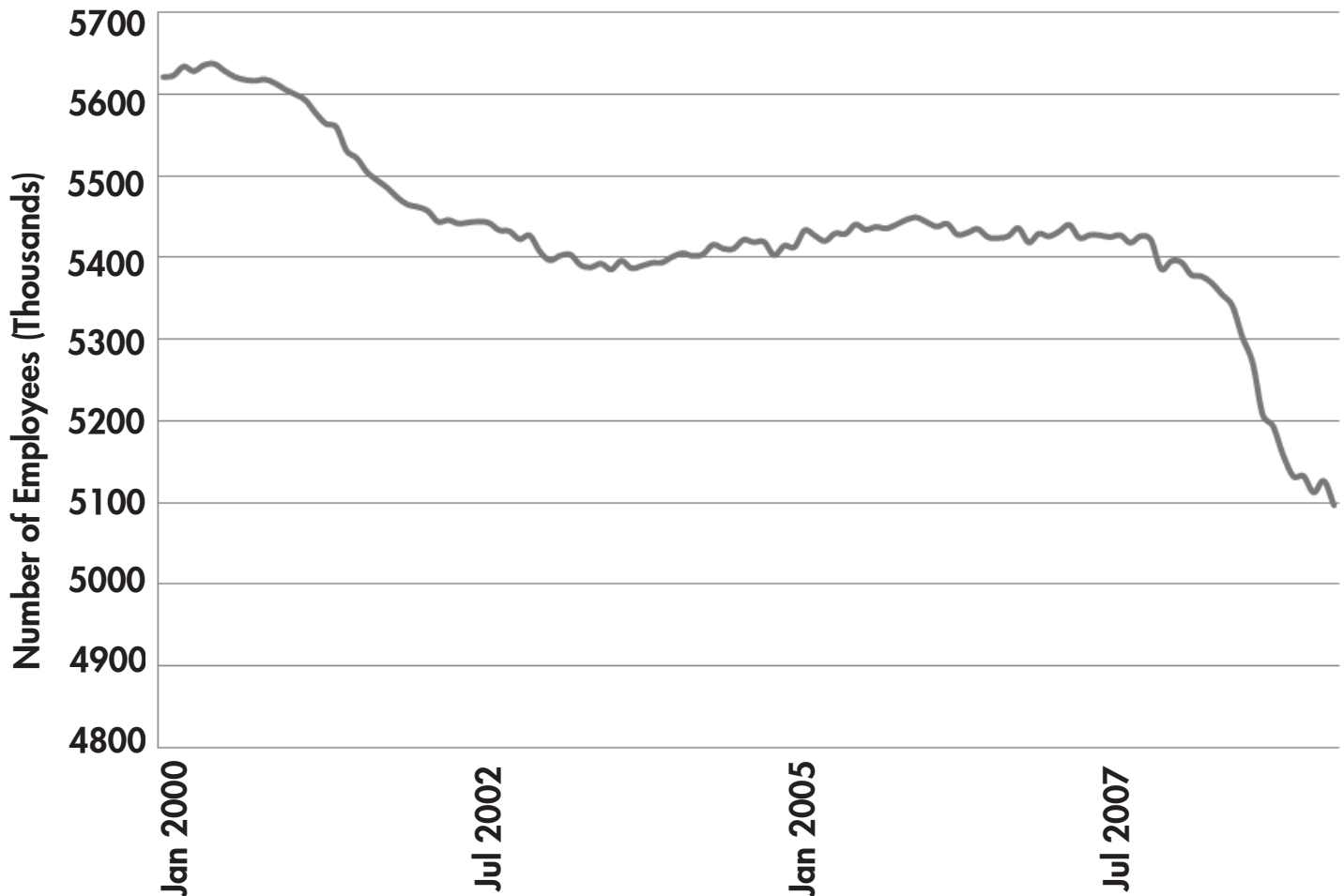


I. Recession and the 2005 Tax Changes: The Twin Grip on State Finances

The recession, which officially began nationwide in December, 2007, has been devastating to Ohio workers. The state has lost about 300,000 jobs so far, some of which, particularly those in manufacturing, are unlikely to come back. As shown in Figure 1, Ohio's labor market never recovered from the previous recession of 2001 – 2003. The current employment level has dropped to 5.1 million, the lowest it has been since the 1990s. That is half a million jobs (9 percent) below the peak level of 2000.

