

CHAPTER 10:

Adapting to the New Normal, 1975-1998

A troubling pattern began to emerge in Ohio in the 1970s that would plague state finances for decades to come. An economic downturn would create a fiscal crisis that would be resolved through a combination of executive budget cuts, either across-the-board and selective, and tax hikes, either temporary or permanent. As normalcy returned and state coffers filled, calls for reductions in major tax rates would inevitably occur. While Governor John Gilligan's enactment of Ohio's first income and business income taxes resolved a failing state budget in the early 1970s, fiscal instability inevitably would return to state finances in the years to come.

James Rhodes, 1975-1983

FISCAL MILESTONES OF THE SECOND RHODES ADMINISTRATION			
1975	1976	1978	1981
Enactment of School Foundation formula	<ul style="list-style-type: none">• Property tax relief – House Bill 920 of the 111th General Assembly• Creation of Total Operating Fund	Prohibition on school closure and creation of Emergency School Advancement Loan Fund	<ul style="list-style-type: none">• Cutback management, budget summits, and budget gimmickry• Creation of Budget Stabilization Fund

Returning to the Statehouse for a third term of office, Republican James Rhodes confronted a recalcitrant Democrat legislature that had, in his absence, converted itself from a citizen legislature into a full-time, permanent professional body. The governor and the executive branch dominated state fiscal policy development in the 1960s. However, during the Gilligan Administration, the legislature learned that through their constitutional power to appropriate funds, and their obligation to set state tax policy, they could exercise a more equal hand in formulating state fiscal policy. They were not willing to cede this power, so recently won, easily. For two years, the executive and legislative leadership battled for supremacy in this arena.

Governor Rhodes attempted to expand on the building program of the 1960s, which was supported by revenue bonds but limited to only the specified uses. He attempted to gain legislative support for a broader bond package to cover infrastructure construction and reconstruction that went beyond the 1963 bond issues. The Democrat legislature refused to put his proposition on the ballot. Meanwhile, they enacted a state budget for the FY 1976–1977 biennium that was formulated by former Governor John Gilligan and left as his legacy, rather than the one submitted by Governor Rhodes. Suffering these two defeats at the hands of the legislature, Governor Rhodes forged an alliance with a fellow Southern Ohioan, Speaker of the House Vern Riffe, who was to serve as Speaker for 20 years, the longest tenure in such a position in United States history. Governor Rhodes capitalized on the similar upbringing, personality, and attitude toward politics and government of his colleague, and together they made many changes that would affect state budgeting, beginning with three major changes impacting budgeting for public schools.

The School Foundation Formula. Nearly one-half of the moneys for public school districts is derived from local sources, with most of the local money coming from wealth-based real property taxes.¹ The amount of money that can be raised from a single mill, or one-tenth of one cent, of taxes depends on the value of real property in the school district's jurisdiction. This equation means that to obtain the same yield, school districts with lower property wealth have to expend greater effort to raise the same amount of money as more affluent school districts. Voters have to vote for higher property taxes in poorer districts to compete for available local dollars with districts with high property values. This reality is politically difficult and even economically impossible in the poorest parts of the state, particularly since they usually include a high proportion of elderly persons without children of school age who are unwilling to vote in favor of higher property taxes for schools.

In the 1930s, the legislature undertook the task of finding a way to equalize the disparities between rich and poor school districts by creating a School Foundation Program to provide state funds to support basic education. The legislature revised the program's formula in 1975 when it created the Equal Yield Formula, based on recommendations made in 1974 by the legislature's Education Review Committee.

For budgeting purposes, the significance of the 1975 formula was that it attempted to do for primary and secondary education what had previously been done for higher education, removing spending decisions from purely political considerations.² It remained in effect until 2006 when the legislature adopted a new "building blocks" formula for use in distributing state aid. In 2009, an "evidence-based" formula was introduced, but subsequently abandoned just two years later. Yet, a new funding model was put forward by the Kasich Administration in 2013. This model is described in Chapter 14.

House Bill 920. The movement to limit taxation, particularly the local property tax, came early to Ohio. The General Assembly enacted the 10 percent property tax rollback for all residential property in 1971. In 1979, the legislature enacted an additional 2.5 percent tax rollback for owner-occupied residential property. In addition, in 1970, a constitutional amendment created a "homestead exemption" for low-income seniors that was extended to disabled homeowners in 1974 through another constitutional amendment.

