Section 2: The Kasich Administration, 2011-2019

Whatever one thinks of John Kasich, he was undoubtedly a consequential governor. Nowhere was this more evident than in Medicaid, where, through his strong leadership, he expanded health care services to nearly 700,000 Ohioans under The Patient Protection and Affordable Care Act (ACA). Medicaid expansion proved particularly impactful in dealing with mental health and addiction issues, notably the opioid crisis. Even beyond this hallmark achievement, Governor Kasich's legacy in health care policy was substantial. The governor was also a national leader in the effort to preserve and improve the ACA, despite facing intense pressures from his own political party, which had sought to "repeal and replace" the law since its enactment in 2010.

Chapter 12 details how Governor Kasich dramatically reshaped Medicaid policy in Ohio during the course of his administration. The balance of this section, Chapters 13 and 14, covers the work of the Kasich Administration in two other major public policy arenas: health and human services and primary and secondary education. Together with Medicaid, these items account for more than 70 percent of all state-source expenditures and more than 80 percent of total state expenditures when federal funds are included. Corrections and higher education account for most of the remainder of the state budget. Chapters 13 and 14, respectively, briefly describe the recent history of these two items. Ohio spends comparatively little on other policy areas or on general government functions.

Although a consequential governor, John Kasich's administration saw some notable contradictions. His Medicaid policies were both visionary and expansive. Of course, Medicaid, and especially the Medicaid expansion, was largely funded through federal resources. The governor made vast changes in other policy areas as well, but these too were often supported through non-traditional resources. He created a privatized economic development apparatus, JobsOhio, that was financed by state liquor profits. In addition, he used Ohio Turnpike receipts to leverage dollars for road projects across the state. However, his budgetary policies impacting most state General Revenue Fund and local government spending proved to be quite restrictive. This was particularly the case in regard to local government finances.

Conservative Budget Management

Governor Kasich inherited a budget deficit that was estimated at $8 billion from his predecessor, Ted

Strickland. Governor Strickland had found it necessary to use both federal stimulus moneys and the Budget Stabilization Fund in order to balance the state budget during the Great Recession. Both of these supplemental sources of revenue were gone when John Kasich became governor and, although it had recently begun to show some promise of new life, the Ohio economy was still largely stalled. The Ohio unemployment rate was 9.2 percent when Governor Kasich took office in January 2011, down from a peak of 10.6 percent in July 2009.

Governor Kasich was successful in balancing the FY 2012–2013 budget, erasing a multi-billion-dollar deficit. He accomplished this feat despite implementing the final installment of the 2005 individual income tax cut. This tax reduction had been delayed one year by Governor Strickland because of the perilous condition of state finances at the time. However, the state's balanced budget was not achieved without taking a significant toll on government finances, most particularly at the local level. Notable was the near halving of the Local Government Fund (LGF), which had been largely viewed as an entitlement since its creation in 1935 when the Sales Tax was enacted. The LGF was reduced by more than $500 million over the course of the FY 2012–2013 biennium from the level provided during the prior two-year period. LGF payments dropped from $661.9 million in FY 2011 to $356.4 million by FY 2013. The other significant cut to local government was the continued phaseout of tangible personal property tax reimbursements and the termination of public utility personal property tax reimbursements. These items resulted in reductions of $582.5 million from the levels provided in the prior biennium.[1] In addition to these cutbacks, the Estate Tax was eliminated effective January 1, 2013. It generated $285.3 million in FY 2012 for Ohio local governments, although amounts varied considerably locally. More than 70 Ohio cities lost more than $1 million per year as a consequence of these budgeting and tax decisions.[2]

State finances remained tight during the FY 2012–2013 biennium, if not nearly as constrained as those of local government. While state-source expenditures for the biennium grew when compared to the FY 2010–2011 budget, which was enacted at the depths of the Great Recession, they still trailed the levels seen two biennia earlier. When federal funds are included, the picture was even more bleak because of the ending of the federal stimulus. Total spending growth was limited to 0.6 percent in FY 2012 over the level provided in FY 2011. As in past recessions, higher education felt the greatest impact. Total funding for higher education fell by 12.5 percent in FY 2012 versus FY 2011; it fell 21.8 percent from the level provided as recently as FY 2009.

As Ohio emerged from the Great Recession, state expenditures regained some strength but did not flourish to the extent they could have during the second and third Kasich budgets. State expenditures grew only modestly and local governments saw some further reductions, if not nearly as Draconian as those in the FY 2012–2013 budget. Priority was placed on restoring the Budget Stabilization Fund, which would reach $2 billion by FY 2015. Ohio job growth began to dip by the governor's third budget, further impacting available resources. Additional individual income tax cuts enacted during this period also precluded any windfall for either state or local government. These income tax cuts were significant; the FY 20142015 budget included a 10 percent rate reduction that was followed in the FY 2016–2017 budget by an additional 6.3 percent cut. In the latter budget, a separate tax base was created for business income with a taxable rate of 3 percent on amounts over $250,000 with income below this level being fully deductible. This item costs the state approximately $1.1 billion per year.[3] The governor proposed a further individual income tax reduction in his final budget in exchange for an increase and a broadening of the sales tax, but the idea was rejected by the legislature.

