

June, 2010

**Thinking the
Unthinkable**
*Finding Common
Ground for
Resolving Ohio's
Fiscal Crisis*



Foreword

William James, a founding father of modern Pragmatism, wrote in a description of pragmatic method “... success in solving this problem is eminently a matter of approximation.” He might well have been writing about the State of Ohio’s fiscal crisis. While producing a general sense of unease in and around the halls of government, the “structural deficit,” as it is often appropriately described, is generally not well understood. There are good reasons for this, among them:

- An uncertain and volatile economy, still reeling from the Great Recession;
- The extraordinary daily demands on executive branch leaders and managers, understandably overwhelming during a difficult time;
- A dearth of information and public conversation about its details and scope, complicated by ever-changing circumstances; and
- The inactivity of the bipartisan legislative panel charged with analyzing it, unlikely in an election year.

This white paper aims to give definition to the complexities and scale of the budget problems confronting the Buckeye State. While striving for accuracy, it acknowledges approximation at many points. In seeking an analytical tone, it unapologetically strays into a call to action. In setting forth a “balanced approach” to the structural deficit in state finances, it implicitly acknowledges that “balance” is very much in the eye of the beholder. And in suggesting options policy makers might pursue, it refrains from suggesting a specific set of preferences, recognizing that other ideas – promising and deserving ideas – will be offered between now and June 30, 2011, by which time the next biennial budget must be adopted.

Notwithstanding these limitations, the pages that follow provide a useful framework for better comprehending the scope of the problem, our near- and mid-range options for dealing with it, and the long-range issues that will require attention – and preliminary action – concurrently with the next budget cycle. While anticipating that it will draw responses from many quarters, and that with those responses will come innovative ideas that stretch the horizons of “the possible,” The Center for Community Solutions (CCS) hopes above all else that it will contribute to moderation in tone and spirit, and pragmatism in the face of a crisis of the first order.

Two areas in particular require considerably more attention than is offered here. First, options for reducing state government’s \$7 billion in annual tax expenditures are inadequately developed. It is difficult to conceive a way to address the structural deficit without a significant portion coming from such reductions. The problem is not an absence of things to choose from; rather, it is that there is not much experience to draw upon. Tax expenditures – credits and exemptions from tax law enjoyed by specific types of enterprises – typically go unexamined for years – sometimes decades – once enacted. Unlike programmatic expenditures, such as subsidies to schools, parks, or public health measures, they are not subject to routine review or appropriation. In suggesting one general approach to the over \$5 billion in annual sales tax expenditures authorized under current law, this discussion aims more to define a reasonable target for tax expenditure reductions than specify which of many options might be most preferable. Clearly, more work is needed in analyzing and identifying specific options.

Second, while presenting several ways to address the crazy quilt of state subsidies to, and local tax options among, Ohio’s thousands of units of local government and special purpose political subdivisions, the interaction of state and local taxes and state subsidies is an area crying out for systemic reform. Here too, more

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comprehensive and deep analyses, new ideas, and better elaboration of ideas suggested in this paper, would be helpful.

In order to encourage and facilitate discussion of these and other related topics, throughout the balance of the year, CCS will be posting on our Website periodic updates to data presented in some of the tables. In so doing, we invite others to suggest corrections, improvements, or alternative data via a Discussion Board that will be inaugurated during July on our Website, www.CommunitySolutions.com.

Preparation of this white paper would not have been possible without the research and analytic support of CCS Fellows Susan Ackerman and Jon Honeck, Ph.D., the editorial support of Communications Director Roslyn Bucy Miller, and publication support of Sarah Kresnye. The public policy work of The Center for Community Solutions is supported in part by grants from The George Gund Foundation, United Way of Greater Cleveland, The Annie E. Casey Foundation, and the Stoneman Foundation. Our friend and colleague, the late Richard Sheridan, would have enjoyed thinking and arguing about this white paper. We offer it to readers in his memory.

A handwritten signature in black ink that reads "John A. Begala". The signature is written in a cursive, flowing style.

John A. Begala
Executive Director
The Center for Community Solutions
June, 2010

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Introduction

Think for a moment about the great “before and after” events in our lives – the ones that mark fundamental changes in how we perceive the world. “Where were you when the news broke about JFK being shot?” Or Martin Luther King? Or when the news flashes came in about the fall of the Berlin Wall? Or on the day Ronald Reagan, or Barack Obama, took the oath of office? Or on the morning of 9/11?

