with Libraries	\$ 41,005,872	\$ 43,311,748	\$ 84,317,620
Assumed GRF Appropriations Lapses	\$ 25,000,000	\$ 403,185,965	\$ 428,185,965
Prior Year Balances Rolled Forward	\$ 255,681,000	\$ 130,400,000	\$ 386,081,000
Federal Stimulus—Child Care Block Grant	\$ 34,050,000	\$ 34,050,000	\$ 68,100,000
Income Tax Rollback 4.2% (if enacted)⁴	\$ 285,236,905	\$ 566,271,428	\$ 851,508,333
Total	\$ 4,000,193,555	\$ 4,006,354,348	\$ 8,006,547,903

Source: OBM and Senate Documents reported in *Gongwer News Services* on October 2, 2009; *The Center for Community Solutions*.

1. The budget plan calls for \$385 million in Unclaimed Funds over biennium. OBM expects that transfers of about \$25 million per year are sustainable.

2. \$149 million of these dollars from the Tobacco Use Prevention and Cessation Foundation have been pledged for optional Medicaid services for adults. If optional services are not reduced and the dollars are not released by the courts, the total budget shortfall would increase to \$480M due to the loss of the federal share.

3. Includes federal stimulus on state expenses made by all Medicaid administering agencies and federal stimulus earned by non-GRF funds to reduce GRF spending.

4. At the time of publication the Supreme Court had ruled against the proposal to install VLTs at Ohio's racetracks without voter approval, which would have raised a total of \$455M in license fees. In response, HB 318, which would temporarily rollback the final reduction to the personal income tax, was introduced. For this analysis, it was assumed that the temporary rollback would be enacted. Amounts reflect proposed increases in appropriations included in HB 318.

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It is common for the budget to be supported with one-time or short-term resources. In the FY 2002-2003 biennium, one-time sources totaled \$2.9 billion. This amount grew to \$3.8 billion in FY 2004-2005, mainly due to the addition of federal stimulus payments to the states following the last recession. The FY 2008-2009 budget contained \$1.2 billion in one-time sources. Figure B-1 shows one-time revenue sources and other actions that offset the need for additional GRF revenues in the FY 2010-2011 budget. The amount of one-time sources supporting this budget is unprecedented, which will increase the challenges to balance the next state budget. We have yet to see any concrete proposals from policymakers

that address how the state's structural deficit will be closed in the next biennium.

Figure B-1 shows the items that temporarily reduce the state's need for GRF dollars. There are substantial sources of one-time funds from the federal stimulus bill, including \$922 million in federal IDEA and Title 1 funds that flow directly to school districts, \$35.8 million in TANF funds, and \$18.9 million in unemployment compensation administration that, without action from Congress, will not continue in the next biennium. The loss of these funds will have an impact above and beyond those discussed elsewhere in this report.

