

## CHAPTER 3:

# The Executive Budget

The budget is the most important statement of the future directions planned for government services and, as such, is the single most important executive and legislative vehicle for implementing public policy. The concept of a budget originates with the executive branch of government. It is primarily an executive planning and management tool, but it is also a very personal statement of the plans and goals of the governor. This multifaceted role is especially true in Ohio, where it is traditional to include many substantive public policy matters in the budget along with appropriations to run state government. While the General Assembly reviews the governor's budget request, the executive branch usually lobbies intensely against any major changes in its proposal, unless it originates the changes.

## Statutory Requirements

State law requires the governor to submit a budget within four weeks of the convening of the General Assembly or, in the case of a non-incumbent assuming the governorship, not later than March 15.<sup>1</sup> State law mandates the governor's budget to be "a complete financial plan for the ensuing fiscal biennium" containing:

- A general summary of anticipated resources and planned expenditures by agency and by function.
- A detailed statement of amounts recommended for appropriation for each fiscal year, including a delineation of amounts recommended for personal services, supplies and materials, equipment, subsidies (aid to local units of government or individuals), revenue distribution (moneys collected by the state and then redistributed to local units of government), merchandise for resale (products sold by one agency to another agency), transfers (moneys transferred from one fund or account to another), non-expense disbursements, obligations, interest on the state debt, repayment of debt, and capital outlays. The statement must list the funds from which these appropriations would be made and compare the proposed appropriations to expenditures during the prior two biennia.
- A detailed estimate of anticipated revenues in each fund from each source for each year of the ensuing biennium, compared to receipts in the previous two biennia. If there is legislation proposed that would alter the revenue receipts, this too is to be estimated, and information about available cash balances is to be provided.

- A description of each tax expenditure, with a detailed estimate of the amount of revenues not available to the General Revenue Fund under existing laws during each fiscal year of the immediately preceding biennium due to the operation of each tax expenditure.

The law also prescribes the duties of the Office of Budget and Management, most of which relate directly to the preparation of the budget document and appropriations bill:<sup>2</sup>

- Preparing biennial budget estimates of revenues and expenditures for each state fund.
- Preparing a six-year capital plan, including recommendations on acquisition of real estate and the construction of all public improvements.
- Preparing and submitting to the governor a monthly report showing the condition of the General Revenue Fund.
- Approving or disapproving encumbrances, except for the Attorney General, Auditor of State, Secretary of State, or Treasurer of State, unless there is an insufficient unobligated balance in their appropriations or the encumbrance does not meet all other legal requirements.
- Requiring the allocation and allotment of any appropriation by quarter or by any other period of time.
- Reporting to the Attorney General all facts showing improper payment of public money or misappropriation of public property.
- Determining the monthly distribution of any subsidies appropriated by the General Assembly.
- Determining the availability of money in the Total Operating Fund.
- Preparing and administering a statewide indirect cost allocation plan.
- Designating which programs or activities are subject to performance reviews by affected state agencies and submitted to the Office of Budget and Management as part of the agency's budget request.
- Drawing warrants against the Treasurer of State for payments approved by the Office of Budget and Management Director.
- Determining the state agencies that are to be internally audited.

## Change of Administration

Even when governors are in their last term of office, they still do the initial preparation that the governor-elect will use to prepare the new administration's first Executive Budget Request. The incoming governor has only until March 15 of odd-numbered years to submit the budget request after taking office in January. The new governor, therefore, becomes partially bound to the agency budget requests prepared under the guidance of the predecessor, although additional information may still be requested from state agencies. Thus, Governor John Kasich's budget guidance for the FY 2020–2021 budget will largely determine the format of the initial budget request of his successor, Governor Mike DeWine.

From 1953 to 1982, special provisions of law recognized the importance of a new governor gaining access to budget materials prior to inauguration and directed all departments to give the governor-elect "any information desired in relation to the affairs of their respective departments, institutions, or officers." When the law was repealed, provision was made to establish a gubernatorial transition committee consisting of the director of the Office of Budget and Management as chair and such other members as the governor and the governor-elect might select.<sup>3</sup> In 1985, legislation was enacted

requiring the director of Office of Budget and Management to:

- Make available to the governor-elect all information that the Office of Budget and Management has in its office concerning the income and revenues of the state and the state budget, and assign one or more employees to assist the new administration in studying this information.
- Assign the new governor and immediate staff office space pending inauguration.
- Direct any state agency to furnish such information as may be necessary.<sup>4</sup>

Each state agency is required to submit its budget estimates including all details submitted to the *Office of Budget and Management* not later than December 1 of the year a new governor is elected.<sup>5</sup> The governor-elect is also given an appropriation of unearmarked moneys from the General Revenue Fund to be used for salaries, supplies, and materials during the transition from November until the inauguration in January.<sup>6</sup>

All of these provisions are to ensure that a new administration, especially when of the opposite party from the outgoing governor, is given the resources and information necessary to formulate a budget request. The laws were enacted after unpleasant experiences when the outgoing governor refused to be of any assistance. However, the law does not prevent the outgoing governor from also submitting a separate budget request before leaving office. This is, in fact, what outgoing Democrat Governor John Gilligan did in 1975. The Democrat-controlled General Assembly chose to use that appropriations bill as the basis for its appropriations, rather than that submitted by incoming Republican Governor James Rhodes.

## Budget Preparation

The steps involved in the preparation of the Executive Budget Request include the issuance of instructions to agencies and the preparation of their requests, Office of Budget and Management analysis and recommendations regarding the agency requests, forecasts of revenues and Medicaid spending, gubernatorial review, preparation of the Executive Budget Request, and submission to the General Assembly.

### Budget Guidance

In June or July of even-numbered years, the Office of Budget and Management issues its *Operating Budget Guidance* for the coming biennium. Included in the guidance are the format, content requirements, and due dates for agency budget requests. In the preparation of the FY 2006–2007 Executive Budget Request, substantial changes were made. The budget guidance introduced Budget Request Limitations restricting nearly all agencies' requests for all funds to 100 percent of FY 2005 appropriations. Budget requests for all agencies were submitted using a program budgeting format. Agencies were permitted to prioritize what they would do with the requested money within and by programs. They were also allowed to allocate money within a fund, rather than by line item. Agencies could also submit an Extended Program budget request for specific funding above the FY 2005 appropriation level, if they received prior approval from the Office of Budget and Management.

This process was still largely utilized many budgets later in the *Operating Budget Guidance* docu-

ment for the FY 2018–2019 budget, issued in June 2016 by the Office of Budget and Management. A major difference is that over time core funding has become defined as 90 percent of the previous year’s appropriation level (FY 2017) rather than 100 percent for General Revenue Fund items. In the FY 2018–2019 budget, Extended Program budget requests were limited to 100 percent of the previous year’s appropriation level.

## **Mandatory Increases**

A continuation budget assumes that some kinds of increases are mandatory in order to keep a program operating at an existing level of service. In the case of personal services costs, the state’s salary structure provides for annual step increases, which may vary from contract to contract, for all covered state employees who are not in the last step of their pay range. If an agency’s personal service budget had to absorb the full effect of these increases without additional appropriations, it would have to operate with fewer employees, thereby reducing service levels. Calculating future personal service costs is especially difficult. The Office of Budget and Management, therefore, calculates the expected costs centrally and provides each agency with a budget for personnel that accounts for attrition, step increases, and other such variables. If an agency can provide sufficient justification, those estimates can be changed.

Legislation altering an existing program or mandating a new one can result in increased costs as can legislative formula funding dependent on variables such as clientele, enrollments, and school-age population. Changes in these variables will result in changes in the state’s obligation to fund these programs.

Recent Executive Budgets have demonstrated that in difficult economic times, very little spending can now be considered mandatory. In his final budget, Governor Ted Strickland proposed not only freezing state employee step increases but also eliminating personal leave days and including 10 “cost savings,” or furlough, days. Governor John Kasich’s budgets have included significant formula revisions that diverted moneys that would have otherwise gone to local governments to the General Revenue Fund.