The two-years-and-counting economic debacle of the Great Recession is not so vivid as a moment in time, but surely is one of those “before and after” developments marking a passage from one condition or state to another. The courses of our lives, economy, and public institutions have been unalterably changed—in directions we will be years in reckoning.

A concise overview of our predicament and prospects by Greg Ip, published as a special report on the American economy in the *Economist* (March 31, 2010), provides a sobering “environmental assessment” for thinking about, and planning for, an uncertain future:

“...America’s economy will undergo one of its biggest transformations in decades. This macroeconomic shift from debt and consumption to saving and exports will bring microeconomic changes too: different lifestyles, and different jobs in different places....The crisis and then the recession put an abrupt end to the old economic model. Despite a small rebound recently, house prices have fallen by 29% and share prices by a similar amount since their peak. Households’ wealth has shrunk by \$12 trillion, or 18%, since 2007....Normally, deep recessions are followed by strong recoveries....But this particular recession was triggered by a financial crisis that damaged the financial system’s ability to channel savings to productive investment and left consumers and businesses struggling with surplus buildings, equipment, and debt accumulated in the boom. Recovery after that kind of crisis is often slow and weak....”

Mr. Ip goes on to observe that in the short term, demand from a boost in federal spending is necessary to avoid stagnation such as that which afflicted Japan after its economic bubbles burst. This is consistent with the observations and prescriptions offered by Robert Greenstein, founder of the Washington-based Center on Budget and Policy Priorities (CBPP), in recent comments to The Center for Community Solutions’ Human Services Institute. But as Mr. Greenstein also made clear, the levels of federal deficit spending are simply not sustainable.

Against this backdrop, Ohio’s governor and General Assembly will confront an enormously challenging budget early next year – aptly described “the inferno of deficit reduction” in a column on challenges facing nearly all 50 states by *Governing Magazine’s* Paul L. Posner.¹ Mr. Posner describes five circles, or stages, in this inferno:

- Denial
- Temporizing
- Realization
- Structural reforms
- Foresight and prevention

This analysis aims at helping move the public discussion in Ohio from the first two circles, denial and temporizing, into a deeper realization of the details of the state’s fiscal crisis, and consideration of some of the options for structural reforms. Specifically, it estimates the **magnitude of changes** in both taxes and spending that will

be needed, and provides **specific examples** for consideration of elected officials and interested parties. In so doing, it hopes to foster a general spirit of collaboration in common-cause from the customary interest group politics and ideological sparring of our “culture wars.” That spirit will in turn demand willingness to think the unthinkable - getting beyond preferences and predispositions and recognizing that as a practical matter, we will not be able either to tax our way or cut our way into a balanced state budget without doing great harm. We will need fair measures of both, as will become apparent in the material that follows.

Defining a “Baseline”

The impact of the Great Recession will not be new to the 2012-2013 biennial budget, but the manner of addressing it will have to be. State spending in the current budget relies heavily on one-time savings and sources of revenue totaling over \$8 billion, or about 20 percent of state General Revenue Fund (GRF) spending, as summarized in Table 1. These, or similar, resources are not expected to be available again.

Table 1. One-Time Sources in the SFY 2010-2011 Budget ²

Item	FY 2010	FY 2011	Biennium
Federal Stimulus from the State Fiscal Stabilization Fund appropriated to Ohio Dept. of Education(DOE), Board of Regents (BOR), Dept. of Rehabilitation & Corrections (DRC)	\$ 808,633,913	\$ 980,739,362	\$ 1,789,373,275
Federal Stimulus for Medicaid Expenditures (eFMAP)	\$ 1,465,600,000	\$ 935,200,000	\$ 2,400,800,000
Reduction in State Payments for Medicare Part D	\$ 75,750,000	\$ 75,750,000	\$ 151,500,000
Federal Stimulus from Title IV-E expenditures that is deposited in the GRF	\$ 4,477,002	\$ 2,181,818	\$ 6,658,820
Federal Stimulus - Child Care Block Grant	\$ 34,050,000	\$ 34,050,000	\$ 68,100,000
<i>Fed. Stimulus subtotal</i>			\$ 4,416,432,095
Reduction in Debt Service Payments from Refinancing State Debt	\$ 376,700,000	\$ 359,200,000	\$ 735,900,000
Unclaimed Funds Transfer	\$ 225,000,000	\$ 110,000,000	\$ 335,000,000
Cash Raid from Non-GRF Fund 4K90	\$ -	\$ 30,000,000	\$ 30,000,000
Tobacco Court Settlement	\$ 80,308,863	\$ 178,314,027	\$ 258,622,890
Loan from Tobacco Securitization Proceeds held by the School Facilities Commission	\$ 200,000,000	\$ 50,000,000	\$ 250,000,000
Other Non-GRF Fund Cash Transfers	\$ 22,500,000	\$ 22,500,000	\$ 45,000,000
Transfers from non-GRF funds for Furloughs & Other Human Resource (HR) Actions	\$ 71,000,000	\$ 71,000,000	\$ 142,000,000
GRF Appropriation Lapses Due to Furloughs and Other HR Actions	\$ 65,000,000	\$ 65,000,000	\$ 130,000,000