Despite these early actions, it is California's "Proposition 13" that is most associated with this movement in government budgeting circles. In 1978, voters in California imposed spending limits on local government that was hailed as a way of establishing populist control over out-of-control government spending. A number of other states quickly adopted similar referendums, and there was widespread

fear how the movement would impact Ohio. Even before passage of California's spending limits, the Ohio legislature adopted HB 920 in 1976, fearing an irrational lid being placed on spending by initiative. This law placed a lid on the growth in local property taxes.³ Four years later, in 1980, voters would put key parts of the law into the Ohio Constitution.

Until the enactment of HB 920, property tax levies voted to support local governments, about 70 percent of which are to support local schools, increased as inflation raised the value of real property. HB 920 froze locally approved levies at the value of residential property at the time of the levy. With the exception of new construction, a lid was thus placed on locally generated property taxes. Schools have felt the adverse effects of this provision for decades. It has required them to seek new and more frequent levies at the local level. Meanwhile, the legislature has had to raise state aid to schools to help make up for the lost revenue needed to improve the quality of schools, pay for salary and benefit increases, pay for other inflationary costs, and meet enrollment growth.

Ironically, the converse scenario occurred during the Great Recession, an unintended consequence of HB 920. As property values plummeted in some hard-hit Ohio cities at this time, taxes were frozen at the higher rate at which they were enacted and not allowed to drift down in keeping with the decreased valuation.

In the FY 2014–2015 budget bill, limits were finally placed on HB 920. Its impact would now be limited to only those levies that were in effect prior to September 2013, and to the subsequent renewal of these levies. New and replacement levies would be allowed to grow with the value of residential property over time, although this may make it more difficult to pass such levies in some communities. The same legislation, House Bill 59 of the 130th General Assembly, restored means testing to the Homestead Exemption for homeowners not receiving the exemption in 2013, reversing a dramatic expansion of the program to all senior and disabled homeowners that took place in 2007.

Emergency School Advancement Loan Program. Partially because of HB 920, and partially because of inadequate state funding and an inability to gain voter approval for new property taxes, many school districts resorted to the “gimmick” of closing their schools before the end of the school year. Since school budgets were on a January to December fiscal year at that time, and state funds for a new year were not received until July 1, districts could end the school year when their money ran out and begin earlier in August after new, higher state revenues were received. This calendar made for poor educational planning, but children still received the mandatory 180 days of school each year. In 1986, the school calendar was changed to a June 30–July 1 fiscal year.

This convoluted approach to running Ohio's public schools was difficult to explain. When the Cleveland City School District announced it was going to close and send 700,000 students home because it ran out of money, it received national attention, and was a major embarrassment for the state. A federal court ordered the district to remain open, forcing the state to take action. The result was the passage of legislation in 1978 forbidding schools to close because of a lack of money and forcing them to borrow from the newly created state Emergency School Advancement Loan Fund.⁴ The borrowing district was placed under state oversight until the loans were repaid. It provided some troubled school districts with the needed outside expertise and fiscal discipline to bring their expenditures in line with revenues. For other districts, however, instead of solving the problem, it led them to become indebted beyond their capacity to repay. Along with HB 920, it was a major contributing factor in the Ohio Supreme Court's 1996 declaration in *DeRolph v. Ohio* that the state's system of funding sc

hools was unconstitutional. The Emergency School Advancement Loan Fund was abolished by the legislature after this court decision.

Total Operating Fund. According to generally accepted government accounting principles, each separate government fund must maintain its own integrity. This philosophy means that the state must maintain a sufficient cash balance to meet all anticipated obligations. Until the mid-1970s, this process is how the state operated. However, in 1976, a lack of cash meant the state was unable to meet its obligations to its vendors, and state workers faced payless paydays. Thus, the idea of pooling the cash from a number of separate state funds arose. The legislature created the state Total Operating Fund, pooling the cash of several funds for cash accounting purposes, but not for budget purposes.⁵ In essence, then, the state was able to disburse all General Revenue Fund moneys, holding none back from appropriations to meet cash flow needs because it could draw on the cash in other state funds. Until then, the state always withheld from appropriations about 5 percent of expected receipts. From now on, the state would be able to appropriate 100 percent of expected receipts plus carryover balances. This fund has permitted the state, when needed, to appropriate all anticipated revenues without having to worry about running out of cash.