## **Programs**

Agencies are required to submit their appropriations requests on a program basis. Since the mid-1990s, the Office of Budget and Management has worked with state agencies to categorize their activities into program series. Agencies are expected to construct their activities in terms of the goals they expect to accomplish. These are collected in what is called a “program series.” Program summaries describe the purpose of each program and the activities it provides to the population or community that it serves. Program funding sources, internal and external impacts, and the performance measures used to assess program effectiveness are all identified. For example, the program series developed by the Ohio Department of Rehabilitation and Correction to fulfill its agency role are:

- Institutional operations.
- Parole and community service operations.
- Program management services.
- Debt Service.

Programs within the department's institutional operations series are:

- Institutional operations, including facility maintenance, support services, security, unit management, and facility administration.
- Medical services, which offers comprehensive health care services by qualified personnel at all institutions.
- Mental health services providing care and recovery services for inmates with various mental health needs.
- Education services, which provides educational opportunities for inmates at several levels.

The department's parole and community service operations program series also contains multiple programs for:

- Nonresidential services for low-risk offenders in community corrections programs.
- Residential programs for felony offenders and ancillary services relating to their incarceration.

The department's remaining two program series, program management services and debt service, contain only a single program each.

**Required Questions.** The Office of Budget and Management in its *Operating Budget Guidance* for the FY 2020–2021 biennium required agencies to answer a number of questions about each program in their agency budget submission. The questions were similar, but not identical, to those included in previous documents:

1. Explain the purpose of this program? What public service or existing need does this program address?
2. Explain the population served and/or community regulated by this program?
3. Describe the services or activities provided by the program.
4. Provide estimates of the volume of services that will be provided at this funding level, including people served, assistance provided, and the number of awards and amounts.
5. Describe existing activities or services that cannot be maintained or will be eliminated at this funding level.
6. Describe the various sources of revenue that will support this program. Are these funding sources dedicated solely to this program or do these funding sources support other programs?
7. If applicable, list all federal grants and funding that are anticipated, including how the state's allocation of this funding is determined and any associated state match requirements.
8. Does the program pass funds to other state or local entities?
9. Describe any internal or external factors that have contributed to the costs of this program?
10. Do any other state programs or projects interact with the work of this program? If so, please identify them and describe how efficiencies and service delivery have been improved.
11. Describe how the effectiveness of this program is gauged.
12. Provide any additional information concerning this program not included above that will serve to assist the Office of Budget and Management in the analysis of this request.

Required questions for extended program budget requests up to 100 percent for programs supported

by the General Revenue Fund (GRF), or beyond the 100 percent limitation for non-GRF funding, for the FY 2020–2021 biennium can be found in Chapter 4.

To provide a tool for understanding the revenue and expenditure patterns of non-GRF resources, Office of Budget and Management also requires agencies to answer an additional series of questions about each such fund, if applicable. Questions relate to legal authority and fund restrictions, revenue sources and history, assumptions used in developing revenue estimates, projected ending cash balance, and an explanation of programs or activities supported.

Beginning with the FY 2018–2019 biennium, Office of Budget and Management required agencies to also answer a series of detailed questions on their GRF line items, other than debt service. Questions related to the legal authority and purpose of each such line item and the activities it supported, including when funds were passed through to other state or local entities, its connection to other line items, including whether it was used to meet a state match requirement, and how the request differed from the appropriation for the last fiscal year of the preceding biennium.

New to the FY 2020–2021 budget guidance was the inclusion of a strategic information technology (IT) budget worksheet that, together with a new policy for IT governance, represented an attempt by the Office of Budget and Management to obtain a better handle on the IT planning done by agencies.

## **Budget Analysis**

An especially critical step in budget development is the analysis done by the Office of Budget and Management after agency requests have been submitted. The largest agencies are given the most time to prepare their requests. Office of Budget and Management analysts are assigned to work with specific agencies throughout the year, and these analysts regularly meet with the agency to help define their requests, solicit additional information, and to understand their needs and circumstances. They then prepare an analysis leading to preliminary and then final recommendations to the governor. After the Executive Budget Request is submitted to the legislature, an analysis of that request is made by the Ohio Legislative Service Commission and used in advising the General Assembly in the appropriations process. Both the Office of Budget and Management and the Legislative Service Commission use the same kinds of analytical techniques, which are described in Chapter 4.

## **Budget Submission**

The operating budget proposal prepared by the Office of Budget and Management under the guidance of the governor consists of three pieces. One is the budget recommendations, which includes historical spending information, special analyses on subjects the governor wishes to emphasize, the economic forecast and revenue estimates, explanatory information about proposed new spending, and the dollar amounts requested by agency, program, and line item. The budget recommendations are traditionally referred to as the “Blue Book,” but the Executive Budget Request actually consists of a couple of other parts as well.

The second part of the Executive Budget Request is a report from the Ohio Department of Taxation on General Revenue Fund tax expenditures. Tax expenditures are government spending made through the tax code. It is the revenue foregone through the numerous exemptions, exclusions, deductions, and tax credits contained in either the Ohio Constitution or state statute.

The third part of the Executive Budget provides budget highlights, a broad, “30,000-foot view” of state revenue and spending trends contained in the governor’s proposal.

For the FY 2018–2019 budget, the Kasich Administration chose to submit several additional analyses as part of its budget submission. These included transition aid calculations because of the phase out of the sales tax on Medicaid Health Insuring Corporations, calculations of distributions stemming from continued Local Government Fund reform, and school foundation funding estimates.

A final element of the Executive Budget Request contains the actual appropriations bills. The executive branch prepares the original drafts of the bill, but the Legislative Service Commission puts them in final form. The House Finance Committee Chair introduces the bills at the request of the executive. The form of both the budget document and the appropriations bill are prescribed by law.

### **Budget Recommendations Detail**

The Executive Budget Request provides the detailed information to support the governor’s policy objectives. Historical information about spending is also included in this document but needs to be used with caution since the portrayal of the current year’s spending is only an estimate made six months before the end of the fiscal year. Final information can be significantly different, thus skewing the comparisons to proposed new spending. The Office of Budget and Management prepares the monthly reports on actual spending, and the Legislative Service Commission analyzes them. The reports can be used to update the budget document.

The bulk of the governor’s budget consists of agency-by-agency historical and proposed spending. Table 3-1 is a sample from the FY 2018–2019 Executive Budget Request for the Ohio Department of Rehabilitation and Correction. It contains a summary of the recommendations for the department and related budget history as well as detail on its various program series.

**Table 3-1: Department of Rehabilitation and Correction**

<i>(In Thousands)</i>									
	ACTUAL			EST.	% CHANGE	RECOMMENDED			
BUDGET FUND GROUP	FY 2014	FY2015	FY 2016	FY 2017	FY 16-17	FY 2018	% CHANGE	FY 2019	% CHANGE
General Revenue	1,512,193	1,522,471	1,602,073	1,694,312	5.8%	1,751,230	3.4%	1,781,575	1.7%
Internal Service Activity	48,216	50,972	51,065	56,818	11.3%	59,605	4.9%	59,605	0.0%
Federal	3,416	2,992	2,327	2,100	-9.8%	2,440	16.2%	2,440	0.0%
Dedicated Purpose	27,404	24,276	11,715	10,033	-14.4%	13,580	35.3%	14,190	4.5%
<b>Total</b>	<b>1,591,230</b>	<b>1,600,711</b>	<b>1,667,180</b>	<b>1,763,263</b>	<b>5.8%</b>	<b>1,826,855</b>	<b>3.6%</b>	<b>1,857,810</b>	<b>1.7%</b>

