CHAPTER 11:

Term Limits and Tax Cuts, 1999-2010

Ohioans joined a national movement in 1992 in passing a constitutional amendment to limit the term of legislators to eight consecutive years in the same office.[1] However, its real impact did not emerge until the 2000 election, as the amendment "grandfathered" current office-holders.

Term limits have not had the dramatic impact that its proponents hoped that they would, or that many other observers feared. While term limits have not significantly weakened legislative power, or that of legislative leadership, as many had predicted, they did bring to Columbus a new crop of legislators who were unwilling to bide their time in order to make a difference. They also brought legislators who were increasingly focused on the short term rather than on a longer-term perspective of what would be best for Ohio.

Bob Taft, 1999–2007[2]

FISCAL MILESTONES OF THE TAFT ADMINISTRATION		
1999	**2005**	**2006**
• Separate appropriations for schools • Single subject rule	• Legislative budget dominance • Tax Reform • Medicaid Reform • School Funding Reform • The Third Frontier	State Appropriation Limit enacted

Taft's First Year. During his first year as governor, Republican Bob Taft selected the long-term chair of the House Finance Committee, Tom Johnson, as his budget director. Initially, this selection prevented the political infighting over the budget that characterized relations between the legislative and executive branch during the first budget presentations of the Gilligan, Rhodes, Celeste, and Voinovich administrations. It helped to continue executive budget dominance that had been re-established by his immediate predecessor, and it resulted in legislative acceptance of his fiscal priorities. This harmony was greatly aided by an economy of unprecedented richness and a state treasury bursting with surplus funds.

One note of executive-legislative discord concerned a policy established by the legislature under Governor George Voinovich that called for automatic personal income tax cuts whenever revenues exceeded estimates. Governor Taft proposed that what was estimated to be a budget surplus during the last year of the Voinovich budget, FY 1999, be used for school construction, before it became subject to the automatic provision requiring it be returned to taxpayers. Acceptance of his proposal demonstrated executive power over the budget process at the very outset of his term. However, by the end of his term of office, it was clear that the legislature would once again be a dominant player in the budget process.

Legislative Budget Dominance. Much of what Governor Bob Taft requested in his first budget submission was approved by the General Assembly, which was led by fellow Republicans. The economy was booming and double-digit spending increases were authorized for many programs; how different a time from that would soon follow. After the enactment of that budget, the economy began to slow, and the Ohio Supreme Court, reviewing its 1997 decision declaring the state's method of funding schools unconstitutional, concluded that, despite additional state support, the educational funding formula remained unconstitutional. What followed were a series of downward revisions in revenue forecasts coupled by demands for more money for schools. Legislators wearied of having to rebalance appropriations they approved for FY 2000–2001, and also for FY 2002–2003.

When Governor Taft introduced his FY 2004–2005 budget, legislators took the lead and cut his proposed spending increase for primary and secondary education in half, discarded his proposals for various tax increases, and, instead, added a temporary one cent to the state sales tax. The state legislature had established itself as the predominant player in budgetary politics. Even after this assertion of legislative fiscal leadership, further cuts were needed to keep that budget in balance.

With new majority party leadership in both houses of the General Assembly for the FY 2006–2007 budget, Governor Taft was able to reestablish his own leadership and be on a more equal footing with the legislature. Although the major initiatives he proposed in his final budget were ultimately reformulated by the legislature, Governor Taft was able to achieve major reforms in the state's tax structure, the delivery of Medicaid services to aged, blind and disabled persons, and school funding. However, the legislature did reduce the Taft spending proposals to adopt a budget with the slowest growth in decades. Despite differences between the branches, the agreement achieved on the FY 2006–2007 would bring significant and lasting change to Ohio.

Budget Presentation Format. The contents of the Executive Budget Request are prescribed, to some extent, by law.[3] The result has been a budget document containing detailed line-item information for six years on each agency's budget. The format of the "Blue Book," the informal term applied to the document containing the details of the Executive Budget Request, had remained fairly constant since 1975, when Governor John Gilligan attempted to put it in a program format. However, legislators who were comfortable with the old format strongly resisted this change.

With the presentation of the FY 2000–2001 Executive Budget Request, Governor Bob Taft simplified the budget document to make it more readable and usable by legislators and the public alike. Making it more "user-friendly" had the advantage of increasing its accessibility to persons not well acquainted with state budget terminology and practices. Central to enhancing the usability of the document was a renewed emphasis on program budgeting, although line-item detail continued to be part of the presentation.

Then, with the introduction of his FY 2006–2007 budget, Governor Taft abandoned the production of a hard copy “Blue Book,” limiting access to the document to Internet users. However, the move to an electronic publication has enabled the addition of more detailed information and made data searchable. Historical information has been more easily obtained as well.

Separate Budget for Education. In *DeRolph*, the court found that primary and secondary education was receiving its moneys “residually.” That is, it was funded after the needs of all other state programs and agencies were addressed. To remedy this, the legislature enacted a law requiring education, interpreted to include higher education, appropriations to be made in a separate budget bill to be passed prior to all other general operating appropriations.