Cutback Management and Budget Summits. Perhaps the greatest contribution to fiscal management and budgeting during Governor James Rhodes' second two terms was in the application of cutback management. In 1980, the nation was thrown into a major recession. Monetary policies of Chairman Paul Volcker and the Board of Governors of the Federal Reserve System, commonly known as "The Fed," had curbed the double-digit inflation of the 1970s, but at the expense of widespread unemployment. Ohio was especially hard hit. Population and personal income had already been eroding since the 1960s, but the recession of the early 1980s accelerated this trend. The manufacturing base on which the state's tax structure was grounded was reeling. Moreover, Ohio lost the benefit of inflation-driven revenues. It had used up the excess revenues generated by the new income taxes on expensive ongoing programs and tax relief. This spending undermined the state's ability to raise enough revenues within its existing tax structure to pay for the increased costs of human services programs for the unemployed, an ingrained component of the state's spending policy.

Unwilling to support a major tax increase, perhaps in recognition of the treatment the voters afforded Governor John Gilligan after the income tax was enacted through his leadership, Governor Rhodes established the precedent of calling for a series of budget "summit" meetings attended by the governor, his chief political and fiscal advisors, the legislative leaders of all four caucuses, and their fiscal advisor. The importance of these sessions was that the fiscal policies of the state were debated by the executive and legislative branches, including both political parties, and then settled by general consensus. Differences over revenue estimates were resolved in the same setting. The outcome was a series of temporary tax increases and budget reductions based on prior agreement. As a result, the state "muddled through" the recession and the completion of Governor Rhodes' second consecutive and fourth term of office. Governor George Voinovich later used the budget summit under similar economic circumstances. His successor, Bob Taft, chose instead to only work with Republican legislative leaders.

Budget Gimmickry. In order to keep the state budget in balance, a number of changes were made in the budget and accounting systems to allow state government to operate without having to cut spending further or raise more taxes. In addition to raising taxes temporarily to the end of the biennium, Medicaid payments to nursing homes and hospitals were put off. Instead of cutting state aid to schools, the state permitted local school districts to borrow from the banks up to the amount of

authorized state aid with the state paying the cost of interest. Encumbrances for planned expenditures were not established in some instances, the payment schedules for the collection of some taxes were accelerated, and state liquor store inventories were depleted and the state claimed a higher share of profits than it would have otherwise. Still, without further budget cuts or more taxes, the state simply did not have enough cash in its General Revenue Fund to meet ongoing obligations. Despite the recent advent of the Total Operating Fund, the state was spending every penny that was coming in during the last year of Governor James Rhodes' final term. A temporary 25 percent across-the-board income tax hike was imposed in 1982 with an additional temporary 12.5 percent tax imposed the following year. However, these measures still fell short of bridging the state's budget shortfall.

Budget Stabilization Fund. The state's Budget Stabilization Fund, most commonly known as the "Rainy Day Fund," was created in the FY 1982–1983 biennial operating appropriations act, which also raised the state sales tax from 4 to 5 percent. The intent was to prevent a recurrence of the previous budget cutting by banking "excess" revenues for release during economic downturns or "rainy days." As a matter of fiscal policy, the Voinovich Administration would later choose 5 percent of the preceding year's General Revenue Fund as the goal for the size of the fund. This number was raised to 8.5 percent in 2015, even though it has yet to achieve this level. The significance of this fund to state budgeting has been to provide the state with a cushion against faulty revenue estimates or economic assumptions. However, expenditures from the Budget Stabilization Fund in one year may well lead to a structural imbalance the next year from use of these one-time revenues.

Richard Celeste, 1983-1991

FISCAL MILESTONES OF THE CELESTE ADMINISTRATION		
1983	1987	1989
<ul style="list-style-type: none"> • 90 percent permanent income tax increase • Enactment of Collective Bargaining Act • Dedicated funding for libraries 	Repayment of Unemployment Compensation debt	Abolition of Emergency Board

Rebalancing the State Budget. In mid-1982, just before Governor James Rhodes left office, it was clear that the state had not truly resolved its budget problems with all of its temporary measures. Gubernatorial and legislative fiscal staff informed budget summit participants that the state still had a half billion-dollar deficit. They chose to ignore this advice, arguing that it should be the responsibility of the next governor and General Assembly.

When Democrat Governor Richard Celeste assumed office in January 1983, his first task was to rebalance the current state budget that would be in effect for six more months. If nothing were done, the state would have ended with a negative balance and become the first state in the nation to go into default and fail to pay its obligations. Instead of settling for the cut-and-patch approach that had signified the rebalancing that took place over the preceding two years, he pledged to restore fiscal stability to the state by proposing a major permanent income tax increase. He proposed making permanent the temporary tax hikes enacted during the previous administration and adding additional rate changes for a total permanent increase of 90 percent. With this change, the income tax eclipsed the sales tax as the largest generator of state revenues, a position it would retain for the next 30 years. Although just a 27 percent increase over the temporary rates, the media indeed branded the tax hike as a 90 percent increase, generating pushback among voters.