<i>(In Thousands)</i>									
	ACTUAL			EST.	% CHANGE	RECOMMENDED			
EXPENSE ACCOUNT CATEGORY	FY 2014	FY2015	FY 2016	FY 2017	FY 16-17	FY 2018	% CHANGE	FY 2019	% CHANGE
Personal Services	929,515	936,263	975,751	1,028,564	5.4%	1,056,777	2.7%	1,071,346	1.4%
Purchased Personal Services	193,301	231,519	237,587	259,971	9.4%	276,859	6.5%	282,328	2.0%
Supplies and Maintenance	220,459	180,788	195,606	217,999	11.4%	218,033	0.0%	209,370	-4.0%
Equipment	15,519	14,484	17,969	14,292	-20.5%	14,039	-1.8%	13,834	-1.5%
Subsidies Shared Revenue	110,802	122,565	138,635	135,359	-2.4%	155,437	14.8%	175,200	12.7%
Goods and Services for Resale	15,156	16,710	22,087	25,382	14.9%	25,000	-1.5%	25,000	0.0%
Capital Items	0	402	225	0	-100.0%	300	0.0%	300	0.0%
Judgments, Settlements & Bonds	3,463	691	954	816	-14.5%	906	11.0%	892	-1.5%
Debt Service	103,002	96,327	76,248	79,799	4.7%	78,505	-1.6%	78,540	0.0%
Transfers and Non-Expense	13	962	2,117	1,081	-48.9%	1,000	-7.5%	1,000	0.0%
<b>Total</b>	<b>1,591,230</b>	<b>1,600,711</b>	<b>1,667,180</b>	<b>1,763,263</b>	<b>5.8%</b>	<b>1,826,855</b>	<b>3.6%</b>	<b>1,857,810</b>	<b>1.7%</b>



### Program Series 1: Institutional Operations (5000A)

This program series includes Institutional Operations (5000B), Medical Services (5100B), Mental Health Services (5180B), and Education Services (5170B), and is responsible for providing housing, security, food, healthcare, and education for adults who are sentenced to the custody of the department. The department currently operates 26 prisons and contracts with two private prisons. Research-based programs are delivered to offenders based on need in order to prepare them for re-entry to society. In addition, eligible offenders are offered work experience and training through Ohio Penal Industries.

FUND	ALI	ALI NAME	ESTIMATED	RECOMMENDED			
			FY 2017	FY 2018	% CHANGE	FY 2019	% CHANGE
GRF	501321	Institutional Operations	983,275,829	1,011,42,529	2.9%	1,012,150,097	0.1%
GRF	505321	Institution Medical Services	249,581,581	257,325,288	3.1%	262,956,517	2.2%
GRF	506321	Institution Education Services	30,096,795	30,681,211	1.9%	31,172,312	1.6%
1480	501602	Institutional Services	2,494,728	2,925,000	17.2%	2,925,000	0.0%
2000	501607	Ohio Penal Industries	52,613,029	52,500,000	-0.2%	52,500,000	0.0%
4830	501605	Leased Property Maintenance & Operating	250,000	1,900,000	660.0%	1,900,000	0.0%
5710	501606	Corrections Training Maintenance & Operating	70,000	70,000	0.0%	70,000	0.0%
5L60	501611	Information Technology Services	0	950,000	NA	950,000	0.0%
3230	501619	Federal Grants	161,803	150,000	-7.3%	150,000	0.0%
4800	501601	Sewer Treatment Services	2,213,293	2,230,000	0.8%	2,230,000	0.0%
4840	501603	Prisoner Programs	500,000	1,300,000	160.0%	1,300,000	0.0%
4550	501608	Education Services	4,031,474	3,900,000	-3.3%	3,900,000	0.0%
5AF0	501609	State and Non-Federal Awards	225,000	450,000	100.0%	450,000	0.0%
51180	501617	Offender Financial Responsibility	60,000	110,000	83.3%	110,000	0.0%
<b>Total for Institutional Operations</b>			<b>1,325,573,532</b>	<b>1,365,954,028</b>	<b>3.0%</b>	<b>1,372,763,926</b>	<b>0.5%</b>

## Program Series 2: Parole and Community Service Operations (5250A)

This program series includes Nonresidential Services (5250B) and Residential Programs (5280B) and provides community supervision for felony offenders, parole investigations and hearings, jail inspection services, victim services, and community correction options. Community correction programs provide punishment for lower risk offenders including electronic house arrest, day reporting, and intensive supervision through jail and prison diversion programs, community based correctional facilities, and halfway houses.

FUND	ALI	ALI NAME	ESTIMATED	RECOMMENDED			
			FY 2017	FY 2018	% CHANGE	FY 2019	% CHANGE
GRF	501405	Halfway House	69,410,170	66,770,618	-3.8%	66,770,618	0.0%
GRF	501407	Community Nonresidential Programs	39,471,463	61,293,426	55.3%	81,056,884	32.2%
GRF	501408	Community Misdemeanor Programs	14,356,800	14,356,800	0.0%	14,356,800	0.0%
GRF	501501	Community Residential Programs - Community Based Correctional Facilities	78,531,698	78,531,698	0.0%	78,531,698	0.0%
GRF	503321	Parole and Community Operations	67,486,536	69,522,989	3.0%	71,360,000	2.6%
3230	501619	Federal Grants	160,225	955,000	496.0%	955,000	0.0%
3CWO	501622	Federal Equitable Sharing	0	60,000	NA	60,000	0.0%
4L40	501604	Transitional Control	499,320	1,750,000	250.5%	1,750,000	0.0%
5AF0	501609	State and Non-Federal Awards	54,352	50,000	-8.0%	50,000	0.0%
5H80	501617	Offender Financial Responsibility	1,345,700	2,390,000	77.6%	3,000,000	25.5%
<b>Total for Parole and Community Service Operations</b>			<b>271,316,264</b>	<b>295,680,531</b>	<b>9.0%</b>	<b>317,891,000</b>	<b>7.5%</b>

## Program Series 3: Program Management Services (5300A)

This program series includes Program Management Services (5300B) only. This program provides leadership, administrative oversight and support services to the department's institutions, parole regions, Parole Board, and community corrections partners. This includes the Director's Office, Chief Inspector's Office, Office of Communications, Division of Legal Services, Legislative Office, Office of Human Resources, Office of Administration, Office of Education, Research and Offender Reentry, Ohio Penal Industries, and the Corrections Training Academy.

FUND	ALI	ALI NAME	ESTIMATED	RECOMMENDED			
			FY 2017	FY 2018	% CHANGE	FY 2019	% CHANGE
GRF	501321	Institutional Operations	34,106,458	35,535,000	4.2%	36,170,697	1.8%
GRF	501407	Community Nonresidential Programs	918,953	0	-100.0%	0	0.0%
GRF	501503	Residential Grant Program	100,000	0	-100.0%	0	0.0%
GRF	503321	Parole and Community Operations	11,174,151	11,360,759	1.7%	11,447,332	0.8%
GRF	504321	Administrative Operations	23,378,789	24,034,553	2.8%	24,611,945	2.4%
GRF	505321	Institution Medical Services	10,840,758	9,950,000	-8.2%	10,250,000	3.0%
GRF	506321	Institution Education Services	1,783,092	1,900,000	6.6%	2,200,000	15.8%
2000	501607	Ohio Penal Industries	379,800	400,000	5.3%	400,000	0.0%
4830	501605	Leased Property Maintenance & Operating	100,000	100,000	0.0%	100,000	0.0%
5710	501606	Corrections Training Maintenance& Operating	410,000	410,000	0.0%	410,000	0.0%
5L60	501611	Information Technology Services	500,000	350,000	-30.0%	350,000	0.0%
3230	501619	Federal Grants	1,377,972	880,000	-36.1%	880,000	0.0%
3CWO	501622	Federal Equitable Sharing	400,000	395,000	-1.3%	395,000	0.0%
4L40	501604	Transitional Control	200,680	200,000	-0.3%	200,000	0.0%
4550	501608	Education Services	803,625	825,000	2.7%	825,000	0.0%
5AFO	501609	State and Non-Federal Awards	100,000	375,000	275.0%	375,000	0.0%
<b>Total for Program Management Services</b>			<b>86,574,278</b>	<b>86,715,312</b>	<b>0.2%</b>	<b>88,614,974</b>	<b>2.2%</b>

#### Program Series 4: Debt Service (5310A)

Debt Service (5310B) is the only program within this series. This program provides for the timely payment of debt service on debt obligations issued to fund DRC capital projects.