References

1. Enhanced health insurance continuation benefits are available for workers laid off in 2009 through the American Recovery and Reinvestment Act (ARRA). Under the ARRA, unemployed workers are responsible for 35 percent of the cost of COBRA benefits, rather than 100 percent under regular law. The federal government provides a 65 percent tax credit for the remaining cost. More information is available from the U.S. Department of Labor at <http://www.dol.gov/ebsa/cobra.html>.
2. For more information on specific loopholes that should be closely examined, see Zach Schiller, *Limiting Loopholes: A dozen tax breaks that Ohio can do without*, Policy Matters Ohio (September 2008), available at <http://www.policymattersohio.org/LimitingLoopholes2008.htm>.
3. ODE-2008-2009 Fact Sheet on Ohio Schools.
4. Seigel, Jim. "Schools Doubt State's Promises." *The Columbus Dispatch*, September 7, 2009.
5. Property tax rates are expressed in terms of mills with one mill equal to one-tenth of one percent.
6. Ohio Department of Education, 2008-2009 Fact Sheet on Ohio Schools.
7. Ohio's Strategic Plan for Higher Education, 2008-2017—<http://uso.edu/strategicplan/>.
8. Pew Center on the States, *One in 31: The Long Reach of American Corrections* (Washington, DC: The Pew Charitable Trusts, March 2009).
9. LSC Redbook, page 12.
10. The *Fussell v. Wilkinson* lawsuit alleged that Ohio's prisoners were not receiving medical care which violated their rights under the Eighth Amendment to the United States Constitution. As a stipulation of the settlement agreed to in 2005, the state had to improve medical and dental care for inmates including increasing the number of medical professionals on staff at the Department of Rehabilitation and Correction.
11. Department of Rehabilitation and Correction, *Monthly Fact Sheet*, June, 2009.
12. Mehdizadeh, Shahla, et al. "Providing Long-Term Services and Supports to an Aging Ohio: Progresses and Challenges," Oxford, OH: Scripps Gerontology Center, Miami University, May, 2009, page 4.
13. *Ibid.*, page iii.
14. "Improving Ohio's Health System." Ohio Business Roundtable, March, 2009, page 29.
15. Zach Schiller, Strengthen, Don't Scrap, Ohio's Corporate Franchise Tax, Policy Matters Ohio (May 2005), available at www.policymattersohio.org/pdf/Ohio_CFT_study_2005_05.pdf, p. 3.
16. Mike Sobul, Ohio Department of Taxation presentation, "Business Taxes in Ohio and its Surrounding States," Nov. 13, 2003, for the Blue Ribbon Task Force on Financing Student Success, available at: http://www.blueribbontaskforce.ohio.gov/committees/pdf/RT_11-13-03_pres2.pdf.
17. Office of Budget and Management, Fig. B-1: Estimated Fiscal Impacts of Major Tax Law Changes. House Bill 66, 126th General Assembly. *Economic Revenue Estimates and Methodology section*, in *State of Ohio Executive Budget for FYs 2010 and 2011*, p. B-4.
18. For an overview of CAT performance, see Zach Schiller, *Not a fat CAT: Commercial Activity Tax adds to Ohio's budget problems*. Policy Matters Ohio (August, 2009). Available at <http://www.policymattersohio.org/NotFatCAT2009.htm>.
19. *Taxing Issues (Redux)*, The Center for Community Solutions, January 2009, p. 26. Based on earlier estimates by Policy Matters Ohio and Dr. Ned Hill of Cleveland State University. Available at www.CommunitySolutions.com.
20. Smoking rates are inversely related to income.
21. A credit was added to the income tax that helped the poorest families by removing liability for incomes under \$10,000. At original 2004 tax rates, the credit was worth \$111 per year.
22. Calculations made by The Center for Community Solutions.
23. Estimate is for FY 2009. State Controlling Board request OBM0100035 for 1/12/09 meeting.
24. Ohio Legislative Service Commission Final Comparison Document for House Bill 1. For information about other states' experiences with film tax credits, see Jon Honeck, *Film Tax Credit will be a loser for Ohio*, The Center for Community Solutions, June 26, 2009. Available at http://www.communitysolutions.com/images/upload/resources/Film_credit_report.pdf.
25. Joe Hallet, "Eventually, governors in Ohio turn to tax hikes." *The Columbus Dispatch*, 25 May 2009.
26. A description of the early 1990s tax changes is contained in Don Berno and Jack L. Whitmore, "Historical Review of State and Local Government Finances," in *Taxation and Economic Development: A Blueprint for Reform in Ohio*, Roy Bahl, ed. (Columbus, OH: Battelle Press, 1996), pp. 159 – 219.
27. Calculations by The Center for Community Solutions based on Bureau of Labor Statistics, seasonally adjusted monthly Current Employment Statistics data series. See also Jon Honeck, *A Balanced Approach Promoted Ohio Recovery after Previous Recessions*, The Center for Community Solutions (October 2009). Available at: http://www.communitysolutions.com/images/upload/resources/BalancedApproachPromotedOhioRecoveryAfterPreviousRecessions102909_1.pdf.
28. For a discussion of these issues, see Jon Honeck, *The 2005 Tax Overhaul and Ohio's Economy*, Policy Matters Ohio (January, 2009). Available at <http://www.policymattersohio.org/2005TaxOverhaul.htm>.
29. Peter Orszag and Joseph Stiglitz. "Budget Cuts vs. Tax Increases at the State Level: Is One More Counter-Productive than the Other During a Recession?" Center on Budget and Policy Priorities, November 6, 2001. Available at www.cbpp.org.
30. Oregon Legislative Revenue Office. Research Report #6-09. *Referendum 301 & 302 Revenue Measures*. September, 2009. Available at www.leg.state.or.us/comm/lro/research_report_301302.pdf.
31. *Ibid.*, p. 3.
32. Federation of Tax Administrators, "2008 State Tax Revenue," available at www.taxadmin.org/fta/rate/08taxbur.html.
33. FY 2006-2007 state and local rankings are the latest available because of the frequency of Census data on local tax collections. The state tax ranking is at www.taxadmin.org. The ranking of state and local taxes is compiled by the Center on Budget and Policy Priorities in Washington, D.C., based on Census data.
34. Jon Honeck, "Avoiding a Meltdown in Public Services," *State Budgeting Matters*, Vol. 5, No. 10, June 1, 2009. Available at www.CommunitySolutions.com. See Fig. 2 on page 7, which compares state GDP on a calendar year basis with GRF spending on a fiscal year basis, starting with FY 1979 GRF and 1979 state GDP.
35. Jon Honeck, *Economic Growth and the Public Sector: Evidence from the States*. Policy Matters Ohio (September, 2006), available at http://www.policymattersohio.org/state_economic_growth_2006.htm.
36. See chart in Appendix B for a list of one time sources supporting appropriations in the FY 2010-2011 budget.
37. Ohio Department of Taxation. Table 23. "2007 Income Tax Returns by Ohio Taxable Income Class." June 16, 2009. Available at http://www.tax.ohio.gov/divisions/tax_analysis/tax_data_series/individual_income/y1/Y1CY07.stm.
38. This analysis uses personal exemptions at 2008 levels of \$1,500 each.
39. See *Taxing Issues (Redux)*, The Center for Community Solutions, January 2009, pp. 22-27. Previous studies by Cleveland State University and Policy Matters Ohio have used this Tax Department estimate.
40. The CAT exempts nonprofit organizations, most governmental entities, some public utilities, dealers in intangibles, financial institutions and some affiliates, insurance companies and some affiliates, and most businesses with incomes of less than \$150,000 per year of taxable gross receipts.
41. Ohio law establishes a "bright-line" test to determine if an out-of-state business has a legal connection ("nexus") with Ohio and is subject to the CAT. The Department of Taxation determines whether a nexus exists based on at least one of the following five factors at any time during the calendar year: (1) whether the business possesses at least \$50,000 in Ohio-based property, (2) possesses at least \$50,000 in Ohio-based payroll, (3) possesses taxable gross receipts of at least \$500,000, (4) possesses at least 25 percent of total property, payroll, or sales in Ohio, or (5) possesses legal or commercial domicile in Ohio.
42. Zach Schiller, *Business Tax Revamp: A Deficit in the Making*, Policy Matters Ohio (January 2009). Available at <http://www.policymattersohio.org/BusinessTaxRevamp2009.htm>.
43. Tangible personal property used by telephone, telegraph, and interexchange telecommunications companies is phased out over a five-year period through tax year 2011.