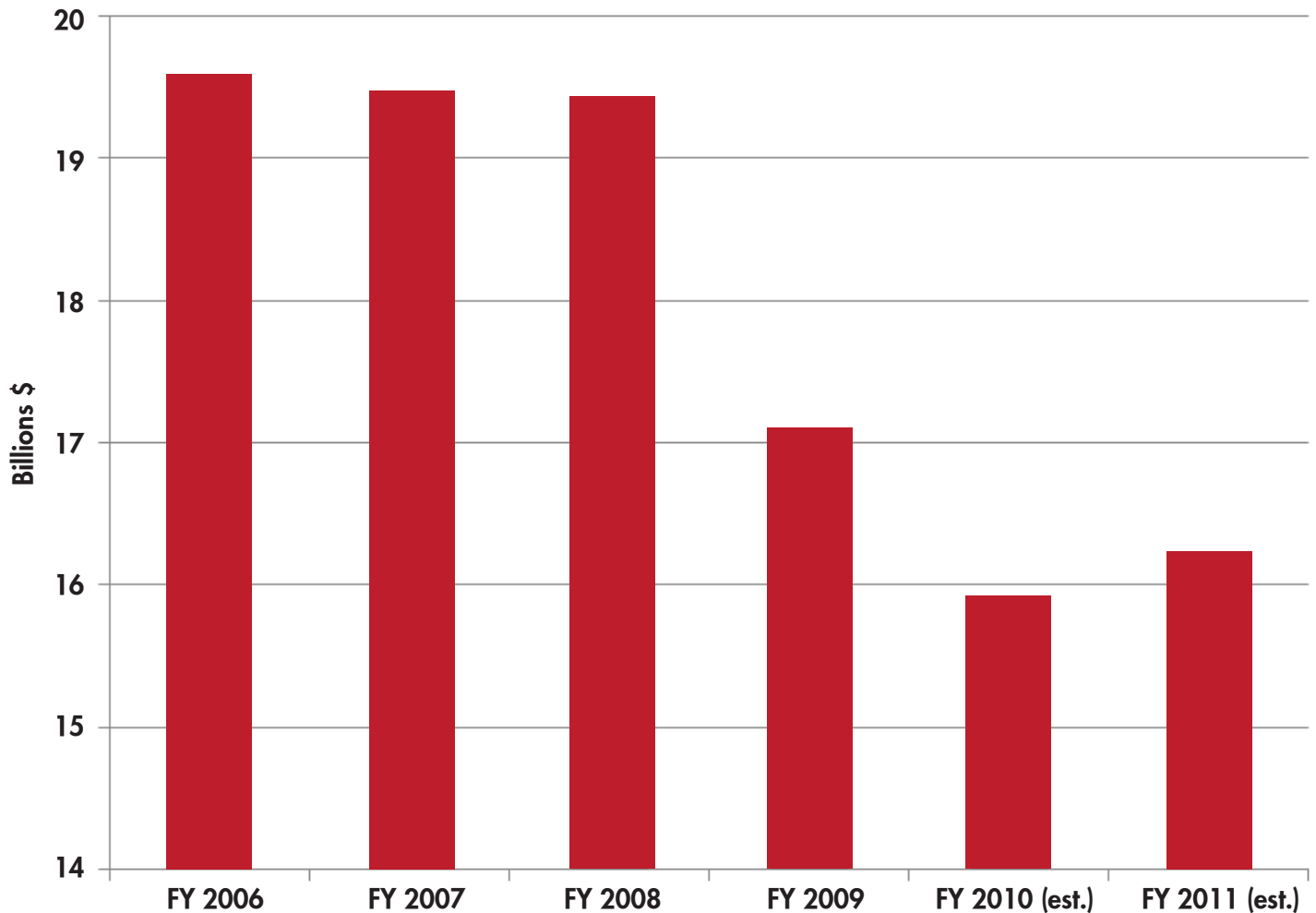
The recession has driven tax receipts downward as incomes have fallen, business activity has declined, and consumer purchasing has dropped off. But this problem pre-dates the recession. Ohio has been losing revenues each year since state tax policy changes took effect in 2005. Explained in greater detail in Section IV of the report, they will cost the state over \$2 billion in FY 2010. Ohio does not have a spending problem; it has a revenue problem as a deep recession and structural changes in the economy have compounded the effect of tax policy decisions.

Figure 1. Ohio Employment on Downward Path



Source: U.S. Bureau of Labor Statistics; The Center for Community Solutions.
Note: Data are seasonally adjusted.

Figure 2. Total State GRF Tax Receipts Dropped Significantly



Source: OBM H.B. 1 Conference Committee estimates.