FUND	ALI	ALI NAME	ESTIMATED	RECOMMENDED			
			FY 2017	FY 2018	% CHANGE	FY 2019	% CHANGE
GRF	501406	Adult Correctional Facilities Lease Rental Bond Payments	79,798,911	78,505,000	-1.6%	78,540,400	0.0%
<b>Total for Debt Service</b>			<b>79,798,911</b>	<b>78,505,000</b>	<b>-1.6%</b>	<b>78,540,400</b>	<b>0.0%</b>

#### Legislative Service Commission Documents

Every two years the Legislative Service Commission publishes the *Catalog of Budget Line Items*, which provides six years of historical information about every line item included in the appropriations bill, as well as the legal basis for the line item and a statement of the purpose for which the funds are to be used. Table 3-2 is a sample of the explanatory material for a single line item in the Ohio Department of

Rehabilitation and Correction. The information in the *Catalog of Budget Line Items* is contained in the Legislative Service Commission's "Redbooks." Redbooks are the Legislative Service Commission's analysis of the governor's recommendations as contained in the Executive Budget Request. Redbooks also provide a description of each department's existing functions and staffing, and an overview and detailed analysis of the executive proposal for the agency.

**Table 3-2: Department of Rehabilitation and Correction**

GRF 501405 HALFWAY HOUSE					
2014 ACTUAL	2015 ACTUAL	2016 ACTUAL	2017 ACTUAL	2018 ACTUAL	2019 ADJUSTED APPROPRIATION
\$44,555,206	\$55,021,555	\$58,452,887	\$69,362,570	\$65,485,127	\$66,770,618
% Change	23.5%	6.2%	18.7%	-5.6%	2.0%

Source: General Revenue Fund

Legal Basis: ORC 2967.14; Section 383.10 of House Bill 49 of the 132nd General Assembly (originally established by House Bill. 694 of the 114th General Assembly.)

Purpose: This line item is used to pay for the costs of the community residential program that provides supervision and treatment services for offenders released from state prisons, referred by courts of common pleas, or sanctioned because of a violation of conditions of supervision. Funds are primarily used to support more than 2,100 contracted halfway house beds, including such services as drug and alcohol treatment, electronic monitoring, job placement, educational programs, and specialized programs for sex offenders and mentally ill offenders. Funds are also used to support permanent supportive housing units, transitional control services, electronic home monitoring, and community residential centers. In FY 2017, a total of 9,336 offenders were admitted to state-contract halfway house programs.

## Revenue Forecasting

Essential to the development of a budget is the process of making revenue estimates. These are both part of the executive budget preparation and review process and the legislative review process. Legislative fiscal analysts make independent estimates largely in order to assess the adequacy of the executive estimates and to provide legislators with a second opinion. Critical to revenue estimating is a forecast of the economy. Before proceeding further with a discussion of these and other steps in the estimation process, we describe the concept of fund accounting, within which all budget decisions are made. Chapter 7 addresses financial accounting in depth. We briefly discuss it here, however, because of its connection to revenue forecasting.

### Fund Accounting

The state's accounting and budgeting systems are interconnected. Accounting systems provide information that is used in both budget preparation and execution. In governmental accounting systems, financial transactions are organized into different funds. A fund is a self-balancing set of revenue and expenditure accounts that maintain their own balances for the purpose of carrying on specific activities or achieving defined objectives within specific regulations, restrictions, or limitations.<sup>7</sup> Accounts are classification systems containing all transactions that affect similar assets, liabilities, expenses, or revenues.

With some exceptions, where it is possible to make transfers between funds, spending from each fund must take place within the confines of the estimated receipts to that fund. Thus, revenue es-

imates are made separately for each fund. Different variables and a different process are used in estimating receipts for each fund. The state’s General Revenue Fund (GRF) is the largest fund and where spending is the least restricted. It accounts for fully 45.8 percent of all funds in the Executive Budget proposal for the FY 2018–2019 biennium. However, when the legislature appropriates moneys in its main operating appropriations bill, it appropriates funds to state agencies from a number of fund groups, which are collections of similar funds grouped for budget appropriation and reporting purposes. Thus, while there are hundreds of state funds, they are grouped into the 15 fund groups listed in Table 3-3 for convenience.

**Table 3-3: Budget Fund Groups**

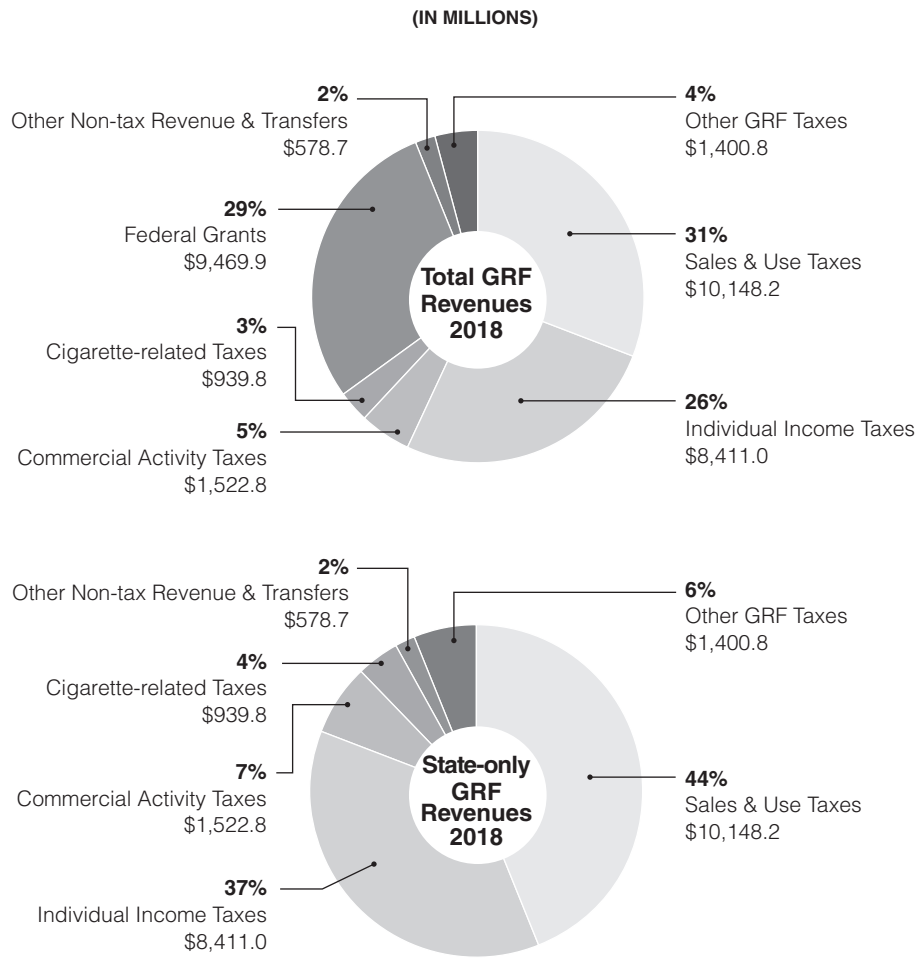
BUDGET FUND GROUP	CODE
Bond Research & Development	BRD
Budget Stabilization	BCF
Capital Projects	CPF
Debt Service	DSF
Dedicated Purpose	DPF
Facilities Establishment	FCE
Federal	FED
Fiduciary	FID
General Revenue	GRF
Highway Operating	HOF
Highway Safety	HSF
Holding Account	HLD
Internal Services Activity	ISA
Revenue Distribution	RDF
State Lottery	SLF

Information about the composition of each fund group is included in the “Reader’s Guide” section in the Executive Budget Request prepared each biennium, but the titles provide a general sense of what kinds of funds they contain.

The GRF is defined by the Office of Budget and Management as consisting of “all financial resources except those required to be accounted for in another fund.” Thus, it is a sort of residual fund out of which education, human services, general government, and property tax relief spending programs are appropriated. Its primary sources of revenue are the sales and use, individual income, commercial activity, and cigarette and other tobacco taxes. The revenues of the GRF are estimated based upon a comprehensive economic forecast made centrally by the Office of Budget and Management and also separately by the Legislative Service Commission.

Figure 3-1 depicts the primary sources and receipts yielded from each of the major sources of revenue contributing to the GRF. The sales and use tax provides the largest source of state receipts in the GRF, contributing nearly one-half of its resources. As recently as FY 2013, the individual income tax was the largest source of GRF revenue. Since Ohio is unique in that federal grants for Medicaid reimbursements are deposited in the GRF, the information is presented both with and without federal GRF receipts. Federal grants and reimbursements account for a similar amount of receipts to the sales tax when all sources of GRF revenue are considered.