The Ohio Supreme Court expected to have education spending considered on its merits, first, and as the highest funding priority of the legislature. Instead of allocating residual funding, the legislature would provide enough money to meet its constitutional obligation and then divide up whatever is left to the remaining residual programs. What happened in the first budget bill enacted after this new requirement, the first budget presented by the Taft Administration, is that the education budget was passed by each chamber before the rest of the operating appropriations and enacted early, but only by a few days. The separation of education from general operations appropriations made no difference from when they were combined, and for all intents and purposes, House Bills 282 and 283 of the 123rd General Assembly, the education and general operating appropriations bills for the FY 2000–2001 biennium, respectively, might as well have been one bill. The experiment of having a separate budget bill for education was abandoned after this. It could thus be argued that primary and secondary education is still residually funded.

Single Subject Rule. It has been a long-standing practice of the Ohio General Assembly to enact numerous provisions of permanent law, some only slightly related to appropriations, and others completely unrelated, as part of the final main operating appropriations bill. In 1999, the Ohio Supreme Court ruled that practice unconstitutional,[4] violating the Ohio constitutional provision that requires bills to contain only a single subject.[5] The Supreme Court found that the FY 1996–1997 appropriations act, the one under review, contained 383 amendments in 25 different titles of the Ohio Revised Code, 10 amendments to renumber sections of the Revised Code, and 81 new sections in 16 different titles of the Revised Code. In its opinion, the Supreme Court suggested that many of these provisions were included as a matter of “logrolling,” that is, exchanging budget votes for provisions of personal interest or political significance to legislators. Legislators continue to enact appropriations bills with multiple subjects despite the court’s ruling.

Tax Reform. Because of the frustration experienced by legislators who had to balance and rebalance Governor Bob Taft’s first three biennial budgets, reforming the state’s tax structure was part of the enactment of the state’s FY 2006–2007 budget. In 2003, The Center for Community Solutions undertook a major study of Ohio’s state and local tax structure, culminating in a series of research reports prepared by staffers Richard G. Sheridan, David Ellis, Ph.D., and Rich Marountas. The 11 reports in this *Taxing Issues* series set forth a number of recommendations for change. Shortly after their publication, a House select committee was appointed to study the problems of state and local tax structures, and there were further studies undertaken separately by the House of Representatives, the Senate, and the Taft Administration. Based on these studies, Governor Taft proposed a significant number of important tax reform measures in his FY 2004–2005 budget. The legislature ignored them and, instead, increased the state sales tax by one percent to raise some, although not all, of the money they thought was needed to balance their budget.

Once again, in his final Executive Budget Request, for the FY 2006–2007 budget, Governor Taft made a new set of tax reform proposals that were enacted after many legislative changes. While the specifics of tax reform were modified by the legislature, it was the governor's leadership that was paramount in making the most significant changes in the state's tax structure since the enactment of corporate and individual income taxes under Governor John Gilligan.

The major components of tax reform included phasing out the state's corporate franchise tax and phasing in a new commercial activity tax over a five-year period. The effect of this change, along with the gradual phase-out of the tangible personal property tax, was to shift much of the tax burden away from manufacturing industries and on to retail businesses. The intent of this policy shift was to reenergize Ohio's lagging manufacturing employment sector. It did more than broaden the base and reduce the rates. It changed the focus of business taxation to better align it with the strengths of the Ohio economy. Prior to the adoption of the tax reform package, Ohio had a high "advertised" corporate tax rate, a marketing nightmare. Yet, with all the exemptions that had been carved out of the law over time, the revenue yield to the state from the corporate franchise tax was less than impressive.

Unfortunately, enactment of the sweeping business tax changes was soon followed by the Great Recession and its devastating effects on the Ohio economy, making an assessment of the impact of the reform difficult. Although the jury may still be out, the impact appears significantly less than proponents had originally thought. A 2017 study by the Tax Foundation, a nonpartisan tax research group based in Washington D.C., indicated that Ohio has one of the highest tax burdens in the nation for business.[6] According to this report, Ohio had the sixth worst tax climate for business. This contrasted markedly from a 2012 study by the same organization. The 2012 study credited the commercial activities tax enacted in 2005, stating that "this low-rate, broad-base tax helped the state score well" in its rankings. It noted that the Ohio business climate was particularly attractive to corporate headquarters, retail operations, and capital-intensive manufacturing.

Tax reform was not limited to the business sector. The individual income tax was reduced by 21 percent across the board over five years. The revenue loss was partially balanced out through making one-half cent of the previous one cent temporary sales tax permanent. The changes served to make Ohio's tax structure significantly more regressive. The income tax reduction was to have significant consequences on future state budgets, further complicated by the impact of the Great Recession.

Medicaid Reform. During Governor Bob Taft's two terms of office, the state's Medicaid program expanded significantly. The number of children enrolled under the State Children's Health Insurance Program, or CHIP, tripled between FY 1999 and FY 2007. Enrollment in PASSPORT, a state alternative program to nursing home care for elderly persons, doubled during that time period. Medicaid spending on mental health increased by 125 percent in those eight years and Medicaid spending on programs for persons with developmental disabilities rose by 146 percent. Overall, state spending on Medicaid took $1 out of every $5.50 the state spent when Governor Taft took office in 1999. At the end of his term, the figure was $1 out of every $4, and total Medicaid spending increased by 107 percent by FY 2007 even after cuts authorized in his final budget. The fact that Medicaid became the largest state program during Taft's terms of office led him to consider reforming the program.