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Item	FY 2010	FY 2011	Biennium
Tobacco Interest from Bond Fund	\$ 40,000,000	\$ 25,000,000	\$ 65,000,000
Temporary Reduction in Revenue Sharing With Libraries	\$ 41,005,872	\$ 43,311,748	\$ 84,317,620
Assumed GRF appropriations Lapses	\$ 25,000,000	\$ 403,185,965	\$ 428,185,965
Prior Year Balances Rolled Forward	\$ 255,681,000	\$ 130,400,000	\$ 386,081,000
Delay Part of Income Tax Rollback 4.2%	\$ 285,236,905	\$ 566,271,428	\$ 851,508,333
Total	\$ 4,075,943,555	\$ 4,082,104,348	\$ 8,158,047,903

While state government has not completely spent its capacity for “one-time fixes” in addressing what has come to be viewed as a “structural deficit,” its remaining options for doing so are limited to such extreme strategies as selling-off state assets and hoping for an unlikely infusion of additional federal funding. Constrained by a constitutional prohibition on borrowing for operating purposes, the State of Ohio has little choice but to re-align revenue and spending.

Consideration of alternatives depends upon defining an appropriate starting place, or **baseline**, for calculating the structural deficit. Table 2 offers two scenarios as a **first step in estimating the range** of the SFY 2012 – 2013 biennial budget deficit by:

- **holding all State Fiscal Year (SFY) 2011 appropriation levels constant for each fiscal year, except for Medicaid spending**, which is adjusted to reflect a projected reduction in the rate of the Federal Matching Assistance Percentage (FMAP) for the five state agencies that manage portions of the program; and
- **adjusting SFY 2011 revenue from major state taxes** to account for the impact of currently anticipated (and hoped for) economic growth. Scenario A assumes improved revenue over SFY 2011 of 2.5 percent for SFY 2012 and 3.5 percent for SFY 2013. A more optimistic Scenario B assumes 4 percent and 6 percent, respectively. (A stagnant economy or “double-dip” recession would depress these revenue estimates, and subsequent adjustments. The endnote for Table 2 provides detail on assumptions behind it; requests for model details will be considered upon written request).

Table 2. Two Preliminary Scenarios: SFY 2012-2013 Summary General Revenue Fund (GRF) Revenue and Expense Models (in \$ millions)³

	Revenue Scenario A			Revenue Scenario B		
	2012	2013	Biennial Total	2012	2013	Biennial Total
Tax Receipts	\$ 17,079	\$ 17,510	\$ 34,589	\$ 17,304	\$ 18,205	\$ 35,509
Non GRF Revenues	\$ 591	\$ 591	\$ 1,181	\$ 591	\$ 591	\$ 1,181
Total Revenues	\$ 17,670	\$ 18,100	\$ 35,770	\$ 17,894	\$ 18,795	\$ 36,690
Baseline Spending	\$ 20,170	\$ 20,109	\$ 40,279	\$ 20,170	\$ 20,109	\$ 40,279
Surplus/(Deficit)	\$ (2,500)	\$ (2,008)	\$ (4,509)	\$ (2,276)	\$ (1,313)	\$ (3,589)

These **preliminary scenarios require adjustments** to account for several significant problems and uncertainties, which are as follows:

- **Revenue from the commercial activity tax (CAT)**, adopted in 2005 concurrently with repeal of most of the tangible personal property tax, is falling well short of meeting scheduled replacement payments to school districts and local governments to compensate for the phase-out of the tangible personal property tax. These payments go to schools and local governments. General Revenue Fund spending must make up the amount of the shortfall. During the current biennium, GRF supplemental payments are estimated to total \$493 million. In FY 2012-2013, the Ohio Department of Taxation estimates these costs will range between \$322 million and \$438 million, depending on the performance of the CAT;⁴ the cost of this GRF subsidy is not included in these scenarios.
- **Other than adjusting for the anticipated reduction in FMAP, both scenarios hold Medicaid spending constant at FY 2011 levels, a highly unlikely prospect.** Total Medicaid spending for the SFY 2007 – 2011 period is projected to increase by one-third, including a 97 percent increase in non-GRF Medicaid spending.⁵ Applying the Medicaid cost projections of the Office of the Actuary at the federal Centers for Medicare and Medicaid Services (CMS), estimated to average 7.6 percent per year during the next biennium, to the GRF portion of Medicaid (while holding constant non-GRF Medicaid revenue that is matched by provider taxes and other sources), Ohio would experience additional state spending of \$387.3 million in SFY 2012 and \$ 415.8 million in SFY 2013, for a total of \$803.1 million over the biennium.⁶ (The CMS actuarial estimate is consistent with the 7.4 percent average annual rate of increase in recent Ohio Medicaid spending, from \$12.8 billion in SFY 2007 to a projected \$16.6 billion in SFY 2011. A significant drop in the average annual rate of increase in Medicaid spending occurred after action on the recommendations in the 2005 report of the Ohio Commission to reform Medicaid. From an average annual rate of increase of 14.65 percent during the period of SFY 1999 through SFY 2005, the rate or increase dropped to under 4 percent for SFYs 2005 through 2007, rebounding somewhat to over 7 percent in the years since. A critical factor in considering the rate of increase is the upwardly spiraling base from which each year's increase occurs: a 1 percent increase in SFY 2010 is more than twice as costly as a 1 percent increase ten years ago, even after adjusting for inflation.)⁷
- **While Table 2 adjusts the FMAP rate** from the enhanced levels of the current biennium to the 63.81 percent rate projected to become effective October 1, 2011, federal policy changes affecting FMAP could further increase state costs.⁸ If FMAP were to decline to historically typical levels of 58 to 60 percent, the impact would be substantial: each percentage change in federal match would cause an annual “swing” of about \$160 million.
- **Uncertainty about the impact of scheduled lapses in appropriations**, estimated at about \$400 million at the end of SFY 2011, are not reflected in either scenario. If lapses come in below this level, the structural deficit for SFY 2012 would increase by a like amount. This situation may be favorably affected by an extension of enhanced FMAP for the final six months of SFY 2011, which could contribute as much as \$750 million to the state's ending balance. Currently scheduled to end December 31, 2010, extension of the temporarily higher rates could be helpful to the state in realizing the level of projected lapses, providing some fiscal relief as the state enters the new biennium. On the other hand, should lapsed appropriations come in below projections, the negative impact could be as much as \$400 million.
- **The fate of provider taxes on hospitals, nursing facilities, and Intermediate Care Facilities**, which in combination will raise \$722 million in state revenue during SFY 2011, is uncertain. Using projected federal

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matching rates for Federal Fiscal Year (FFY) 2012, these taxes would yield federal funds of \$1.3 billion annually during the next biennium, bringing the annual value of these taxes to over \$2 billion. Additionally, **Ohio's sales taxes on Medicaid HMOs** would raise \$215 million in annual revenue, drawing down into the GRF an additional \$377 million in federal matching funds. Discontinuation of these taxes would deepen the structural deficit by \$2.6 billion per year. It is all but certain that a significant portion of Ohio's taxes on Medicaid HMOs will be disallowed by the federal government after FFY 2011, and many Ohio hospitals are already calling for reduction or repeal of the hospital tax.