**Figure 3-1: Total and State-only GRF Revenues for FY 2018**



Source: Ohio Legislative Service Commission.

## Revenue Estimating Considerations

Crucial to all spending decisions is the amount of resources available to be spent. Reasonable people can come to startlingly different conclusions about revenues after viewing the same set of facts. There is no magic to revenue estimates; they are planning tools, not to be etched in stone but rather to be written lightly in pencil. A fact that needs to be underlined is that revenue estimates are never completely accurate. They are not, and should not be, political judgments; they should be the result of objective professional judgments. A second important fact about revenue estimates is that they change over time. When conditions and fiscal assumptions used by professionals in making estimates change, the outcomes also change. Assumptions do not change according to any planned schedule, but when they do, it is professionally responsible to inform political leaders of the consequences of these changes. Reporting new facts is not an act of political betrayal; it is done simply to aid in determining whether political judgments already made should be altered.

Biennial revenue projections used in developing the executive budget that is submitted in January, or

March in the case of a new governor, are made the previous fall by the Office of Budget and Management. These initial projections must thus be offered for a period of 30 months or more beyond the date when the original forecast was made. Economic conditions are bound to change in the additional months that it will take to enact a budget, so there is a constant need to revise revenue estimates to reflect new conditions. It has become the custom in Ohio for the Legislative Service Commission to present its economic forecast and revenue estimates sometime after the submission of the executive budget, thereby taking advantage of an extra quarter of economic data. It is then also customary for both the Office of Budget and Management, which prepares the original executive revenue estimates, and the Legislative Service Commission, with its independent legislative estimates, to present revisions when the bills are under review by a Conference Committee appointed to reconcile the differences between the two chambers. On occasion, revisions are also presented when the Senate receives the main operating appropriations bill from the House of Representatives.

### **Who Forecasts What?**

Comprehensive revenue estimates subject to the detailed examination of the Office of Budget and Management and governor and the Legislative Service Commission and members of the General Assembly are only made for revenue sources deposited in the General Revenue Fund and the State Lottery Fund and then appropriated in the main operating appropriations bill. The revenue forecasts used in appropriations of other federal and state funds in the main operating appropriations bill as well as funds appropriated in the state's other appropriations bills are made by the state agencies who expend those funds. There is only limited central executive or legislative review of those estimates.

### **Monthly Reporting**

After the state budget is enacted, the Office of Budget and Management prepares a separate estimate that divides both estimated General Revenue Fund and State Lottery Fund receipts and spending into expectations for each of the 12 months of the fiscal year. The Office of Budget and Management and the Legislative Service Commission track and report receipts and spending on a monthly basis to show how the state is doing compared to estimates. The Office of Budget and Management provides a report to the governor that comments on economic conditions and shows actual and estimated revenues and expenditures and the percentage variance by month and year-to-date. The Legislative Service Commission reformats the information and presents its own separate analysis in its monthly newsletter, *Budget Footnotes*. Both of these reports are available on the agencies' websites.

Through these tracking systems, Office of Budget and Management and Legislative Service Commission provide decisionmakers with an early warning when revenues are either lagging or are in excess of projections. In addition to supplying the information needed to make judgments about when the estimates are likely to produce more or less revenue than anticipated, they form the basis for periodic, though not regularly scheduled, revisions. These updates make it difficult for the governor to "squirrel away" budget surpluses to use to his political advantage as had happened prior to 1975 when the monthly estimating process began.

### **Economic Forecasting**

Economic forecasts are prepared and used to guide in the preparation of revenue estimates. In pre-

paring its economic forecast, the Office of Budget and Management relies heavily on the economic forecasts that IHS Global Insight makes.

The subscription economic forecasting firm includes a consensus forecast that their experts agree upon each quarter and that represents the safest bet according to its own panel of economists. The consensus forecast is usually drawn upon to extrapolate a state-specific forecast for Ohio. In presenting the forecasts, Office of Budget and Management and the Legislative Service Commission are careful to describe the risks of accepting the forecast and their consequences if the forecast is not realized. In addition to using subscription forecasting services, the Governor's Council of Economic Advisors convenes to review national data and provide information about any special conditions necessary in adapting the national information to Ohio.

The Legislative Services Commission uses the same resources as Office of Budget and Management, but it always reaches different conclusions, which underscores the fact that forecasts are subject to interpretation. Because the forecasts can become politically volatile, some states have placed forecasting responsibility within an independent commission or committee and tasked them with finalizing a judgment on the economic forecast.

## Key Variables

Ohio uses several major variables in its economic forecast:

- Real Gross Domestic Product (GDP), which is the total of all goods and services produced by the country and an overall measure of whether the country's economy is expected to fall, rise, or remain constant.
- Nominal personal income and wage and salary income, primary measures for forecasting both individual income and sales taxes.
- Nonfarm employment and unemployment rates, which affect individual income tax revenues and Medicaid spending.
- Real and nominal personal consumption and retail and food service sales, which impact both sales tax collections and state expenditures.
- Light vehicle sales, estimated independently from other sales tax provisions because of the importance of this segment of the economy both to Ohio employment and to sales tax collections.

Once an economic forecast is agreed upon by the executive, it is then translated into revenue estimates.

## Forecasting Methodologies

Different methodologies are used to forecast the various taxes that comprise the state's General Revenue Fund, tax expenditures, and federal and other funds. These are briefly described.

### General Revenue Fund

The sales (auto and non-auto are separated for estimating and tracking purposes), individual income, commercial activity, and cigarette and other tobacco taxes are the four main revenue sources of the



General Revenue Fund (GRF). For these, the Office of Budget and Management uses a regression analysis. The model uses patterns, trends, and cause-and-effect relations over time, subjects them to mathematical formulas, and then projects on the assumption that what has previously happened over time will continue in the future.

A simulation model is used to forecast other GRF tax sources. It takes actual receipts for the most recent prior period, applies the expected changes to estimated receipts, and then expands the result to simulate the entire population of taxpayers.

A third method of estimating, trend analysis, assumes that historical growth rate patterns will continue in the future.

The selected methodology will produce a baseline estimate that assumes the continuation of current law. However, in Ohio it is customary for the executive to propose changes in tax law as part of the budget request submission. When this happens, estimates of the positive or negative effects of the proposed law changes are applied to the baseline estimate to produce the final estimate.

**GRF Tax Expenditures.** Tax receipts lost as a result of deductions, exemptions, and credits in tax laws are independently estimated each biennium by the Ohio Department of Taxation. Estimates are made only for tax expenditures that are subject to a specific exclusion in state law, those items which, if not specifically excluded, would be part of the defined tax base. Also, only items that are not subject to an alternative tax are included. Taxation's biennial report for FY 2018 and 2019 identifies and estimates the loss from 129 General Revenue Fund tax expenditures. The methodology used for estimating the impact of each loss can be quite variable. However, the basic principle used for all is to determine how much revenue the state would gain if the tax expenditure were repealed on the first day of the biennium under review. This number may very well be different than the value of the exemption to the taxpayer, since repeal could change the behavior of taxpayers relative to the affected item. Also, considered are the timing of the collection of the tax and the extent to which the taxpayer will comply with the change in the law. Forecasts of tax expenditures are especially difficult because the Department of Taxation has to rely on data from outside sources such as other states, or from privately generated data, which may not always be completely reliable. Nevertheless, the information is useful to assist decisionmakers in assessing the validity of an exemption.

## State Lottery Funds

Profits resulting from the operation of the state lottery are deposited directly into the State Lottery Fund and are not part of the General Revenue Fund (GRF) projections. Until 2002, state law required that 30 percent of all sales must go to education. Since then, a target amount for transfers is determined each biennium during the appropriations process. However, the amount of money appropriated to the Ohio Department of Education from the GRF is determined after subtracting the amounts expected to be raised from lottery profits. Thus, the estimates are critical to GRF budget development. Sales projections for the lottery form the basis for profit projections after business expenses are deducted, providing the legislature some control over the size of profits because they appropriate operations moneys for the lottery games. What is unknown is how well the public will receive the games.