In 2004, Governor Taft created the Ohio Commission to Reform Medicaid to find ways of reducing Medicaid growth. The commission produced a report that made a number of significant recommendations, many of which were subsequently adopted as part of the state's FY 2006–2007 budget. One of the most significant changes resulting from the report was legislative direction to create a separate cabinet-level Ohio Department of Medicaid, although the Office of Health Transformation did not fully take shape until 2011 during the administration of Governor John Kasich. See Chapter 12 for a detailed discussion of the Medicaid policy innovations undertaken by the Kasich Administration. In addition, the state finally tackled the issue of finding ways to deinstitutionalize Ohio's nursing home population, including a reduction in the state reimbursement to those homes by moving from a cost-based nursing home formula to a price-based formula. It also took ambitious steps towards the creation of new and expanded alternatives to nursing home care. These and other cost control initiatives, especially the initiation of managed care for senior Medicaid beneficiaries, reduced Medicaid spending growth by $1.4 billion in FY 2007. Managed care plans arrange physician and other needed health care for members through a network of system providers. Savings are yielded through required pre-approval of services, which allows for agreement on pricing and procedures. Other notable health care initiatives in the FY 2006–2007 budget were more Draconian, including the elimination of Medicaid dental and vision services for adults and curtailing new applications for the Disability Medical Assistance for people who, although not Medicaid eligible, were medication dependent.

Shortly after the passage of Ohio's FY 2006–2007 biennial budget, the U.S. Congress enacted the Deficit Reform Act of 2005, which similarly affected Medicaid beneficiaries. It limited health care coverage and access to services for low-income beneficiaries.[7]

School Funding Reform. As was the case with tax reform and Medicaid reform, Governor Bob Taft sought the assistance of a blue-ribbon committee to find ways of reforming the way Ohio funds its public schools. Although the state's school foundation program continued to form the basis for state aid, major changes in its operation resulted in a shift in state resources away from urban schools and toward poor Appalachian school districts in southeastern Ohio and fast-growing suburban school districts. In addition, during Governor Taft's term of office, the state expanded its student voucher program, enabling public school district students to elect to attend private, usually parochial, schools with state assistance. In addition, the state authorized the development of community, or charter, schools as an alternative to public education. These schools, which drew their resources from the school districts of their pupils, were greatly expanded during the Taft Administration.

The Third Frontier. Ohio's economic development policy, from its inception during the first administration of Governor James Rhodes, has been characterized as "smokestack chasing." Ohio's public policy and financial resources had been directed toward actively pursuing existing manufacturing industries to move their operations to Ohio. Tax incentives served as the major inducements supplemented by job training programs, direct grants, and loan guarantees. Governor Bob Taft altered this approach during his term of office.

Without abandoning the traditional business attraction strategy, Governor Taft initiated programs to target assistance to specific industries and businesses. Under a program called "The Third Frontier," the state undertook a 10-year program to invest more than $1 billion to expand high-tech research capabilities and to promote the creation of quality job opportunities in technology-driven sectors of the economy. While much of the funding came from re-bundling existing programs, including the use of Tobacco Settlement moneys, a large chunk came from a $650 million, 10-year bond issue approved by Ohio voters in November 2005. The program, which was renewed and expanded through a $700 million 2010 ballot initiative, has been used for an ever-expanding number of purposes. Notably, in 2017, an $8 million award was made to a Cuyahoga County firm, NineSigma Inc., to manage the Ohio Opioid Technology Challenge as part of Governor John Kasich's $20 million approach to advance new technology in the battle against drug abuse and addiction.

Although the Third Frontier undoubtedly has great promise, it has yielded relatively little direct job creation given the scope of the investment. Data from the Ohio Development Services Agency indicated that the state awarded more than $1.4 billion in Third Frontier grants as of December 2015, with $1.3 billion expended. A total of 17,356 direct jobs were created or retained through these awards. The creation or retention of 17,356 jobs through the award of $1.3 billion represented a rather unimpressive return on investment.[8]

State Appropriation Limit. In keeping with voter-led initiatives to control expenditures in other states, particularly in Colorado, an issue was placed on the November 2006 ballot to constitutionally limit state and local spending growth based on changes in inflation and population. The idea was quickly met with strong opposition by a wide coalition of interest groups and local governmental entities. The General Assembly responded by enacting a similar law that only affected state government once a promise was secured from the backers of the initiative to withdraw the more comprehensive amendment. This history is described more fully in Chapter 1. The State Appropriation Limit has not yet impacted Ohio budgeting, since state spending growth has been limited by other factors, chiefly the 2005 tax reforms and subsequent income tax cuts as well as the impact of the Great Recession.

