Section 1: The First Century of State Budgeting, 1910 to 2010

Contemporary Ohio budgeting practice can be traced to the year 1971. At that time, a number of related influences came to bear that inexorably increased pressures on Ohio and its state government. New spending demands were quickly outstripping a constrained resource base. These pressures grew steadily over time, spreading to local government, and have become increasingly untenable.

The late 1960s had witnessed enormous growth in higher education enrollments from the Baby Boom generation that was just then coming of age. This growth severely pressured budgets of the time. Concurrently, new federal entitlements, like Medicaid, were beginning to drive important resource allocation decisions. Ohio's regressive tax structure was falling short of meeting these new competing demands. After acting on several threats, such as closing the state parks, and passing a number of interim budgets, individual income and corporate franchise taxes were enacted in 1971 under the persistent, if not always popular, leadership of Governor John Gilligan. This new tax structure brought Ohio into a more progressive age and solved the immediate funding crisis. However, the resulting fallout and political bitterness between the executive and legislative branches of government as well as between the two political parties would foreshadow a new, if not wholly appealing, era in both state budgeting and politics. This partisanship and tension between the branches of government increased over time.

Chapter 9 traces the evolution of modern budgeting in Ohio from its earliest days through the defining period of the early 1970s.

Despite the revenue infusion of 1971, the challenges confronting Ohio's resource base would accelerate and continue nearly unabated until current times. The 1970s witnessed new popular movements to limit property taxation driven by Proposition 13 in California. Ohio's own version of Proposition 13, House Bill 920, enacted in 1976 during Governor James Rhodes' second eight-year stint in the Statehouse, had far reaching consequences on budgeting for the state and its public school districts, as well as for its many other local governmental entities.

Moreover, the impact of manufacturing on Ohio's economy, while undeniably still quite substantial, decreased steadily over the next four decades. In many areas, the biggest economic driver became the community hospital or a public university, and not the local factory, if that factory still existed at all. While providing substantial benefits, these contemporary community assets lacked manufacturing's multiplier effect on the local economy. An increase in manufacturing activity, unlike that in other economic sectors, starts a chain reaction that generates much more activity.

At the same time, while Ohio's population grew very slowly in terms of its overall size, its composition changed steadily. It was graying, if not yet at an alarming rate, with decreased numbers in the active workforce and increased numbers in need of social services, such as skilled nursing care. These forces were certain to accelerate in the future.

These were powerful economic realities that severely and permanently constrained Ohio's revenue base and expanded its demand for public service expenditures. With revenues and expenditures growing at vastly different rates, a permanent structural imbalance resulted. Ohio had, and will likely continue to have, a permanent, sustained fiscal crisis. Through the early 2000s, Ohio government answered the call by raising taxes to meet the increased service demands. More recently, however, political strife has grown more elevated. General tax increases are off the table. Rather, income tax cuts and a shift to consumption-based taxes are in vogue. Members of a term-limited General Assembly, serving ever more homogeneous constituencies because of increasingly sophisticated approaches to redistricting, have become more insular and focused on the narrow interests of their constituency. In 2015, a new methodology designed to provide for more balanced state legislative districts was approved through an amendment to the Ohio Constitution. However, it will not take effect until new redistricting maps are implemented for the 2022 election following the 2020 Census.

Caught in a "box of responsibility," governors, unlike these state legislators, have had no choice but to balance their budgets, regardless of the political or economic hand they were dealt. What emerged in the state, regardless of the party affiliation of the governor, was a movement to redesign systems to slow governmental growth, increase productivity, and achieve better outcomes for Ohioans. This redesign was not always just an effort to do things more efficiently, but to question who should do them, or even whether they should be done at all. It brought to life the often-ignored management side of budget and management.

However, when improved productivity was insufficient to balance the budget and the tax option was off the table politically, the executive response to fiscal crises was often quite ironic. Policy choices did not always meet what our expectations might have been from a purely left-right view of the political spectrum. Indeed, under different Ohio governors from different political parties, relatively radical solutions, such as the Tobacco Master Settlement securitization and other debt restructuring schemes, were proposed to sustain existing services at what were essentially current funding levels. State cuts to the Local Government Fund and the Public Library Fund were additional examples of this behavior, as were changes in the schedule for reimbursements from losses of Tangible Property Tax revenue and the franchise fees that were placed on certain provider institutions to leverage federal Medicaid funds. It became a never-ending quest for one-time, non-tax revenues.