Because of the steep tax reductions, there was little investment in critical government services when the window of opportunity presented itself. More austere times would soon arrive, as the state economy began to struggle once more in the latter part of the Kasich Administration. The governor's final budget witnessed an actual decline in total state-source expenditures in FY 2018 from the prior year before rebounding slightly in FY 2019. Local governments were impacted when $35.3 million in anticipated LGF funds for municipalities was redirected to combat the opioid crisis. In addition, counties and regional transit authorities received only transitional funding from the elimination of the Medicaid managed care sales tax, even as the state made itself whole from this loss with the addition of a new broad-based fee on all Medicaid managed care organizations (MCOs) and non-Medicaid MCOs.

While it came at a cost, it is nonetheless notable that Governor Kasich was able to restore structural balance to the state budget, increase the Budget Stabilization Fund from a mere 89 cents to a level near its statutory maximum of $2.7 billion, and maintain state bond ratings at AA+ and AA1 after receiving negative outlook warnings at the outset of the administration. A number of improvements in the budget management process were made during John Kasich's term of office. These included realigning and consistently tracking fund groups, allowing meaningful consideration of the all funds budget rather than just the historic focus on the General Revenue Fund. Improvements were also made in budget transparency through the online Interactive Budget, although this detailed tracking of revenue and expenditure patterns was largely duplicative of the prior system operated by the Office of the State Treasurer. See Chapter 8 for a description of the state treasurer's "Ohio Checkbook."

The Executive-Legislative Power Fulcrum

The relationship between the General Assembly and the governor followed the familiar historic pattern of ebb and flow over the course of the Kasich Administration. In his initial budgets, the governor enjoyed broad success with his legislative agenda to balance the state budget while reducing individual income tax rates. In separate legislation, public employee collective bargaining rights were rolled back in 2011, but the action was repealed by the voters later that same year. The governor initiated a Mid-Biennium Review process, or MBR, in 2012 that introduced new policy initiatives in addition to the usual simple corrective actions commonplace in non-budget years. In this way, he was able to control the legislative agenda throughout the course of the term of the General Assembly. The governor was not without a few notable legislative failures, however, particularly his repeated attempts to increase the severance tax to take advantage of the fracking boom in Eastern Ohio.

The power fulcrum began to shift during Governor Kasich's last two years in office. For the first time in 40 years, six gubernatorial vetoes to the state budget were overridden by the legislature in the summer of 2017. The legislature reserved the right to veto further items if the administration could not reach a suitable compromise with it. In this way, the General Assembly regained some power in the executive-legislative dynamic.

Summary

Governor Kasich left office in 2019 with a mixed legacy. He was an ardent supporter of meeting the needs of the poorest amongst us. His reforms to the health care system and its funding were particularly transformative. Yet, when it came to meeting other responsibilities of state, he seemed to show a preference for tax reductions and conservative fiscal management over a more expansive view of the role of government. Of particular concern was his lack of support for the state's local government partners, the units responsible for administering most state-funded programs in Ohio. While many wealthy communities were able to fill the gap with increased local revenues, other areas of the state lacked the capacity to do so and fell further behind their counterparts.

A 2018 *U.S. News & World Report* study on "Best States" ranked Ohio only 40th among its peers, a drop of five places from the previous year. The state received high ratings on measures of health care access, housing affordability and cost of living, transportation infrastructure, public safety and corrections, and fiscal liquidity and credit rating, but fared poorly in marks for public health, education (especially higher education), employment and business environment (especially entrepreneurship), economic opportunity, and energy and the natural environment. A 2018 *Business Insider* review of state economies, focusing on measures of unemployment rate, job growth, average weekly wage growth, per capita Gross Domestic Product (GDP), and GDP growth, placed Ohio similarly with a 37th ranking.[4] The governor moved the state forward during his tenure in office in many regards, but how much progress was made remains a matter of debate.

Endnotes

1. Wendy Patton, "Intensifying Impact: State Budget Cuts Deepen Pain for Ohio Communities," Policy Matters Ohio, November 13, 2012.
2. Rich Exner, "Ohio Tax Changes under Gov. John Kasich Leave Villages, Cities Scrambling to Cope with Less," Cleveland.com, March 9, 2016.
3. Jim Siegel, "New Analysis Says Much of Ohio's Business Tax Cut Goes to the Rich," *The Columbus Dispatch*, June 22, 2017.
4. Scott Suttell, "Cleveland Struggles Economically More than Most Cities, but Ohio Is Not a Standout Performer, Either," *Crain's Cleveland Business*, June 25, 2018.