Ted Strickland, 2007-2011

FISCAL MILESTONES OF THE STRICKLAND ADMINISTRATION

2007	2008	2009
• Creation of University System of Ohio • Tobacco Master Settlement securitization • Property tax relief for seniors • Continuation of the Taft legacy • TANF surplus and spend down	The Great Recession	• Federal Stimulus preserves services and jobs but creates structural deficit • Casino gambling approved by voters

University System of Ohio. Just two days after his inauguration, Democrat Governor Ted Strickland put forward a bold proposal, together with Republican House Speaker Jon Husted, to create a University System of Ohio. This change stripped the Ohio Board of Regents of its governing and oversight functions and transformed it into an advisory board. The Chancellor became a cabinet-level appointment reporting directly to the Governor. One of the largest agencies of state government with regard to total appropriations had now come under the direction and control of the executive branch rather than being vested in an independent agency as had previously been the case. The change was intended to provide greater cohesiveness to Ohio's diverse system of 14 public universities and 23 community colleges. The new University System of Ohio also included other important elements of adult education including adult career-technical education and Adult and Basic Literacy Education, or

ABLE. Both functions had previously been housed in the Ohio Department of Education.

The First Strickland Budget. When Governor Ted Strickland introduced his first budget in March 2007, he proudly announced that it provided the lowest budget growth in 42 years. Until the time of budget introduction, there had been widespread speculation that the State Appropriation Limit (SAL), included as part of Governor Bob Taft's last budget, would unduly restrict the ability of the new governor to present a balanced budget. In fact, the SAL had no impact whatsoever on his budget, since it permitted appropriation increases of 3.5 percent for FY 2008 and FY 2009, or 7.1 percent over the biennium. In Governor Strickland's budget proposal, aggregate General Revenue Fund (GRF) appropriations to which the SAL would have applied were to decrease by 0.9 percent in FY 2008 and increase by 4.2 percent in FY 2009 for a biennial increase of only 3.2 percent over FY 2007 spending levels, well below statutory limits. Governor Strickland's budget request was more conservative than any of those enacted under the administrations of Republican governors James Rhodes, George Voinovich, or Bob Taft.

Several remarkable conclusions resulted from examining the FY 2008–2009 budget. One was how the legislature departed from their long-standing practice of applying "incrementalism" to their budget making. The idea of an incremental budget is that movement progresses in small amounts. Typically, the legislature chooses to add small amounts throughout the state budget, thereby satisfying lots of constituents but not really concentrating resources on any one state priority. What the legislature did to Governor Strickland's budget was to make two big changes by adding $122 million to the amount that he requested for higher education in FY 2008 and subtracting $379 million from what he proposed to spend on the Ohio Department of Job and Family Services. This shift of funds to higher education represented a major difference between what the governor proposed for the next biennium and what the legislature chose to do instead. For the second year of the biennium, FY 2009, the legislature gave higher education almost twice as much of an increase as it did in FY 2008 and reduced spending for the Department of Job and Family Services by more than one half billion dollars.

These numbers, however, do not reflect a provision that the legislature added to create a Medicaid Reserve Fund consisting of up to $120 million in FY 2008 and $205 million in FY 2009, to be transferred out of the GRF and later used to generate a biennial total of about another $489 million in federal matching moneys. The state GRF included federal Medicaid matching moneys, so if the Medical Reserve Fund dollars were added to the appropriations for the Department of Job and Family Services, the total appropriated closely approximated the original request of the governor. However, the increase provided to higher education was very real and substantial.

Securitization and Property Tax Relief. Since Governor Ted Strickland did not seek to alter the process of reducing state tax receipts begun during the last Taft budget, finding large sums of money to support a major spending initiative was difficult. However, Governor Strickland was able to find a way to fund a plan to accelerate the state's school construction program and to provide a property tax break for all Ohioans over age 65 or who were permanently or totally disabled. The plan, called securitization, essentially called for selling off the rights to future Tobacco Master Settlement moneys due to the state. With securitization, the state received only a fraction of the money to which it was legally entitled, in order to realize funds sooner and in one lump sum. Yet, the plan was used to finance a new obligation that was intended to continue long after the securitized funds have been expended. The plan was never seriously challenged by legislators and was approved virtually as proposed. However, just six years later, this dramatic expansion of the Homestead Exemption was eliminated, although all existing beneficiaries as of 2013 were "grandfathered."

Case Study: The Tobacco Master Settlement [i]

Ohio historically recognized the value of public health and disease prevention through increased financial support. Following the 1998 settlement of the landmark lawsuit between tobacco manufacturers and the states, known as the Tobacco Master Settlement (MSA), Ohio created the Governor's Tobacco Task Force to develop a plan for the allocation of revenues that the state would receive in perpetuity from the tobacco manufacturers.[ii] Among other purposes, the task force recommended the creation of two trust funds, one for public health priorities charged with mitigating the effects of smoking on health and another for tobacco use prevention and cessation charged with reducing tobacco use. In response, the Ohio General Assembly codified this plan. Other trust funds created by the legislature included the Biomedical Research and Technology Transfer Trust Fund, the Education Technology Trust Fund, and the Southern Ohio Agricultural and Community Development Trust Fund.