- **The cost of interest payments to the federal government for debt incurred by Ohio's Unemployment Insurance Trust Fund** must be considered as well. Ohio started borrowing from the federal government early in 2009, and by the end of the year had already borrowed \$1.7 billion. Interest payments on the debt must be paid back with GRF funds. The first annual payment of approximately \$110.5 million will come due in September, 2011, and \$182.6 million will be due in September 2012.⁹ The uncertain course of further borrowing, and future payments, likely will add significantly to GRF costs for several years.
- **The impact of health reform is still unknown**, and will require months, or perhaps years, to accurately estimate. The anticipated increase in Medicaid caseloads, most of the costs of which will initially be borne by the federal government, will not occur until Federal Fiscal Year (FFY) 2014. While the combination of anticipated Medicaid expansion and expanded private insurance coverage may flatten the rate of growth in existing health plans (by, for example, reducing levels of cost shifting for uncompensated care), it is possible that during the lead-up to full implementation, some employers might eliminate existing benefits in anticipation of expanded Medicaid coverage and new health plans available through a state health insurance exchange. Additionally, federally mandated increases in primary care payment rates will take effect prior to FFY 2014, the impact of which cannot yet be calculated.
- **The pace at which newly authorized casinos are completed**, and the rate at which new tax revenue is collected on their proceeds, also are unknown. Unlikely to have a significant if any impact during the next biennium, casino tax revenues will by and large benefit local governments and school districts, a factor that might weigh significantly in decisions about GRF support for these functions when revenue begins to appear. Beyond this, the casino tax revenue will have very little impact on basic state finances.

Because some of these factors are more certain than others (for example, debt service on the Unemployment Insurance Trust Fund is certain, growth in Medicaid spending highly likely, and the fate of health provider taxes dependent upon action by the General Assembly and governor), the best that can be done in estimating the structural deficit is to project its likely range. Table 3 sets forth this range, as follows:

- **"Adjusted Scenario A: High Estimate—Biennium"** begins with the less optimistic revenue assumptions (Scenario A in Table 2), and makes the most pessimistic assumptions about the impact the factors described above.
- **"Adjusted Scenario B: Low Estimate—Biennium"** begins with the more optimistic revenue projections (Scenario B in Table 2), and makes the most optimistic assumptions about the impact of the factors described above;

Table 3. Adjusted Scenarios and Range of Structural Deficit Impact during 2012 – 2013 Biennium (in \$ millions)

	Adjusted Scenario A: High Estimate – Biennium	Adjusted Scenario B: Low Estimate – Biennium
Baseline Deficit from Table 2 – Adjusted Flat Spending at SFY 2011 Levels	\$ (4,509)	\$ (3,589)
GRF Subsidy for CAT Shortfall for Tangible Personal Property Replacement	(438)	(322)
Projected Growth in State Share of Medicaid @7.6%/year	(801)	(801)
1 percent Decline in FMAP in SFY 2013	(160)	0
Variation in Scheduled Lapses and Termination Date of Enhanced FMAP	(400)	750
Probable Expiration of Medicaid HMO Tax and Possible Reduction of Hospital and Nursing Home Bed Taxes	(1,500)	(400)
Interest on Unemployment Compensation Debt	(293)	(293)
TOTAL ESTIMATED STRUCTURAL DEFICIT	\$ (8,101)	\$ (4,665)

There are numerous ways these assumptions and factors might combine, but the most likely at the present time favors (1) less optimistic growth in revenue from major taxes; (2) accuracy in Department of Taxation projections of CAT revenue; (3) actuarial (and historical) accuracy in Medicaid spending trends; (4) expiration of most Medicaid HMO tax revenue but maintenance of hospital and nursing home taxes at current levels; and (5) timely payment of scheduled debt service on the unemployment insurance trust deficit. **After applying these assumptions to the preliminary scenarios, the 2012-2013 biennial structural deficit may be forecast in the range of \$6 billion to \$7 billion.**

Taxation in Ohio

Before exploring options for addressing the deficit, criteria for evaluating the fairness of taxation require some elaboration. Consideration of fairness revolves around two basic theories of tax equity – ability to pay and the benefits principle.¹⁰ “Ability to pay” theories argue that the cost of providing public services should be borne based on one’s ability to pay. Under this view, wealthier taxpayers should shoulder a higher burden than lower-income taxpayers because of their greater ability to pay. The “benefits principle” posits that those who derive benefit from government services should shoulder a tax burden proportionally with the benefits they receive. The fairness of the distribution of tax burden between business organizations and individuals depends to a significant extent on the distribution of the benefits of *both* free enterprise and public services. As a practical matter, tax policies typically incorporate features from both theories in making the system as a whole palatable to a broad segment of the population.