The new General Assembly, though still peopled primarily with holdover legislative leaders and members, was by now sick of hearing its official revenue forecasters revise their estimates downward on a month-by-month basis and quickly approved Governor Celeste's tax proposal with some modifications. The result was a new state tax structure that adjusted the balance between individuals and businesses, with individuals paying a larger share, along with numerous other changes.⁶ After successfully defeating a voter initiative to reverse this action, Governor Celeste was able to successfully advance his fiscal agenda with new, higher revenues to pay for it.

Collective Bargaining Act. Until 1983, when the legislature passed a collective bargaining bill for public employees, determining what salary increases to provide to state employees was a legislative matter.⁷ Until 1977, agencies either "padded" their budgets to accommodate their expectation of what the legislature would approve for salaries, or were forced to institute economies to pay for raises approved in a specific kind of appropriations bill, the pay bill. During the FY 1976-1977 budget session, the legislature made a single lump sum appropriation for compensation adjustments to the Controlling Board to later distribute to individual agencies. This method continued to be used for some time when collective bargaining eliminated the need for pay bills and also the contentious legislative debates that accompanied those bills in the past.⁸ Although the collective bargaining act was effectively gutted in 2011 by the General Assembly, the action was subsequently overturned by the voters later that same year.

Dedicated Funding for Libraries. Until 1986, investments and savings accounts were taxed locally with the proceeds going to support local libraries. To substitute for the loss of local revenue when this intangibles tax was repealed, the legislature allocated 6.3 percent, later changed to 5.7 percent, of all individual income tax collections to go to local libraries distributed according to a formula established in law, thereby creating a budget anomaly. General revenue sharing to local governments is justified on the grounds that the benefiting local governments provide services to the state and administer state-mandated programs without reimbursement. The general revenue sharing of state taxes helps compensate for those services and also, historically, for removal of a part of their tax base when the state sales tax and, later, the state income tax was enacted. However, libraries are different.

All state agencies have to submit budgets that are reviewed and analyzed by the executive and legislative branches before appropriations are made. Libraries are not state agencies and they submit their budgets for approval only to their local governing boards despite the fact that much of their funding comes from the state. Local school districts receive state funds based on a formula that is dependent on enrollment and principles of resource equalization. Higher education institutions receive funds based on formulas dependent on student outcomes and other performance measurements. Libraries, on the other hand, have received their state funds without regard to any formula based on need. Their appropriations grew so long as total state revenues grew, and they were not subject to executive budget cutting. As a result, libraries occupied a preferred status in state budgeting not enjoyed by any other governmental activity.

Despite this historic privileged status, libraries have not been immune to feeling the impact of state budget conditions in more recent times. Funding freezes occurred during the FY 1992–1993 biennium as well as between FY 2002 and FY 2007. As with the Local Government Fund, a new funding mechanism was instituted for libraries in 2008 in which the fund received 2.22 percent of total General Revenue Fund (GRF) tax receipts. This number was subsequently reduced to 1.97 percent in the FY 2010–2011 budget, when Governor Strickland was calling for even much deeper cuts. The FY

2012–2013 budget funded libraries at 95 percent of their already reduced FY 2011 level. The “percentage of revenue” methodology returned again in the FY 2014–2015 budget, and library deposits are now set at 1.68 percent of total GRF tax receipts.

Repayment of Unemployment Compensation Debt. In addition to the state budget issues it generated, the recession of the early 1980s placed a considerable strain on Ohio’s unemployment compensation system. Like several other states, Ohio addressed the problem by obtaining and subsequently repaying advances from the federal government, which totaled \$2.8 billion for the state. An improved state economy and budget allowed for the repayment of the debt by 1987.

While solvency was again threatened in the late 1980s and early 1990s, the Unemployment Compensation Trust Fund did not go into the “red” again until the Great Recession of 2008–2010, in part because of changes made to the Unemployment Compensation Law that increased revenues and reduced benefits.⁹ The state borrowed more than \$2 billion from the federal government in 2009 alone to meet its obligations. The debt, which would grow to \$3.4 billion, was fully repaid by 2016. Discussions continue on strategies to increase revenues and reduce benefits in a manner that would minimize or, perhaps, even avoid the future need to borrow from the federal government, while still providing needed income support to unemployed Ohioans and not unduly burdening the state’s businesses.

Demise of the Emergency Board. Until 1985, all out-of-state travel by any state employee was scrutinized by a high-powered “Emergency Board” consisting of the governor, the Auditor of State, the Attorney General, or their designees, and the chairpersons of the Senate and House Finance Committees. They met every two weeks for no other purpose than to question whether an out-of-state travel request was justified.