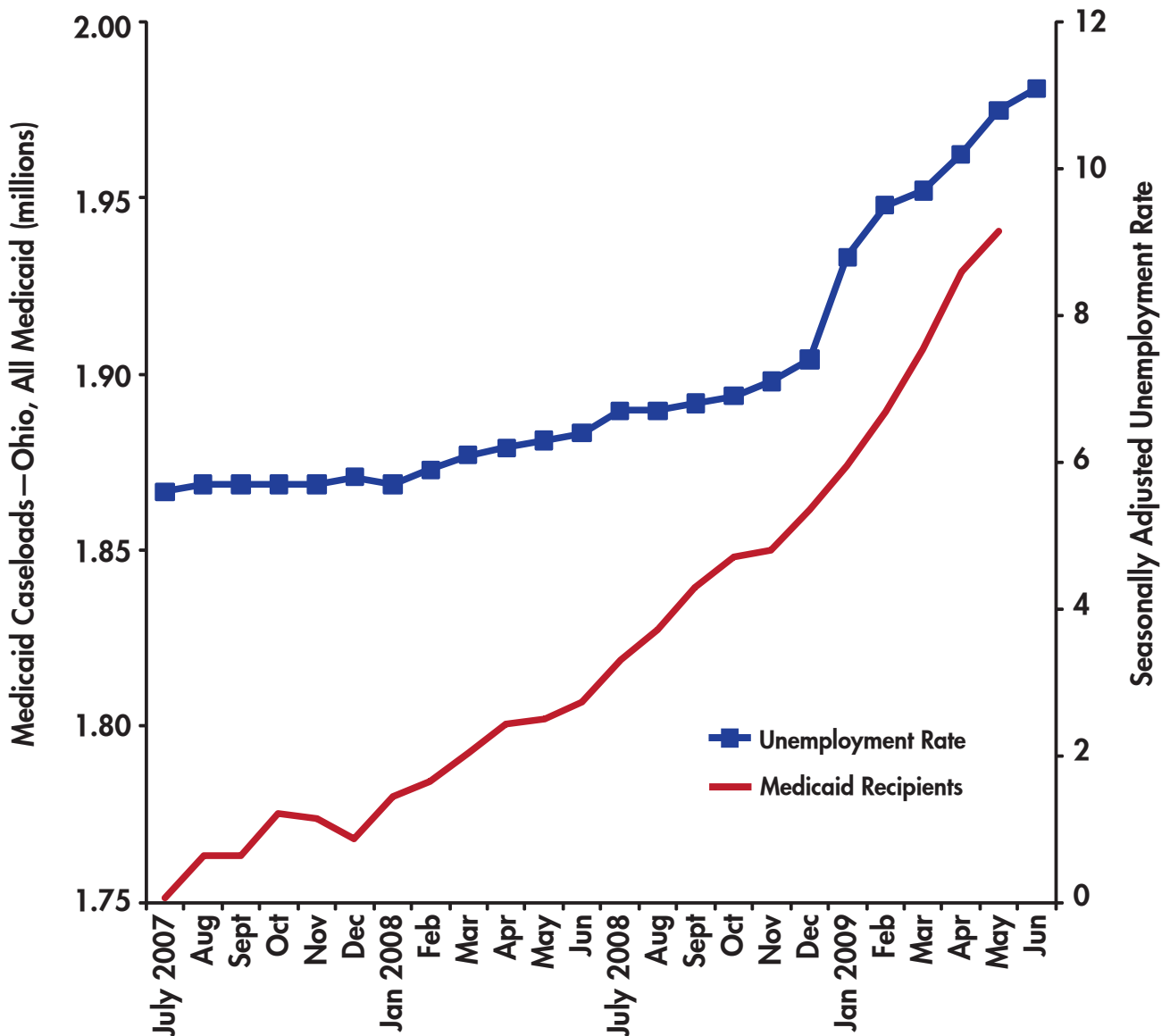
Receipts to the General Revenue Fund (GRF), the largest state fund that supports most major state programs, did not grow at all between fiscal years 2006 and 2008 (Figure 2). Between FY 2008 and FY 2009, revenues fell by 12 percent; they are expected to decline another 7 percent in FY 2010 before rising slightly in FY 2011. Even assuming robust growth of 5 percent per year, GRF revenues will not exceed FY 2008 levels until 2015.

Demand for Government Services Rises as Economy Declines

In times of economic stress, state tax revenues decline while the public's need for state services grows, putting the state in a bind of rising

costs and fewer resources. One example of this is Medicaid, which provides health insurance to low-income families, the disabled, and the elderly. As people lose their jobs or have their work hours reduced, they often lose private health insurance coverage¹ and become eligible for Medicaid. Enrollment in the program surged by 200,000 in the past two years as the unemployment rate nearly doubled. Today, about 1.9 million Ohioans (1 in 6 people) are covered by Medicaid, and enrollment is expected to grow by another 200,000 by the end of this budget biennium. (This program is discussed in greater detail in Section III.)

Figure 3. Medicaid Enrollment Grows with Rise in Unemployment



Source: Ohio Department of Job and Family Services. Public Assistance Monthly Statistics.