## Federal Funds

While federal Medicaid reimbursements are deposited into the General Revenue Fund and are carefully monitored by the Ohio Department of Medicaid and the Office of Budget and Management, most Office of Budget and Management federal funds are estimated by the recipient agency. What little subsequent review of the estimates the Office of Budget and Management and Legislative Service Commission make is on an exception basis, where new grants are anticipated or where there are striking increases or decreases. The review is usually primarily concerned with policy issues, such as whether the state should participate in a new grant program or replace anticipated grant losses. Forecasting federal funds is especially difficult in Ohio with its biennial budget and its July 1–June 30 fiscal period. The federal budget operates on an October 1–September 30 basis. Estimators must try to guess what Congress will do almost three years out. It is for these reasons that comparisons of estimated versus actual federal receipts have such wide variances.

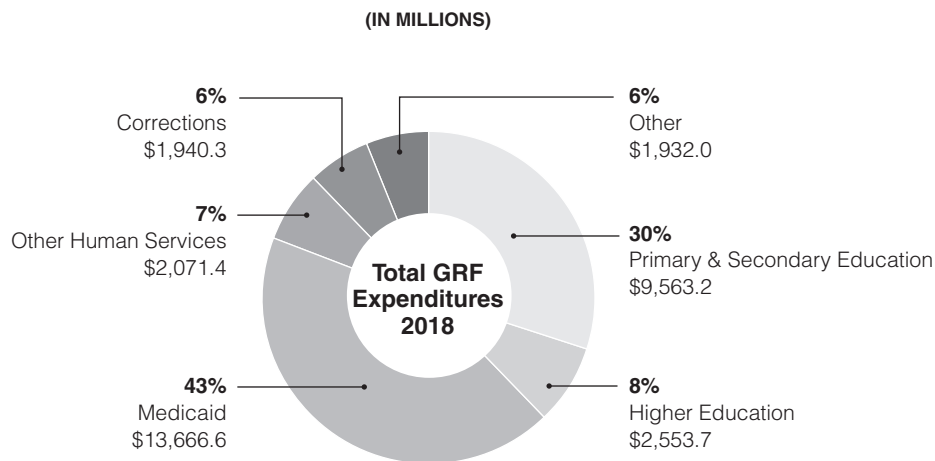
## Other Funds

Estimating receipts to the numerous non-General Revenue Fund (non-GRF) funds is mostly performed by the agency responsible for spending the moneys. The techniques they use are the same as those that the central budget office uses to forecast GRF revenues. If the agency's estimates are too high, they have to cut back in their spending. If too low, they can apply to the Controlling Board in the interim between biennial budgets and, if justified, that board can authorize spending the higher amounts. Thus, there is little to be gained by politically manipulating the forecasts. Although in an agency with mixed GRF and other funds, it could be to an agency's advantage to estimate non-GRF revenues on the low side if it thought that would result in higher GRF appropriations. There is little evidence that any agency has deliberately engaged in such a practice. Estimating revenues is a difficult enough practice without intentionally trying to alter the results and risk discovery and possible consequences. Thus, although central budget forecasting for other state funds might otherwise be desirable, there is little reason to recommend it.

## Estimating State Expenditures

For each General Revenue Fund (GRF) dollar spent by the State of Ohio, fully 85 percent is distributed back to communities in the form of subsidy. The state retains relatively little for administration and related expenses. Most GRF spending in Ohio is allocated for Medicaid and other human services, primary and secondary education, higher education, corrections, and real property tax relief. Approximately 65 percent of GRF Medicaid expenditures in FY 2018 came from federal funds. Ohio is unique in that GRF expenditures include the federal share for Medicaid reimbursements. Figure 3-2 depicts the primary GRF expenditure areas.

**Figure 3-2: Total GRF Expenditures for FY 2018**



Source: Ohio Legislative Service Commission.

Medicaid is Ohio's largest expenditure program. On an inflation-adjusted basis, it is the only major state program that has experienced any growth since 2000. While Medicaid expenditures, when excluding the expansion through the Affordable Care Act, have grown at a more controlled rate in recent years than was previously the case, the program continues to absorb what little state budget growth exists. When only state GRF funds are included, however, primary and secondary education continues to be the state's largest spending area. This is further addressed in Chapter 12.

## Funding Formulas

Spending decisions in major expenditure areas are determined by estimates and formulas based on these estimates. Inaccuracies in forecasting in these areas can severely impact the state budget. Like revenue forecasts, different methodologies are used for each kind of spending forecast. Medicaid is easily the largest and most important of the spending forecasts. These projections, like revenue forecasts, are performed by both the administration and the legislature.

## Medicaid Spending Projections

Medicaid is the state's largest federal entitlement program. States determine rules of eligibility for the health care program, within federal parameters, and the federal government reimburses the state for a portion of the expenses, using a formula dependent on calculations of the number of eligible persons in the state and other factors. Costs of this program are very volatile. Throughout the 1980s, Ohio struggled with the problem of finding enough money to pay for underestimated Medicaid costs. Through the 1990s, Medicaid spending was overestimated largely because of the continuing reduction in human services caseloads and federal health care cost containment efforts. During the 2000s, the state has significantly expanded Medicaid coverage and also initiated a variety of cost-reduction strategies to control spending increases for what has become the state's largest spending program.

Forecasting Medicaid spending begins with a determination of eligible populations. In Ohio, Medicaid pays for a range of health services to nearly three million low-income families, children, seniors, and

certain people with disabilities. Enrollments increased by nearly 27 percent in the four years following the Medicaid expansion through the Affordable Care Act, which went into effect in 2014. Eligibility criteria are determined on the basis of a percentage of the federal poverty level. The income guidelines vary for the different covered populations.

After caseloads are forecast, an estimate is made of the health care inflation rate. The state controls reimbursements for fee-for-service payments (inpatient and outpatient hospitals, physicians, prescription drugs, dental care, home health care, and other practitioners) through managed care organizations (MCOs). A per capita rate is actuarially determined as required by federal law, and the MCO is responsible for managing necessary client care. Client usage of services is not an important consideration for the purposes of determining costs of MCOs, but it is an important rate-setting consideration. Nursing home payments, including payments to intermediate care facilities for persons with developmental disabilities, are set in statute and controlled by using a prospective reimbursement system, that is, a system where a negotiated fee is set in advance. For all other kinds of services, usage by clients must be estimated.

The Ohio Department of Medicaid, using its data base, prepares the Medicaid spending forecast. The Office of Budget and Management reviews it, taking under major consideration what the state can afford within the framework of the rest of the budget. Proposed policy changes are introduced to reduce or increase expected spending. Once the baseline is established, proposed policy changes that might affect caseloads are taken into consideration. Programs or reimbursements are separately estimated and then added to or subtracted from the base.

In advance of each biennium, the Joint Medicaid Oversight Committee identifies its own forecasts for medical inflation apart from the executive estimates. As the budget bill proceeds through the legislative process, the Legislative Service Commission then makes its own separate estimates, taking into account the baseline, policy changes proposed by the executive, and any further changes proposed by the General Assembly.

## **Education Spending Projections**

Spending formulas often vary considerably from biennium to biennium. Temporary law provisions in each budget bill specify the current formulas that are in effect. Efforts to estimate the cost of providing a student with a “thorough and efficient education” during the Strickland Administration have been abandoned. Governor John Kasich’s first budget did not contain a fully operative school funding formula. Recently, formula proposals put forward by the executive have been largely ignored by the legislature in favor of guarantees for districts with diminishing enrollments and caps on growth for fast-growing districts. Community schools have made a major change on the landscape, however, reporting full-time enrollment of more than 111,272 students during the 2016–2017 school year. This accounted for about 7 percent of total public-school enrollment in the state.

A useful tool for looking at the finances of each of the state’s public-school districts is the Ohio Department of Education District Profile Report, commonly known as the Cupp Report. In addition to data on school district revenues and expenditures and their sources, both state and local, the Cupp Report also includes demographic data, personnel data, property valuation and tax data. The Cupp Report can be found at the Department of Education Website, [www.education.ohio.gov](http://www.education.ohio.gov).