Chapters 10 and 11 examine the budgetary crises that faced Ohio from the mid-1970s through the first decade of the 21st century and the state's varied responses to these challenges.

Enduring Budget Fundamentals

Regardless of the era, certain tenets of state fiscal policy have remained relatively unchanged. These include fiscal conservatism, an emphasis on local governance, an avoidance of general tax increases, and executive budget dominance broken by short periods when the legislature has reasserted its influence.

State Fiscal Policy

As it has evolved since the advent of modern budgeting, the fiscal policy of the State of Ohio is to do all things that the federal government and the Ohio Constitution require of it. It relies heavily upon local governments to perform these services, providing them with state financial assistance, albeit increasingly less over time, including sharing state-generated taxes, and the capacity to raise additional revenues locally, while requiring voter approval above certain defined levels. Services not mandated will be provided to the extent that there are fiscal resources available to pay for them, and it can be demonstrated that there is strong public support for providing them, either directly by the state or through local units of government with state assistance. To the greatest extent possible, government services will be financed through assessments directly upon the consumers of those services, and these assessments will be dedicated exclusively to pay for them. If general taxes must be levied to pay for some services, both individuals and businesses will share the tax burden, although taxes have shifted toward individuals over time. The level of taxes will be set sufficiently low so as not to impede the state's economic development, and especially to keep the state competitive with neighboring states.

Fiscal Conservatism

Evident in this general formulation, and in historical perspective, is the state's fiscal conservatism. Ohio is reluctant to initiate new government services. It is reluctant to raise general taxes, even to pay for constitutionally required services, such as public education, or federally mandated programs, such as health care for designated populations.

Ohioans spend nearly the same proportion of their personal income on government services as people do in most other states. Per capita state and local taxes for FY 2011 were $3,907, which ranked Ohio 27th among the 50 states and the District of Columbia. Ohio's state and local taxes constituted 10.4 percent of personal income, ranking Ohio 18th among states.[1] If only state taxes were considered, Ohio's tax burden would rank much lower. Despite what seems to be a popular belief that Ohio is a high-tax state, reliable data refutes this assertion.

Local Governance

The emphasis that Ohio places on local governance has enabled the state to force local governments to take greater responsibility for administering programs that are required by state law. Local governments administer programs such as the prevention and treatment of chemical dependency, mental health and developmental disability services, law enforcement, and human services. The state's budget struggles over the last decade have significantly altered the relationship between the state and its local units of government with regard to the financing of these services. This new dynamic has been particularly the case for counties, municipalities, townships, and school districts, but it is also true for mental health, developmental disability, and alcohol and substance abuse special districts. This change has taken place over several budgets and administrations, but Governor John Kasich's FY 2012–2013 budget brought dramatic and permanent alteration to this relationship. As Ohio communities with revenue enhancements or service reductions addressed resultant funding gaps, invariably local disparities and competition increased. Dependence on the local property tax, already a long-standing problem, also grew.

Tax Policy

From the perspective of tax policy, both Democrats and Republicans have been reluctant to advocate for the adoption of permanent, general tax increases, especially since the loss of the governorship and legislative seats usually results when taxes are raised. Therefore, historically, Ohio has been ill prepared to deal with runaway expenditures or recessions.

Runaway expenditures — such as higher education in the 1960s, Medicaid in the 1970s, human services in the 1980s, and primary and secondary education and adult corrections in the 1990s — combined with decennial recessions forced the state to significantly increase general taxes.

In 2001, the state's budget began to fall apart partially because of faulty revenue estimates and, more significantly, because of a downturn in the economy. After a series of budget cuts, depletion of the state's Budget Stabilization Fund, the use of budget gimmicks, and modest revenue increases, clearly a tax increase was needed to keep the state operating in the black. For the FY 2004–2005 biennium, the legislature enacted a one-cent increase in the state's sales tax. For the FY 2006–2007 budget, this one-cent tax, billed as "temporary," was replaced with a permanent one-half-cent increase. Other tax changes involved a five-year phase-in of a new Commercial Activity Tax, phased-in elimination of the tangible personal property tax, and a phased-in 21 percent reduction in the individual income tax.