Largely because of the time consumed in such a review, in 1985, it was statutorily directed to establish policies and procedures governing out-of-state travel and set an annual travel expense ceiling for each agency, within which each agency could authorize individual travel, simply reporting who traveled and why on a quarterly basis. This change was the beginning of the end of the board, and it was formally abolished four years later.

Such high-level scrutiny of a single object of expenditure was typical of the institutionalization of budgeting for control purposes and epitomizes line-item budgeting. When the board, and the provision of law prohibiting all out-of-state travel unless approved by the board, was repealed, it removed an impediment to more goal- and performance-oriented budgeting in Ohio.

George Voinovich, 1991-1998¹⁰

FISCAL MILESTONES OF THE VOINOVICH ADMINISTRATION						
1991	1992	1993	1995	1996	1997	1998
Recession keeps budget out of balance	Term limits for state elected officials	Corrections system growth	<ul style="list-style-type: none"> Abolition of General Assistance Gubernatorial control of school governance 	Mandatory personal income tax deduction	<i>DeRolph v. Ohio</i> declaring state school funding unconstitutional	Voter rejection of sales tax increase for schools

Rebalancing the State Budget. By the beginning of FY 1990 in July 1989, Ohio enjoyed one of the healthiest fund balances in the nation and ranked in the bottom third of the states in terms of appropriation growth.¹¹ It was tenth in the nation in terms of its end-year balance. Based on rosy economic forecasts, Governor Richard Celeste proposed, and the legislature adopted, as his final budget one that called for hefty increases in authorized state spending. Much of the spending was concentrated in FY 1991, the second year of the biennium, of which surpluses accumulated during his terms of office would be spent down.

However, by November 1990, the nation was again in an economic recession. The state had significantly overestimated expected state revenues and also grossly underestimated how much would be needed for the state's Medicaid program. After the November election, but before Governor George Voinovich took office, the General Assembly enacted a supplemental appropriations bill, seeking to shore up what was then a projected \$270 million budget shortfall. The expectation had been that Governor Celeste would leave a balanced budget and a \$300 million surplus in the state's Budget Stabilization Fund.

When Republican Governor Voinovich took office, he immediately undertook the task of rebalancing the state's FY 1991 budget. In order to end FY 1991 with a positive General Revenue Fund balance, he ordered significant spending cuts without seeking legislative approval of them. After the legislature adopted the next biennial budget, it soon became apparent that it too was based on overly optimistic revenue forecasts and underestimates of Medicaid spending needs. Governor Voinovich unilaterally cut appropriations again. This time he included primary and secondary education in the cuts, which had been exempted in his earlier cuts and in reductions made by Governor Celeste.

Budget Summits and Budget Gimmicks. After quarreling with the legislature over what other steps needed to be taken, and after rejection of many of his proposals when the budget was still hemorrhaging, Governor George Voinovich chose to use the budget device of summits originated by Governor James Rhodes. A Joint Senate-House Budget Deficit Committee was formed to work with the governor and his budget chief to reach consensus over how to resolve the continuing budget problem. One of the joint determinations was to dip into the second year of Medicaid and other human services program appropriations in order to escape FY 1992 without a deficit. This action was taken by the Controlling Board, consisting of the governor's representative and a small group of legislators secure in their legislative positions. Thus, the full legislature did not have to vote on an action that simply pushed the problem into FY 1993, although it risked criticism of fiscal deceit at primary election time.

Cutback Management. The fiscal problems did indeed continue into FY 1993. Governor George Voinovich still refused to propose a general tax increase and ordered further, more Draconian, budget cuts to balance the FY 1993 budget. However, because of adverse criticism from the public for his earlier cuts to primary and secondary education, he exempted schools. Since part of the problem was to obtain more money to support human services programs, and primary and secondary education was exempted, the next largest spending area, higher education, bore the brunt of the cuts. Governor Voinovich understood the relatively low value of higher education as a bargaining wedge versus more powerful interests; students have extremely low voter participation rates. Governor John Kasich likewise cut funding disproportionately from higher education in the FY 2012–2013 biennial budget.