The state distributes formula funding to Ohio's public universities and community colleges through the State Share of Instruction. Major revisions made during the FY 2010–2011 biennium gave priority to science, technology, engineering, mathematics, and medicine (STEMM) programs. Emphasis in the formula was also given to university degree attainment and community college success. In late 2012, Governor Kasich requested the higher education community to develop further changes to the formula that would foster improved student retention rates and timely graduation. These efforts have accelerated in subsequent biennia.

## Estimating Problems

Economic forecasting and revenue estimation are very important, yet difficult, steps in making projections. Authorities in the field are quick to point out that the biggest problem is in the collection of a consistent series of revenue data. Changes in rates and bases, failure to record receipts in the period in which they are due, inconsistent accounting, and similar problems can result in large estimation errors.<sup>8</sup>

In Ohio, there is also the problem of weighing alternative revenue estimates produced by two different reputable agencies, the Office of Budget and Management and the Legislative Service Commission. While the estimates of the latter are intended to assist legislators, they more often than not confuse rather than enlighten. Legislators who are not economists are reluctant to weigh alternative economic scenarios and put their political futures on the line by selecting one that might result, further down the line, in painful budget cutting. Since 1973, when the Legislative Service Commission began making revenue estimates, their estimates have almost always been higher than those of Office of Budget and Management. Likewise, their Medicaid spending estimates have been typically lower than those of the executive. What generally happens is that the House of Representatives and Senate will base their versions of the main operating appropriations bills on the estimates that help them achieve consensus. However, when the budget conference committee prepares the final appropriations bill, they most often base their budget on the executive branch's revenue and Medicaid spending forecasts, even though it has been shown that the Legislative Service Commission forecasts have historically been just as accurate.<sup>9</sup>

Especially difficult problems attend the estimation of tax expenditures and the fiscal impact of pending legislation, or fiscal notes. Relevant data is not always readily available to make good estimates. Since the potential effect of an inaccurate fiscal note could be to kill legislation that would otherwise have passed on its merits, care is given to make sure that the details of the estimate are included in the fiscal note. Including the assumptions used, the sources of data, and their limitations permits others to challenge the estimate and remove some of the blame if it is later found to have been inaccurate. A review of fiscal notes will reveal that most are described in terms of ranges or in terms of the magnitude of the effect rather than with exact figures.

It cannot be emphasized enough that all estimates are just that, estimates. Their accuracy depends more on thorough analysis, the judgment and experience of the estimator, and realistic assumptions. When a forecast or estimate proves to be inaccurate, that is to be expected; it is the degree of the inaccuracy, its direction, and the fiscal, programmatic, and political consequences of the inaccuracy that are important. That is why both executive and legislative estimators try always to err on the side

of underestimating revenues and overestimating Medicaid spending because the consequences are far less severe than errors in the other direction.

## Budget Logic and Strategies

An important consideration in preparing the executive budget for submission to the General Assembly is how it is to be packaged: the budget logic. Equally important is how the executive budget is sold: the budget strategies. Early in the development of the budget, the governor will establish the financial and program objectives that the central budget office will use in its review of agency budget requests and in preparing recommendations for executive review. As the budget request nears completion, concern will shift to the issue of laying the groundwork for legislative and public acceptance of administration proposals. Throughout the process of legislative consideration of the budget request, the governor will be the primary tactician in obtaining the kind of constituent, media, and public support needed to overcome legislative objections.

### Setting Objectives

During the gubernatorial campaign, the governor will have made a number of campaign promises with financial implications and will initially seek to have these incorporated into the new administration's first budget.<sup>10</sup> With a fresh mandate from the electorate, a new governor is likely to achieve the greatest success with agenda items in the General Assembly in his initial budget. However, fiscal realities will inevitably intervene, and it is likely that some priorities will have to be postponed until the second budget. The second administration budget is also important, because it will be the budget in place if the governor runs for re-election. By the time the second budget is being prepared, the governor can concentrate on fulfilling those campaign promises that will lead to re-election.

Much of what the governor does in setting financial objectives will be in the nature of determining what major areas of state government are to be expanded or contracted. Governor James Rhodes, for example, was renowned for his single-mindedness with respect to economic development. He cast all of his budget priorities around that theme. Governor Richard Celeste had a more expansive view of government and established new initiatives in higher education and health and human services but was not widely known for any one single focus. Governor George Voinovich announced from the outset that he wished to be known as the “education governor,” a moniker that Governor Bob Taft also adopted after taking office and being faced with the judicial directive to rebuild Ohio's schools and increase their funding levels. Governor Ted Strickland also embraced this designation with his extensive efforts to reform the primary and secondary education funding formula. Governor John Kasich returned to the economic development theme of Rhodes. He spoke of transforming Ohio for growth and labeled his first two budgets: “the Jobs Budget” and “Jobs Budget 2.0.” However, his last two budgets had a more futuristic focus: “Blueprint for a New Ohio” and “Building for Ohio's Next Generation.”

### Bottom-Up or Top-Down

A decision that each governor will make affecting budget outcomes is whether to develop the budget from the bottom up or the top down. That is, should the budget be largely a compilation of feedback

from the agencies that the executive and the executive's budget staff assemble into an integrated package ("bottom up") or crafted from specific directives from the executive and the executive's budget staff that leave agencies only minimum latitude ("top down"). One review of the approaches used by Ohio governors suggested that there was a partisan pattern. Democrats preferred the bottom-up method, and Republicans preferred top-down.<sup>11</sup> Perhaps as a function of the difficult budget climate, the budget development process has become increasingly top-down in recent years regardless of the party in control.

Governor Richard Celeste, for example, asked agencies to submit formal policy papers identifying major issues with significant budget impacts they thought should be of high gubernatorial priority in the succeeding two years. After these were reviewed by the budget office and sent to the governor, he decided which should be further developed for incorporation into the budget policy-setting process. Governor James Rhodes instead set target-spending numbers centrally and required agencies to submit their budgets within those targeted numbers. If they wished to establish new priorities beyond those determined centrally, they would have to do so within their targets. Governor Bob Taft, in formulating his FY 2006–2007 budget used committees to formulate major proposals for education, higher education, Medicaid, and tax reforms.

## **Importance of Economy**

Economic conditions will determine much of what the governor is able to do in terms of fulfilling campaign promises or setting policy directions. If the economy is expanding, there is more opportunity for new initiatives. During economic recessions, cutback management will be required. A sour economy put Governor George Voinovich in the position of cutting both primary and secondary and higher education funding and hampered him from achieving his objective of being known as the "education governor" throughout his first term. When the Ohio Supreme Court decided, during his second term, that the state's support of primary and secondary education was constitutionally inadequate, his hope of leaving the heritage he desired was totally dashed and, instead, he became known as the governor who pushed the state into "doing more with less," his revised political budget stance. Governor Bob Taft's two terms in office followed that same pattern as did Governor Ted Strickland's single term in office. Governor Strickland also viewed himself as a champion of labor and the working class, and yet fiscal realities forced him to take strong actions in the personnel area to achieve a balanced budget. Governor John Kasich took a different approach and embraced the difficult fiscal environment present when he assumed office in order to make sweeping changes in the relationship between the state, its institutions, and its political subdivisions. As the economy improved during the next two biennia, Governor Kasich used the opportunity to prioritize reductions in individual income tax rates over new spending.

## **Bureaucracy**

A final constraint is the relationship with the bureaucracy. Aptly called the fourth branch of government, the bureaucracy can influence how much a governor can accomplish. The governor's success will depend upon how quickly and how well he can influence the ongoing operation of government. This success is more than a matter of selecting the heads of agencies; it also involves answering such questions as whether the governor's office attempts to direct the agencies or permits them to manage. In his office, Governor John Gilligan established policy staff positions covering the major areas

of government service. The result was constant friction between that staff and the agencies they were to coordinate, conditions which ultimately stifled the ability of the governor to establish unified policy directions. Governor James Rhodes limited his executive policy staff and relied exclusively on his agency appointees for budget leadership. Governors since Richard Celeste returned to the model established by Governor Gilligan but tried to promote cooperation between agencies and their policy staff, with mixed results. Regardless, governors need the bureaucracy to establish workable priorities and to later implement them. Executives must find a way to “capture” the bureaucracy if they are to be successful, turning government beyond its “rule driven” culture to one that is more flexible, more empowering of employees, and more “results driven.”

