

## **Introduction: Tax Cuts and Recession Lead Policymakers to Drastically Reduce State Government Spending**

Ohio stands at a crossroads. A steep, recession-driven decline in tax collections has been occurring at the same time that the troubled economy has caused more Ohio families to need basic social services. The unprecedented federal stimulus assistance enacted early in 2009 is helping to fill part of the gap between how much money the state has and how much it will take to meet the public's growing needs—but it is not enough.

In adopting the state budget that took effect in July, 2009, state leaders rejected a balanced approach that would have included new revenue. Instead, they relied heavily on spending cuts and further depressed revenues by going forward with the final installment of tax changes that began in 2005, reducing personal income and corporate franchise taxes. The impact of these decisions will place the burden of adjusting to the economic crisis on our most vulnerable populations: Ohio's children, the elderly and disabled, and low-income families.

*Financing Ohio's Future: Human Services in Tough Times* is a resource to help social service advocates and others across the state understand the issues and make their voices heard in the budget process. From it, you will gain a basic grasp of how the state's tax system works; policy options for improving our tax structure; how federal, state, and local funding streams interact to support major health, social services, and educational programs; and the fiscal challenges the state will face in the next few years. These challenges will become greater as policymakers fashion the next budget without the cushion of federal stimulus funds and other one-time funds.

The stakes are high. Public services touch the lives of millions of Ohio's citizens each year including:

- 1.9 million elderly, poor, and disabled receiving health coverage through Medicaid;
- 1.8 million children in public primary and secondary education schools;
- Approximately 110,000 children receiving subsidized child care;
- More than 480,000 students attending Ohio's public colleges and universities;
- More than 300,000 people served by the mental health system;
- Nearly 100,000 people receiving drug or alcohol abuse treatment; and
- Nearly 80,000 individuals with developmental disabilities receiving services and supports.

Policymakers have justified cuts to health and social services on the grounds that the state saves money. But these actions are often "penny-wise and pound-foolish." Cuts in many cases increase the long-run costs of dealing with health and social problems. For example, people with untreated chronic disease show up in hospital emergency rooms when their illnesses reach a crisis and cost more to treat. Children left in abusive settings suffer long-lasting effects that hinder their ability to become productive adults. Older adults who do not get the help they need to stay in their homes are sent to nursing facilities that cost far more. College students who must shoulder a large debt burden to complete their education buy fewer goods and services in their communities, save less for retirement, and delay starting families and buying homes.

The FY 2010-2011 budget was difficult, but the next one will seem like climbing Mount Everest if we do not take the right steps now. The current budget relies on \$8 billion in federal and state one-time revenues and accounting moves. Even if the economy rebounds strongly, the existing tax system cannot close the gap. Relying too heavily on spending cuts will jeopardize an accept-

## *Financing Ohio's Future: Human Services in Tough Times*

able quality of life for Ohioans today and result in a failure to invest in a future of good jobs and prosperity. To illustrate the magnitude of this, the state could eliminate all support for the public college and university system and still fall short of plugging the hole.

It is clear, then, that increased revenues must provide much of the solution. That means reversing some of the tax reductions made in recent years, closing tax loopholes, and developing new sources of revenue.

State budget discussions generally focus on short-run costs borne by the state, but this calculation is incomplete. The overall costs and

benefits of budget decisions for society must include the impact on the lives of the individuals involved and on the wider community. The nature of these discussions must change, and better informing ourselves is a start. The Center for Community Solutions, through this publication and related statewide workshops on budget and tax policy, will help Ohio's citizens become better informed so they can understand and have a voice in the development of the next budget, as well as monitor what occurs in the coming biennium.

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### Highlights

- Five years of tax cuts have reduced the state's revenues by more than \$2 billion per year. When combined with revenue losses from the recession, the state cannot meet current obligations to provide basic programs such as mental health, adult and child protective services, and emergency assistance for families in need.
- The next budget will be even worse for health and social services if revenues are not increased. The current budget relies heavily on federal stimulus funds and one-time state funds, creating a biennial deficit of \$6 billion to \$8 billion when these sources are exhausted at the beginning of FY 2012.
- A redesign of Ohio's tax system should reverse several negative trends. These trends are: (1) Ohio's state and local tax system has become more burdensome for low-income people over time and more favorable for the wealthy; and (2) the business share of state and local taxes has declined, leaving individuals to pay a greater share of the total.
- Tax changes needed to balance the state budget should include restoring 2004 income tax rates on the wealthiest taxpayers, closing tax loopholes, and increasing the rate of the new commercial activity tax so that it returns a sufficient amount of revenue to the state's general fund.
- In the long run, cost pressures from Medicaid, criminal justice, and other programs will continue to squeeze human services unless fundamental reforms take place. In Medicaid, this means rebalancing long-term care for the elderly to ensure access to less expensive home- and community-based care options. In criminal justice, the state should redirect nonviolent offenders to more appropriate settings and invest in programs to reduce recidivism.
- A strong commitment to education is vital for the state's economic future. Improvements to K-12 and college education will not succeed without sufficient state funding.