The law specified the full allocation of annual revenues through FY 2012, and partially allocated revenues that would be received between FY 2012 and FY 2015. Based on estimates at the time, it was expected that the Public Health Priorities Trust Fund would receive $1 billion in total funding over the first 13 years, which would be allocated through appropriations to the departments of Health, Public Safety, and Alcohol and Drug Addiction Services, while the Tobacco Use Prevention and Cessation Trust Fund (TUPCF) would receive a total of about $1.5 billion over the same period. Instead of being held in the state treasury and appropriated by the General Assembly, payments to the TUPCF fund were placed in a custodial account, such as those used for the state's Workers' Compensation and Unemployment Trust funds and managed by a board whose diverse membership was specified in statute.

No sooner had the ink dried on the first tobacco budget than the national economy plunged into recession and state revenues began to fall. To stave off tax increases or spending cuts, allocations planned for the TUPCF were diverted into the state's General Revenue Fund (GRF) with a promise of repayment in FY 2012. Planned allocations for the TUPCF continued to be diverted through FY 2006, when they were scheduled to stop until FY 2012. The FY 2008–2009 budget called for the securitization of Ohio's MSA funds to free up dollars for other purposes, which ended any revenues for public health or tobacco use prevention and cessation from this source for the next 45 years.

The TUPCF received a total of about $350 million before Ohio securitized its tobacco revenues in FY 2008. Securitizing its future tobacco proceeds generated a lump sum of $5.0 billion for Ohio. As if this action was not enough, the state drained the funds remaining in the TUPCF custodial account as well. These funds were first planned to be used for a state jobs program and then, to appease the courts but still spend the money, was redirected to human services programs. A 2010 Ohio Supreme Court decision eventually validated the state position.

Even though the state legislature made a strong long-term financial commitment to reducing tobacco use, it was unable to be sustained. Increased accountability was not enough to maintain the financial commitment. The TUCPF maintained higher standards than most other state agencies, using evidence-based processes and performance metrics that showed definitive results, but this still was not enough to maintain the support of policymakers. Perhaps the lesson to be learned is that the dynamics of the state budget process are too contentious, and the trust fund should have been transferred to a private entity from the start.

Notes: [i] This case study was prepared by Susan Ackerman, The Center for Community Solutions, Cleveland, Ohio.

[ii] Final Report of the Governor's Tobacco Task Force to Governor Bob Taft and the Leadership and Members of the Ohio General Assembly, October 6, 1999 and Senate Bill 192 of the 123rd General Assembly.

Other Approved Proposals. Governor Ted Strickland put forward several early childhood initiatives that met a receptive audience in the legislature, as did his proposal to increase the use of alternative home care through the Medicaid-waiver program, PASSPORT. A higher education tuition freeze was approved, as was a proposed freeze on the Local Government Fund with only a minor change.

Proposed Community School Moratorium. The first community, or charter, school opened in Ohio during the administration of Governor George Voinovich in 1998, a year after enabling legislation was passed. By 2007, the law that began as a "pilot" program in Lucas County had expanded to more than 300 community schools with a combined enrollment of 87,000 students. By 2016, community school attendance totaled 117,126, accounting for 7 percent of total public school enrollment in the state.

Governor Ted Strickland wanted to stop construction of new community schools, but the legislature, instead, permitted new start-ups under certain conditions. The conference committee even added a new provision that permitted an existing early college high school that had partnered with a private university to begin operating as a start-up community school. The legislature also rejected the governor's proposal that would have required community schools to provide students with 180 days, instead of 920 hours, of learning opportunities each school year. The legislature even added a new provision that permitted a community school to transport students with or without entering into an agreement with the students' resident school district.

Other Rejected Proposals. Governor Ted Strickland's proposals regarding the extension of E-Check inspections and making scholarship grants for independent college and university students need based were rejected. Other gubernatorial initiatives were significantly modified, such as his higher education contract proposal, which was met with great skepticism and confusion. Instead, the legislature merely added appropriations to fund a tuition freeze that was somewhat more restrictive than what the governor had originally proposed.

STEM, a New Legislative Initiative. In recent years, the legislature had shown a keen interest in finding ways of encouraging students to improve skills in Science, Technology, Engineering, and Mathematics, or STEM. It has sometimes been referred to as STEMM in Ohio, to include medicine and allied health, which have a powerful presence in Ohio higher education at all levels. In the FY 2008–2009 budget, the legislature provided significant sums of money to advance that cause. One new grant program within the Ohio Department of Education authorized a newly created executive-legislative-public committee to establish up to five STEM schools to serve any of grades six through 12 and to begin instruction in FY 2009. Another was the creation of the Choose Ohio First program to increase the number of postsecondary students pursuing science and math teaching as a profession.

Other Legislative Initiatives. The legislature made a significant commitment of additional dollars in the FY 2008–2009 budget to increase provider payments to nursing homes. Rate increases were also granted for PASSPORT services.

Whose Budget?[9] Despite a Republican-controlled Senate, newly sworn-in Democrat Governor Ted Strickland secured timely passage of the FY 2008–2009 budget with all sides congratulating themselves on the cooperative process that resulted in its near-unanimous approval. Only one member of the House and no Senator disapproved the final budget.