Legislative leaders next agreed with Governor Voinovich's request to three budgetary "summits" in keeping with Governor James Rhodes' model. To gain advantage at the summits, a list of selective

budget cuts, rather than the across-the-board cuts with exceptions that had been ordered previously, was leaked to the press. On the list were many pet projects of Democrat legislators. Meanwhile, public pressure for a major increase in the state's individual income tax was gaining support to stop the continued budget hemorrhaging. However, the governor proposed only to increase so-called "sin taxes" on alcohol and cigarettes and to privatize the state's liquor monopoly in order to raise more revenues. While not insignificant, these proposals provided only temporary relief to the state budget woes. Although it did not solve the immediate crisis, one change adopted by the General Assembly at this time that did have a significant and long-term impact on revenues was the creation of a new bracket for income in excess of \$200,000 in the individual income tax, starting in 1993.

As the battle raged on, the legislature took the unusual step of not enacting a capital appropriations bill. The legislature felt that the public would not understand how the state could spend money on new construction, especially at institutions of higher education, which typically receive half of all new construction moneys, while operating budgets were being severely and repeatedly cut. Once again, Governor Voinovich ordered budget cuts and the state eked its way through FY 1993, whittling down the Budget Stabilization Fund to nothing, reducing appropriations, and postponing the payment of bills rather than enacting a general tax increase.

By FY 1994, the recession had ended and state revenues began to grow. Spending on human services programs began to subside and, as a result of all of the severe budget cuts, new spending proceeded from a lower base. Democrats had argued that increasing sin taxes would rest more heavily on low-income persons and that this was why they refused to adopt the governor's proposals. They argued that the entire state tax structure needed review. For many people, based on what has happened in other states that "restructured" their taxes, this was considered a euphemism for a tax increase. At the recommendation of the governor, the legislature appropriated \$750,000 for an academic study of the state's tax structure and then ignored all of its major recommendations.¹²

Term Limits.¹³ The time to increase taxes would have been 1991, a non-election year, before new legislative boundaries were established. Many states did so, but the consequence of these actions was that popular governors in California, Connecticut, New Jersey, and elsewhere lost their popularity, and seats, as a direct result of being "out front" on the tax issue. Simultaneously throughout the country, voter initiatives were placed on the ballots in 1991 to limit the terms of office of statewide elected officials and state legislators. In 1992, an initiative limiting these officeholders to a total of eight years in office passed overwhelmingly. After "grandfathering" in incumbents, the full effect of the provision would not be felt until 2000. Based on the experience in other states, term limits were expected to shift dominance of the budget process to the executive branch. Interestingly, while it has had that impact in Ohio, the shift has been less than originally anticipated. One reason is that more members have moved back and forth between legislative chambers in order to extend their political careers.

Strategic Planning. The federal government, and state and local governments throughout the country, have responded to negative citizen attitudes about government gridlock, bureaucracy, and waste by developing and using new financial management tools to help to reengineer operations. There is general agreement that in order to implement principles of continuous change, establish results-oriented operations, reengineer business practices, and improve management, an organizational entity must begin with a strategic plan. Governor George Voinovich introduced strategic planning in Ohio in 1992 when he obtained legislative approval and funding for a cabinet-level state Office of Quality. Although the office was later abolished by Governor Bob Taft, the state has continued to

move toward performance budgeting, replacing line-item, control-oriented budgeting practices with outcome-based funding. This type of budgeting was more fully described in Chapter 1.

Prison Population Soars. The 1990s were times when law and order and mandatory sentencing were particularly important state issues. This focus was especially the case in Ohio, which witnessed the 1993 Southern Ohio Correctional Facility riot in Lucasville. During Governor George Voinovich's tenure, Ohio's prison population grew dramatically from 31,862 in 1990 to 49,029 in 1998, a 53.9 percent increase.¹⁴ Corrections spending soared in the 1990s, growing by 185.5 percent during the decade. This increase was easily the largest of any major state spending category. Prison population since this time has grown but at a greatly reduced rate; the population in 2017 was just over 50,000.

General Assistance. General Assistance was a state- and county-funded program providing cash assistance and medical care to indigent single adults without children. The state/federal/county Aid to Families with Dependent Children program was available only to poor families with children. In 1995, Governor George Voinovich successfully convinced the legislature to abolish the General Assistance program, which at that time cost the state about \$300 million per year.

The budgetary significance of abolishing General Assistance was that, for the first time, the state, in its budget process, completely eliminated a major state program. Common budget wisdom was that it is next to impossible to eliminate any government program once it has been begun. The abolition of General Assistance disproved this adage in Ohio budgeting.