Two additional concepts that are related to these principles are horizontal and vertical equity. Horizontal equity refers to the concept of taxing people of equal incomes equally. It is essentially an application of the

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principle of equality under the law to tax policy. What constitutes “equality” is subject to controversy: while there is little trouble considering one person earning \$30,000 per year as equal to another earning the same amount for tax purposes, if one has a child and the other does not, should their tax burden be equal? Not only tax policy, but social policy more generally, hinges on answers to questions such as this.

Vertical equity considers unequal taxation of those with unequal incomes, the question of how those of differing means can equitably shoulder differing tax burdens. As with horizontal equity, the question of fairness is not so easy to determine. To use a similar example, one might argue that the proportional burden of taxation should fall more heavily on a person earning \$50,000 per year than another earning \$30,000. However, if the first person has five children and the second none, should the person with the higher income still shoulder a greater burden?

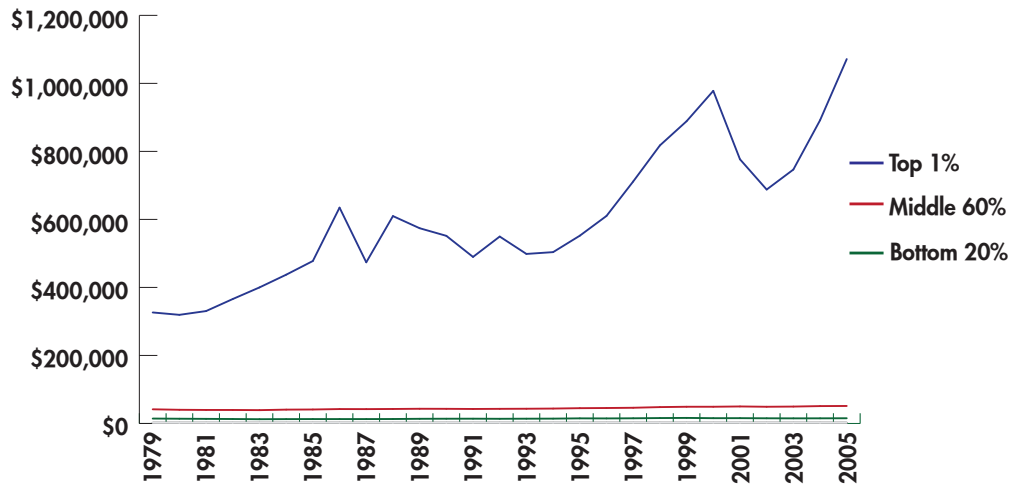
This question of vertical equity may be considered by the extent to which any given tax can be described as regressive, progressive, or proportional. A tax that imposes a heavier burden on the taxpayer as income rises, or a lighter burden as income falls is described as progressive, whereas a tax with effective rates that are lower for those with more income is regressive. Proportional taxation involves levying a tax that is charged as a flat rate per unit of product or service (for consumption taxes) or per level of income (for income taxes). For example, a uniform tax on consumption of a product, say cigarettes, is proportional when the rate remains the same no matter how many cigarettes are purchased. Viewed in this light, proportional taxation meets the criterion of horizontal equity, because all smokers are treated the same way. However, when one considers that cigarettes are generally purchased by lower-income consumers in greater volume than by upper-income consumers, the net impact of a cigarette tax falls more heavily on those with lower-incomes. Viewed in this light, a tax on cigarettes fails to meet the criterion of horizontal equity, because its effect is to impose a greater burden on lower-income consumers. (Compounding the question of fairness in this case is the cost to society of tobacco use: to the extent that cigarette taxes discourage smoking and help cover the cost of health care services, their benefit might be considered to outweigh their inequity.)

Taxes on consumption, like sales taxes, raise yet one final general consideration: the taxpayer as identified in tax law and the person or business that ultimately pays the tax are not necessarily the same. This is particularly important in considering taxes on businesses and nonprofit enterprises. Both federal and state laws impose taxes on corporations and other businesses, and incur tax expenditures through unequal treatment of different enterprises. To varying extents, businesses have the capacity to pass-through or shift the cost of taxation to others. This can take the form of higher prices for consumers, lower compensation for employees, or reduced dividends paid to shareholders.

The application of these concepts about tax equity to federal, state, and local taxes is a complex undertaking, one made especially difficult by the economic crisis, responses of the federal and state governments to it, and their uncertain long-range implications. In imagining and eventually determining a course of action for Ohio’s next biennial budget, a few salient observations are especially important in weighing the options.