How was Ohio able to accomplish this feat, especially given the rancor that typified executive-legislative relationships in states around the region facing similar fiscal circumstances? While much of the result undoubtedly rests with the personalities of the state's executive and legislative leadership, and a healthy respect for the legislative branch of government that former Congressman Ted Strickland brought to the Statehouse, a great deal also had to do with the fact that the new governor chose not to advance major new spending initiatives that would cost taxpayer dollars and, instead, opted for a continuation of the several major policy directions that his Republican predecessor, Governor Bob Taft, left as his legacy.

Governor Strickland's most expensive initiative was to recommend that property owners either aged 65 and over or disabled receive an exemption from the payment of local property taxes, regardless of income. This was costly but did not require any taxpayer dollars. While it was intended to become a major new General Revenue Fund (GRF) obligation in future years, in the short term, it was to be paid for by selling off the state's rights to future revenues from a 1998 lawsuit settlement in which tobacco companies agreed to pay states large annual amounts in order to avoid prosecution for a variety of charges. It would be difficult for a politician of any political stripe to vote against giving seniors a break in their property tax payments, so this initiative sailed through the legislature untouched. Many of the governor's lesser initiatives met a different fate.

In the FY 2008–2009 budget, Governor Strickland continued the direction that former Governor Taft set for the state's tax policy. Governor Strickland was responsible for expanding early childhood education and for extending the state's Homestead Exemption program to all seniors and disabled homeowners, as well as expanding the number of persons eligible to receive Medicaid. The legislature took his proposal to freeze tuition at the state's public colleges and universities from one year to two years but limited it to in-state undergraduates. They accepted the idea of expanded alternatives to long-term nursing home care for frail elderly persons but, at the same time, provided an incentive to maintain existing nursing homes, substantially increasing their reimbursements. They continued their plan to divert public school funds to parochial and other private schools, including for-profit schools. They advanced the idea that Ohio should encourage enrollment in STEM disciplines. To encourage enrollment in both public and private colleges and universities, they provided significant new money for new scholarship programs.

Democrat Governor Ted Strickland, replacing Republican Governor Bob Taft, chose not to antagonize the legislature by promoting additional state spending on new and innovative programs and, instead, took a much more conservative course of requesting the lowest increase in state spending in more than 50 years. As a result of that choice, the legislature was able to craft a budget that built on the policy changes of the previous governor, making few major modifications.

During Governor Taft's eight years in office, spending on primary and secondary education, as a percentage of both overall and GRF spending, hardly changed at all. What did happen was that the state spent considerably more total money on programs categorized as health and human services, especially through using federally matched Medicaid moneys to supplant state moneys spent on mental health, developmental disabilities, and drug and alcohol addiction programming. The increase in this category of spending, rising from 32 percent of the state's budget to 39 percent during Governor Taft's tenure, came at the expense of higher education, which declined by 2 percent as a share of total spending and 3 percent as a share of GRF spending.[10] It is this that the legislature sought to redress, as they put their imprint on Governor Strickland's first budget proposal.

TANF Surplus and Spend Down. During the Taft Administration, Ohio built up a large surplus in the Temporary Assistance for Needy Families program (TANF) that peaked at $913 million in 2005. The surplus was due to a number of factors, including under spending by counties. Programmatic changes made in 2005 corrected the problems, and the spend down of these resources began. As surplus TANF dollars were used for cash assistance under the Ohio Works First program, current-year TANF dollars were allocated for child care, short-term support services, public assistance diversion programs, and other forms of assistance for TANF-eligible individuals.[11] By 2009, the once impressive, if somewhat embarrassingly large, TANF balance was exhausted. In the meantime, however, the availability of the resource allowed for needed program services and enhancements without the need to pursue additional outside revenue support. This issue would emerge a decade later when the state again developed a large TANF surplus.

The Great Recession. The national and Ohio economies quickly went from bad to worse during the FY 2008–2009 biennium. Just six months after passage of the FY 2008–2009 budget, new forecasts from the Office of Budget and Management demonstrated that state revenues would fall at least $733 million short of estimates for the remainder of the biennium. The problem consisted of two parts: less revenues coming in than projected and Medicaid spending exceeding estimates. In response, Governor Ted Strickland issued an executive order in January 2008, followed by a number of budget directives announcing specific spending controls.

This shortfall was just the beginning of the state's fiscal troubles. Ohio's employment actually peaked in December 2007, even as signs of looming trouble were all around. Before the Great Recession would end, Ohio would experience 28 consecutive months of job loss. For the two-year period through December 2009, Ohio would lose an astonishing 418,200 jobs, many of them in manufacturing.[12] The accompanying rapid deterioration in state revenues meant that the budget shortfall would grow by an additional $1.5 billion for FY 2009, this time necessitating significant and painful cuts. While the 2005 tax reforms could not be effective in spurring economic development in this environment, it did add to the deterioration in revenues. The receipt of an initial amount of American Recovery and Relief Act, or federal stimulus, funding assistance would ameliorate the scope of the cuts. As with governors in recent years, the budget reductions were selective in their implementation, exempting a number of state and gubernatorial priorities.