## **Preparing for Legislative Consideration**

Once the budget priorities are set, the governor must decide what tactics he will use to help ensure legislative approval of them. Perhaps the most frequently used tactic is simply to require state agencies to support the budget as submitted by the governor and to adamantly oppose any deviations from it, including reference to the original agency request. This tactic is difficult to sustain when one considers the independence of agencies headed by independently elected officials, boards and commissions, and the relative independence of the bureaucracy. In the recent past, the Ohio Department of Education and the Ohio Board of Regents, representing large shares of General Revenue Fund spending, were also independent of gubernatorial control. However, the former is now at least somewhat responsive to executive control through the State Board of Education appointment process, and the latter, renamed the Ohio Department of Higher Education, is a cabinet agency. Recent unsuccessful efforts to place all education functions in a single cabinet setting are discussed in Chapter 14. A more cooperative approach that recognizes that the public hearing process will unveil new considerations during the course of legislative review, that economic and other conditions will change, and that the legislature will want to place its own imprimatur on the budget, will be more successful.

Another approach is to allow agencies to have free rein and advocate for whatever additional amounts they feel they can justify. Governor James Rhodes adopted this approach during a period of fiscal austerity to the total confusion of the legislature. Being pressured by agencies, constituent and other interest groups, and the press to do more than the governor recommended put the legislature in the untenable position of having to consider raising taxes to satisfy agencies’ demands. Sorely missing the discipline of coordinated support for an executive budget, legislators were at a loss as to how to prepare a balanced budget. The governor, meanwhile, maintained that he and his budget director supported the budget they submitted to the General Assembly, but agency heads were free to advocate for whatever they wished. The budget process ended just short of chaos and illustrated the desirability of executive-legislative budget cooperation.

## **Executive-Legislative Budget Cooperation**

More is to be gained by cooperation between the executive and legislative branches of government than by engaging in continuous battles culminating in a “war of the budget,” as has happened in the past in Ohio. Most of the data the legislature needs to review and analyze budgets is under executive control. If the legislature is to make better, more informed, and rational budget decisions, it is in the interest of the executive to cooperate in providing the legislature with all the information it requests. Withholding information, or otherwise making it unusable through distortion or manipulation, tends



to bring punitive reactions from the legislature and, in the end, probably serves no purpose other than to antagonize individual legislators and strain the relations between the two branches. Similarly, it is in the interest of the legislature to offer guidance on what it expects in formulating the budget so that the executive does not engage in fruitless labors (e.g., submitting a lump-sum or program-based budget request only to find all legislative inquiries directed to budgetary line items).

When it comes to developing good relationships, it is in the interest of the governor to curry support from as many legislative leaders as possible. This need for broad-based support means that it is in the governor's interest to utilize executive staff and expertise to help the legislative leaders solve their problems. If legislative leaders cannot obtain needed support from particular factions of the majority party, or minority support, the governor can help with constituent problems and issues and provide other favors that will strengthen the leadership's ability to secure necessary votes. It is also in the interest of the executive to assist the legislature in its search for more revenue in order to avoid the use of budget gimmicks or other questionable budgetary practices.

### **Budget Realities**

Legislative support comes easier if the governor recognizes some legislative budget realities. One reality is that the legislature will not increase taxes significantly without gubernatorial leadership. Developing an inadequate budget and expecting the General Assembly to fill the gap between what is needed and what is proposed is unrealistic and will increase friction between the executive and legislative branches of government.

Another caveat is that the legislature will always have pet projects they wish to fund. Smart budget directors, under executive guidance, will keep a reserve for legislators to use as a way of protecting the budgets of executive-favored programs from legislative budget cutting. Ohio's governors have used different approaches for this protection. Sometimes it is done by simply leaving a larger unappropriated budget balance than is strictly needed for cash-flow purposes. In other cases, it is done by proposing one or more "straw man" budget items that the governor is privately quite willing to cut or be eliminated. This approach strengthens the executive position with other budget items since the governor will be viewed as being cooperative in the legislative search for additional money for its priorities.

### **Fiscal Staff Cooperation**

Executive and legislative fiscal staff can foster cooperation by acting as the critical link between the branches. The central budget office, agency, and legislative staff must develop regular patterns of communication if budgeting is to result in desirable public outcomes. When policymakers in the executive and legislative branches are at political odds with one another, fiscal staffs can provide the communication link needed to achieve the political consensus essential to the adoption of a budget.

This cooperation is formalized at several key points in the budget development process. Agency staff meet with central budget office staff prior to the development of recommendations for the Executive Budget Request. Likewise, agency staff meet with legislative staff in anticipation of publication of the Legislative Service Commission "Redbook" for the agency.

## Securing Public Support

In Ohio, unveiling the governor's budget involves several well-defined steps. Usually there are early press leaks to staff permanently assigned to the Ohio Statehouse. Leaking information allows the governor to establish the themes of his budget. When the official budget is released, it consists of so much information that reporting may fail to give those themes the attention the executive wishes. Since newspapers want to be able to "scoop" each other, they are inclined to initially report whatever is told to them in advance of the official release of the Executive Budget Request, when they can analyze it and give it their own slant.

The governor releases the budget publicly at a press conference, which will include a lengthier presentation conducted by the governor's budget and tax staff. In addition, constituent and other interest groups, as well as agency fiscal staff, convene to receive a more detailed picture of the budget request and to raise questions. These briefings are also a public relations tool the executive uses to gain needed constituent support for the administration's proposals. Separate briefings may also be held in advance of the press conference for agency directors, legislative leaders, and legislative staff. In addition, constituent leaders can be separately briefed in order to get their early support for initiatives favoring them.

Depending on how controversial the budget and its proposals are, the governor may be better served by going directly to the media and the public for support. Major newspapers in Ohio may be given an "embargoed" copy of the governor's press package the day before it is released so that they have additional time to digest its contents. The press package is, of course, a political document in its own right, highlighting those items the governor wants to emphasize and ignoring those that are more likely to cause problems.

## Summary

Development of the Executive Budget Request requires significant interaction between the central budget office, which guides the process, and the various state agencies. A critical element of Executive Budget development is the forecasting of revenues and Medicaid spending for the next biennium. Revenue estimating is not limited to the executive branch, as the Legislative Service Commission provides its own independent estimates. Once the Executive Budget Request is developed, attention turns to selling the budget to the legislature and the general public.

## Endnotes

---

- <sup>1</sup> Section 107.03 of the Revised Code.
- <sup>2</sup> Sections 126.02, .03, .05, .06, .08, .09, .12, .13, .35, and .47 of the Revised Code.
- <sup>3</sup> Section 107.09 of the Revised Code.
- <sup>4</sup> Section 126.26 of the Revised Code.
- <sup>5</sup> Section 126.27 of the Revised Code.
- <sup>6</sup> Section 126.30 of the Revised Code.
- <sup>7</sup> A more thorough examination of fund accounting can be found in Paul E. Glick, *A Public Manager's Guide to Government Accounting and Financial Reporting*, Financial Reporting Series No. 10, Chicago, Government Finance Officers Association, 1990.
- <sup>8</sup> John L. Mikesell, *Fiscal Administration Analysis and Applications for the Public Sector*, The Dorsey Press, Homewood, Illinois, 1982, p. 254–5.
- <sup>9</sup> See Richard G. Sheridan, *State Budgeting in Ohio*, Second Edition, Cleveland State University, Cleveland, Ohio 1983, page 89.
- <sup>10</sup> See Richard G. Sheridan, *Governing Ohio: Administrative, Judiciary and Other Operations*, Federation for Community Planning, Cleveland, Ohio, 1990, Chapter 9, for a discussion of the differences in approaches to governing taken by governors of Ohio.
- <sup>11</sup> Susan A. MacManus, *The State Budgeting Process in Ohio: An Overview and a Look at the Impact of Economic and Political Conditions, 1975–87*, Cleveland State University, Cleveland, Ohio, n.d.