Automatic Tax Reductions. Another milestone during the Voinovich years was the legislative provision mandating automatic tax reductions. A temporary law provision included in the FY 1996–1997 budget act directed that if revenues exceeded estimates or spending was below estimates, the amount of the excess collected would be used to automatically reduce individual income tax rates, provided that the Budget Stabilization Fund was first filled. In the next budget, the provision was made statutory. Customarily, budget balances remaining at the end of a biennium were used to offset spending proposed in the succeeding biennium. In 1982, Ohio changed this principle by creating the Budget Stabilization Fund, in which these balances were deposited for possible future appropriation. The 1996 provision was a fiscal policy change, whereby taxes can be automatically reduced when forecasters err. However, no tax reductions have been made as a result of this provision in many years.

State School Governance. The Ohio Constitution requires the Ohio General Assembly to “make such provisions, by taxation, or otherwise, as...will secure a thorough and efficient system of common schools throughout the state...”¹⁵ Under this provision, the General Assembly has created more than 600 local school districts and empowered them to provide and supervise a system of free public schools covering kindergarten through twelfth grade. They also created a separately elected State Board of Education that selects a state Superintendent of Instruction and establishes various statewide standards of curriculum, teaching, physical facilities, student conduct, and teacher competency. The budgeting problems created by such a situation are numerous.

A separate, 11-member independently elected school board, with its own Superintendent of Instruction and large bureaucracy, was free to lobby the legislature. In 1995, the State Board of Education was expanded at the request of Governor George Voinovich to 19 members to include eight members appointed by the executive.¹⁶ This change in composition of the board, permitted under the state Constitution, gives the governor important leverage over the selection of the state superintendent,

but education continues to lobby for more money than the governor requests.¹⁷ For each budget debate since 1975, a primary budget driver has been the desire of each legislative chamber to add more money to primary and secondary education, often at the expense of gubernatorial priorities in other budget spending areas.

DeRolph v. Ohio. Another budget problem is that even though since 1975 the state ostensibly funded local schools through a funding formula intended to equalize their abilities to raise revenues, individual legislators continued to be mindful of the needs of the individual school districts in their legislative district. Thus, the basic school foundation formula was altered each biennium to achieve predetermined benefits to selected school districts. By 1994, the year in which the landmark case of *DeRolph v. Ohio* was first tried in rural Perry County, not one of the principles on which the 1975 foundation funding formula was based was being met.

The initial *DeRolph* decision in trial court declared Ohio's school funding system unconstitutional, but this ruling was overturned the following year on appeal.¹⁸ In 1997, the Ohio Supreme Court subsequently overturned the appeals court decision and declared Ohio's system of financing education to be in violation of the constitutional mandate to "secure a thorough and efficient system of common schools."¹⁹ Specifically, the court found the state's school funding mechanism to have produced inadequate school facilities, undue reliance on voter-approved property taxes, an unconstitutional loan fund, and inadequate and inequitable funding.

Ohio's inadequate school facilities were the subject of a 1996 Public Broadcasting Service documentary "Children in America's Schools with Bill Moyers." It cast the state in a very unflattering light and elicited a legislative response to this part of the court's ruling. Since *DeRolph*, substantial progress has been made on the adequacy of Ohio's school facilities, most especially during the later administrations of governors Bob Taft and Ted Strickland. On the other hand, funding availability for school operations has neither been adequate to meet the court's directive, nor has the distribution of those resources been altered sufficiently to address the equity issues the court raised. The General Assembly did put forward an issue to the voters in 1998 that would have done much to remedy these aspects of the court's decision, but the voters rejected this effort.

In 2002, the Supreme Court essentially threw up its hands when it ended the *DeRolph* case some 11 years after its initial filing, but not before again instructing the General Assembly to enact a school funding system that is both thorough and efficient per its original decision. See Chapter 14 for more on the *DeRolph* decision and its aftermath.

Tax Increase Subject to Referendum. To remedy this inadequacy and address the Supreme Court ruling, the legislature requested, by referendum, voter approval of an issue, which was overwhelmingly rejected in 1998. It would have raised the state sales tax by one cent and dedicated its proceeds to primary and secondary education. As discussed in Chapter 1, the Ohio Constitution specifically prohibits the General Assembly from submitting tax increases to a vote of the people by referendum.²⁰ However, the General Assembly obtained a legal opinion from the Legislative Service Commission, concluding that this did not apply to taxes to support education.²¹ This interpretation is likely to have future budgetary implications because governors and legislators have consistently resisted taking responsibility for a tax increase after witnessing the political fallout from previous tax increases. Now they can potentially submit any general tax increase to referendum and argue that its proceeds are to be used for primary and secondary education.