Beginning with the Tobacco Master Agreement securitization in 2007, both political parties turned away from tax increases to risky debt restructuring schemes and other budgetary gimmicks to raise the revenues necessary to meet state obligations. These gimmicks brought short-term gains, but usually at the expense of future, large-scale revenue losses. Republican Governor John Kasich cemented this trend, started under his predecessor Democrat Governor Ted Strickland, and kept his 2010 campaign promise to balance a large structural budget deficit with such one-time, non-tax approaches and sizable budget cuts.

Executive Budget Cutting

What has enabled the state to keep its biennial budget in balance, despite overly optimistic revenue forecasts, has been the judicious use of a power whose constitutionality has never been tested.[2] The legislature granted the governor the power to issue orders to prevent the expenditure of appropriated funds if the executive determines that failure to do so would exceed the amount of revenue available.[3] That power was exercised in FY 1976 and again in FY 1977 by Governor James Rhodes when across-the-board cuts were instituted. No legal challenge ensued; consequently, when Governor George Voinovich made his cuts, a precedent had already been established. However, Governor Voinovich abandoned the notion of across-the-board cuts and actually eliminated some programs, while selectively cutting others by upwards of 50 percent, threatening their continued viability. His cuts also extended, for the first time, to independently elected state officials and the independent judiciary. In essence, Governor Voinovich established the power of the governor to selectively rewrite the state's appropriations act, at least when facing a revenue shortfall. Governor Bob Taft used this power during his first three budgets to maintain a balance between declining revenues and overly generous appropriations. Governor Ted Strickland also cut selectively during his first budget, when resources rapidly declined as Ohio reeled under the impact of the Great Recession.

Balance of Fiscal Power

Fiscal power has moved back and forth between the executive and legislative branches. Originally, agencies of the executive branch went directly to their favorite legislators to seek spending authority for their programs. The advent of the executive budget and the development of professional budget staff, with control over state accounting, purchasing, and information technology, shifted power to the executive who maintained a close hold on financial information, the source of all fiscal power. The legislature responded by creating its own Legislative Budget Office in 1973 and staffed it with professional nonpartisan staff. Much legislative power was abdicated when Governor George Voinovich was permitted to adjust appropriations as he saw fit. The advent of legislative term limits should have permanently tipped the balance of power back to the executive, where budget innovations that had previously come from the legislature became dependent upon executive leadership. However, during the Taft Administration, strong legislative leaders from his own political party wrested budget dominance from the governor and re-established their leadership in state fiscal policy. Governor Ted Strickland largely maintained the thrust of many of the Taft Administration's most important policies and did not significantly test legislative leadership. Governor John Kasich, on the other hand, attempted to exercise bold executive leadership early in his term. However, the pushback from voters on Governor Kasich's agenda to end collective bargaining for public workers quickly ended the honeymoon and made legislative leaders somewhat less inclined to acquiesce to strong gubernatorial leadership moving forward. The legislature's difficult reception of the governor's proposal in his 2012 Mid-Biennium Review to raise the tax on drilling was an indicator that this change in relationship was beginning to take place. Legislative action to override six of the 47 vetoes in the FY 2018–2019 budget was confirmation that the power pendulum had swung back to the legislature. However, this is not likely a permanent shift in power. The stage in a governor's term has as much to do with the executive-legislative power dynamic as the personalities involved.

Endnotes

1 Ohio Department of Taxation, *Ohio's Taxes 2013: A Brief Summary of Major State and Local Taxes*, 2013.

2 The only case dealing with the question of whether the statute authorizing the governor to cut appropriations is an unlawful delegation of legislative power involved an order in August 1971, in which Governor John Gilligan reduced payments under the school foundation program by 3 percent for September and October 1971. The Court of Appeals, in *Cleveland Board of Education v. Gilligan*, 360 App.2d 15 (Franklin City), 301 N.E. 2d. 911 (1973), ruled that the delegation under Section 126.08 of the Ohio Revised Code fell into a limited category of exceptions to the constitutional rule that conferring discretion without standards is unconstitutional. On appeal, the Ohio Supreme Court reversed and ordered the state to pay the school districts the withheld amounts. However, the Supreme Court refused to address the constitutional issue of delegation of legislative authority.

3 Section 126.08 of the Ohio Revised Code.