The "No Growth" Budget. The FY 2010–2011 budget, Governor Ted Strickland's second, was both similar and yet quite different from his first. It was again shaped by both the plunging national and Ohio economies, but even more so, for the Great Recession was to hit bottom in 2009, the year the budget was enacted. The constraining effect of the 2005 tax reform initiated by Governor Bob Taft also contributed in large measure to the decline in state revenues. The FY 2010–2011 budget was similar in that it did not raise taxes on Ohio families or businesses. With Republicans still controlling the Ohio Senate, there would have been no prospect for a tax hike even if the governor had been so inclined, which he was not. In separate legislation, the budget did, however, defer the final year of the five-year phase-in of the 21 percent reduction in the individual income tax from 2009 to 2011. The deferral was unfrozen in January 2011, in what turned out to be Governor Strickland's final days in office. No other significant tax changes were proposed or enacted, although nursing home franchise fees were increased as was the Medicaid hospital fee to fund a new supplemental upper payment program for hospitals. It was also similar in that with some notable exceptions, it did not propose major new initiatives. What new initiatives that there were did not either receive or require significant new funding.

The FY 2010–2011 budget was quite different from Governor Strickland's initial budget in that it was enacted on party-line votes, now that the "honeymoon" was over and that partisan control of the legislature was no longer split between the chambers. With a rapidly declining Ohio economy, revenue forecasts were constantly in flux. To close a large budget shortfall announced in June, the Governor proposed several options that he would have preferred not to pursue, and that the legislature ultimately would choose not to adopt. These included huge cuts to the subsidy for public libraries, although smaller reductions were included in the final budget, and not funding the retirement obligation to the state's public employees for a two-year period. The budget did authorize video lottery terminals at Ohio's horse race tracks, but an Ohio Supreme Court ruling stating that such authorization could only be made with voter approval soon negated this action. For the first time in many biennia, the budget was not enacted in time to meet the June 30th statutory deadline. The governor eventually signed the budget on July 17, 2009, after three, short interim budgets were first enacted, as well as the aforementioned one-year deferral of the individual income tax reduction. The tax reduction deferral was only proposed after it was determined that the video lottery terminal option could not come to quick fruition.

The FY 2010–2011 budget was built on a very significant amount of one-time funding. Of particular note was the anticipated infusion of $3.39 billion in funding from the American Recovery and Relief Act, also known as federal stimulus, and the $948 million from the state's Budget Stabilization Fund, draining the "Rainy Day Fund" of all but 89 cents. Without these one-time revenue sources and numerous others, most notably the aforementioned imposition of Medicaid franchise fees to draw down federal matching funds, state government spending would have been reduced well below FY 2008–2009 levels, even after the executive cuts.[13] The federal stimulus and Budget Stabilization Fund dollars preserved a significant number of services and jobs but came at the cost of creating a large structural deficit in the out years. In addition, draining the "Rainy Day Fund" further exposed the state to possible future fiscal crises. Even with the infusion of these one-time resources, as well as others from "rotary raids" and an unclaimed funds transfer, the budget could accurately be characterized as a "no growth" budget. However, as always, there were some "winners" relative to the Executive Budget Request put forward by Governor Strickland several months earlier. Especially notable were the legislative increases provided for nursing homes, hospitals, and private institutions of higher learning.

New Budget Initiatives. New initiatives were necessarily limited by fiscal realities, as well as by Governor Ted Strickland's own conservative approach to budgeting. Even fewer initiatives received a favorable reception in the legislature. Amid much fanfare, Governor Strickland put forward an "Evidence-based Model" for funding primary and secondary education to replace the previous foundation funding system. In keeping with the expectations set forth in *DeRolph v. Ohio*, the new model centered on identifying all the various components associated with educating a student. The model looked at evidence from best practices across these elements of an education as seen in the highest performing schools and districts, examining how their resources were most effectively spent. Program funds were then earmarked based on their demonstrated effectiveness in improving accountability, transparency, and results. A key element of the "Evidenced-based Model" was all-day kindergarten, which was made an optional requirement in the FY 2010–2011 budget given the associated costs. This had also been an element of Governor Bob Taft's "Building Blocks for Student Success" model. Other signature elements included a focus on teacher quality through evaluations and professional ladders for teachers, an increase in the length of the school year, and the replacement of the Ohio Graduation Test with the ACT. Several of the hallmarks of the new model ended up in President Barack Obama's

"Race to the Top" initiative. The "Evidence-based Model" was to be phased in over a full decade because of its substantial $5 billion per year price tag.

Although the FY 2012–2013 budget did not contain a revision to the "Evidence-based Model," neither was it supported or funded by Governor John Kasich. Instead, the new governor began work on the development of his own education funding plan. Governor Strickland was not the first governor to announce a comprehensive plan to revamp Ohio's primary and secondary education funding model to comply with the 1996 *DeRolph* Ohio Supreme Court decision, and neither will he be the last.

The education policies of the Kasich Administration are described in Chapter 14.