Performance Audit of Schools. Another fiscal offshoot of the *DeRolph* decision was the General Assembly’s authorization for the Auditor of State to conduct performance audits of the state’s 21 largest school districts. Performance audits, unlike the financial audits that are regularly undertaken of all units of government in Ohio, review how well a governmental entity is being managed. Until this provision was included in the FY 1998–1999 appropriations act, the independently elected Auditor of State had no authority to conduct such reviews. Based on this new authority, a separate division was created, and performance auditing was expanded to include other units of local government, on request, and state programs, as more fully described in Chapter 7.

Nancy Hollister, 1998-1999

MILESTONES OF THE HOLLISTER ADMINISTRATION	
1998	1999
Inauguration of Ohio’s first female governor	Work continued on FY 2000-2001 Executive Budget Request

Governor George Voinovich was elected to the U.S. Senate in 1998. In order to assume his new responsibilities in a timely fashion, he found it necessary to resign his position of governor at the end of 1998. His Lieutenant Governor, Nancy Hollister, became Ohio’s 66th governor and its first female chief executive.

Summary

The revenue increases that followed the recessions that occurred early in each of the last three decades of the 20th century resulted in large budgetary growth in the 1970s and 1980s and a smaller level of growth in the 1990s. While this trend would persist into the early 2000s, a growing unwillingness to look at the revenue side of the budget equation, at least in terms of permanent tax increases, and an increased partisan environment at the Statehouse, portended the more difficult revenue struggles that would lie ahead. With an expenditure picture that included an aging population and rising health care costs, the consequences for the state budget beyond Medicaid were likely to be quite significant.

Endnotes

- ¹ Ohio Department of Taxation, "Property Taxation and School Foundation," February 2010.
- ² Two years after the formula was established, the Ohio Supreme Court found it to be constitutional, only to change its mind in 1997.
- ³ In 1980, a constitutional amendment was enacted as Article XII, Section 2(a) that authorizes the use of a classified tax reduction factor, commonly referred to as the H.B. 920 credit, subject to specific conditions.
- ⁴ Section 3313.483 of the Ohio Revised Code. Effective October 1, 1989, the Emergency School Advancement Loan Fund ceased to exist and school districts as of that date began to borrow from lending institutions with approval of the Controlling Board.
- ⁵ Section 126.06 of the Ohio Revised Code.
- ⁶ On June 25, 1982, the legislature established two new temporary income tax brackets, \$80,000–\$100,000 and over \$100,000, to the six that had existed topping out at \$40,000, and placed a 25% increase on base rates for six months. This was subsequently increased by an additional 12.5 percent. Then, effective January 1, 1984, a 90 percent permanent increase from the 1982 rates was imposed. The permanent tax increase continued to be erroneously categorized as the "90 percent income tax increase," despite executive and legislative public relations attempts at the time to explain that the income tax was raised only 50 percent over the "temporary tax increase" then in effect and balanced by a series of reductions in other taxes.
- ⁷ Chapter 4117 of the Ohio Revised Code.
- ⁸ For an interesting historical perspective on pay bills see Richard G. Sheridan, *State Budgeting in Ohio*, op.cit., pp. 244-251.
- ⁹ Ohio Legislative Service Commission, "Financing Unemployment Benefits—Federal Loans to Cover Shortfalls," *Members Only*, Volume, 128, Issue 6, April 10, 2009.
- ¹⁰ Governor George Voinovich did not fill out his entire term, as he resigned on December 31, 1998 to assume a U.S. Senate seat that he was elected to in November 1998. Lt. Governor Nancy Hollister assumed the office, serving as Ohio's 66th governor and its first female chief executive from December 31, 1998 to January 11, 1999. Development of the FY 2000–2001 Executive Budget Request continued during this brief 11-day period. Lt. Governor John Brown served as Ohio's 57th governor in 1957 for an 11-day period under similar circumstances when Governor Frank Lausche assumed a U.S. Senate seat he had been elected to the previous November.
- ¹¹ National Conference of State Legislatures, *State Budget Actions in 1989*, The Conference, Denver, 1990.
- ¹² See Chapter 2.
- ¹³ The implications of term limits are discussed in Chapter 6.
- ¹⁴ Ohio Legislative Service Commission, "Ohio Facts 2010," 2011.
- ¹⁵ Ohio Constitution, Article VI, Section 2.
- ¹⁶ Section 3301.011 of the Ohio Revised Code.
- ¹⁷ Ohio Constitution, Article VI, Section 4 provides that "there shall be a state board of education which shall be selected in such manner and for such terms as shall be provided by law."
- ¹⁸ Ohio Constitution, Article II, Section 2.
- ¹⁹ Ohio Constitution, Article VI, Section 2.
- ²⁰ Ohio Constitution, Article II, 1d.
- ²¹ See Chapter 1.