Less noticeable, but perhaps more lasting, were the important changes to the University System of Ohio's (USO) State Share of Instruction proposed by Governor Strickland and supported by the higher education community. The higher education funding formula was updated to reflect performance and accountability provisions of the USO Strategic Plan. Each sector of higher education was evaluated on criteria aligned more closely to how effectively it met its unique mission through a set of specific outcomes. Emphasis was given to science, technology, engineering, mathematics, and medical, or STEMM, programs, as well as to student success and degree completion. Previously, the formula was primarily based on only two metrics, enrollments and the average cost of instruction. Three years later, in 2012, Governor Kasich would request the higher education community to develop additional revisions to the formula to encourage improved student retention and timely graduation.

The FY 2010–2011 budget also included a major reform to the Ohio College Opportunity Grant (OCOG), the state's primary need-based financial aid program, implementing a "Pell First" strategy. This policy change, which effectively eliminated access for students at community colleges and university regional campuses, was accompanied by a corresponding funding reduction of 57 percent to OCOG. Many of these students had used this need-based financial aid to cover living expenses while they were in college.

In addition, initial steps were taken towards a Unified Long-Term Care Budget to condense the state's five Medicaid waiver programs into one. The goal was to streamline and improve home and community-based care options and to allow more individuals to access those options.

Finally, "cost savings" furlough days and other payroll savings initiatives, such as pay and hiring freezes and step and personal-leave-day eliminations, were instituted to show that government was "doing its part" in difficult fiscal times. Another short-term cost savings initiative involved the restructuring of state debt, an idea that was to be repeated by Governor John Kasich in the following budget.

Gambling. Ohio's budget woes were not helped when the Ohio Supreme Court ruled the installation of 17,500 video lottery terminals at Ohio horse race tracks unconstitutional in September 2009. Governor Ted Strickland had added the measure to the budget, despite his long opposition to gambling, because of the difficult fiscal circumstances involved with securing enactment of the FY 2010–2011 budget. Just two months later, Ohioans approved casino gambling in its four largest cities, Cincinnati, Cleveland, Columbus, and Toledo, after several previous failures. However, significant revenue would not be realized from this new venture until well after Governor John Kasich took office.

Summary

The familiar pattern of a recession followed by cutback management and a tax increase to balance the budget continued early in the first decade of the 2000s. As in the 1990s, the budget gap was closed with a fairly minor tax change, a one-cent temporary increase in the state sales tax that was later converted to a one-half cent permanent increase. However, when the Great Recession would hit with force later in the decade, state revenues suffered greatly and Ohio's term-limited legislature did not, or could not, respond with a revenue measure to meet the state's urgent needs and priorities. Indeed, the opposite was true. The state's dire fiscal situation was compounded by the comprehensive tax reforms that were enacted a few years earlier in 2005 that, among other changes, reduced the individual income tax annually over a five-year period. Even with the infusion of federal stimulus funding, state spending levels, with the notable exception of the Medicaid budget, plummeted.

Endnotes

1 Ohio is one of 15 states with legislative term limits. All but one of these limitations were initiated between 1990 and 1993. In addition to the amendment to the Ohio Constitution that limited members of the Ohio House of Representatives to four two-year terms and members of the Ohio Senate to two four-year terms, a separate 1992 constitutional amendment limited the terms of statewide elected officials in Ohio to two four-year terms in the same office. Yet another constitutional amendment sought to limit the terms of members of Ohio's Congressional delegation, but this amendment was subsequently nullified by the U.S. Supreme Court in 1995 in *U.S. Term Limits, Inc. v. Thornton*.

2 A detailed analysis of Governor Bob Taft's legacy can be found in Richard Sheridan's book, *The Taft Record: What It Means for Ohio's Future*, The Center for Community Solutions, Cleveland, Ohio, 2006.

3 Section 126.02 of the Ohio Revised Code.

4 *Simmons-Harris v. Goff*, 86 Ohio St. 3d 1 1999.

5 Ohio Constitution, Article II, Section 15(d).

6 Tax Foundation, "2017 State Business Index Climate Index," and "Location Matters: A Comparative Analysis of State Tax Costs on Business," Washington, D.C., 2012.

7 The Kaiser Commission on Medicaid and the Uninsured, "Deficit Reduction Act of 2005: Implications for Medicaid," Washington, D.C., February, 2006.

8 Ohio Development Services Agency, 2016 Annual Report.

9 Some of the material included in this section was presented in the essay "A Different Perspective on H.B. 119," *State Budgeting Matters*, Volume 3, Issue 25, written by Richard Sheridan for The Center for Community Solutions, Cleveland Ohio, 2007.

10 For a more complete discussion of these issues, see Richard G. Sheridan, *The Taft Record: What It Means for Ohio's Future*, The Center for Community Solutions, Cleveland, Ohio, 2006.

11 Ohio Legislative Service Commission, "Ohio Facts," 2011.

12 "Job Watch – October 2011, Policy Matters Ohio, Cleveland, Ohio.

13 For a listing of some of the one-time revenue sources in the FY 2010–2011 budget, see Richard G. Sheridan, "FY 2010–FY 2011 State Budget: A Plethora of Sticky Wickets," *State Budgeting Matters*, Volume 5, Issue 5, March 1, 2009.