First, in considering the equity of taxes on individuals and families, two trends in the distribution of income are of central importance: the relative stagnation in real income growth since the 1970s for the vast majority of Americans, especially those with low incomes, and the significantly widening income gap between them and those of the top tier. Figure 1 demonstrates both.¹¹

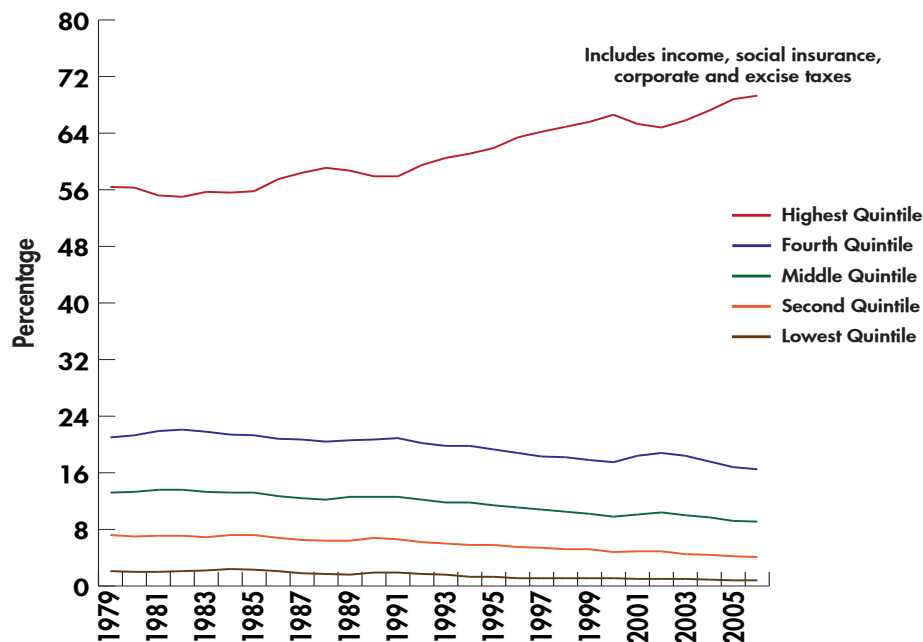
Figure 1. Inequality Rising: Inflation Adjusted Household Incomes 1979-2005



It is noteworthy that the income gap narrows temporarily during periods of recession (the early 1990s and the early 2000s), followed by a rebound. Largely reflecting the impact of recessions on income from financial securities, these downward fluctuations have not altered the overall course of the widening income gap.

The income gap is reflected in the distribution of federal tax liability among different income groups. Figure 2 shows the growing share of total federal taxes paid by the wealthiest 20 percent (or highest quintile) of the population, and declining share paid by those with lesser incomes, reflecting the generally progressive structure of federal taxes.¹²

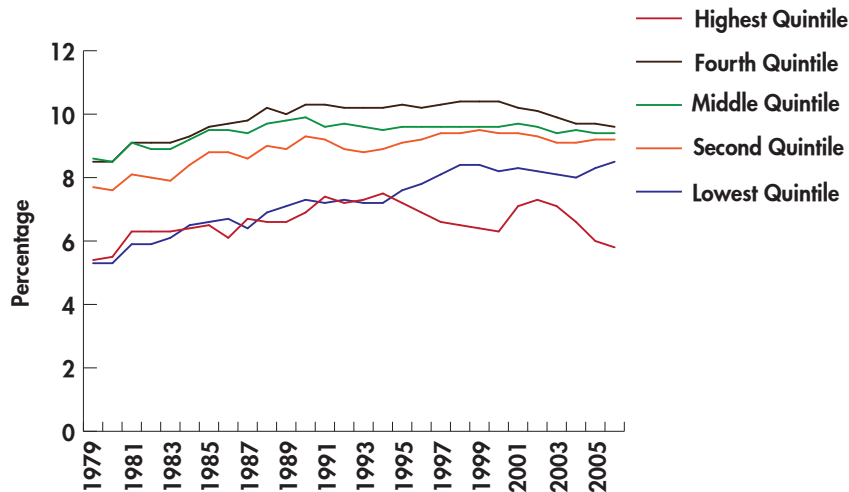
Figure 2. Share of Total Federal Tax Liability by Income Quintile, 1979-2006



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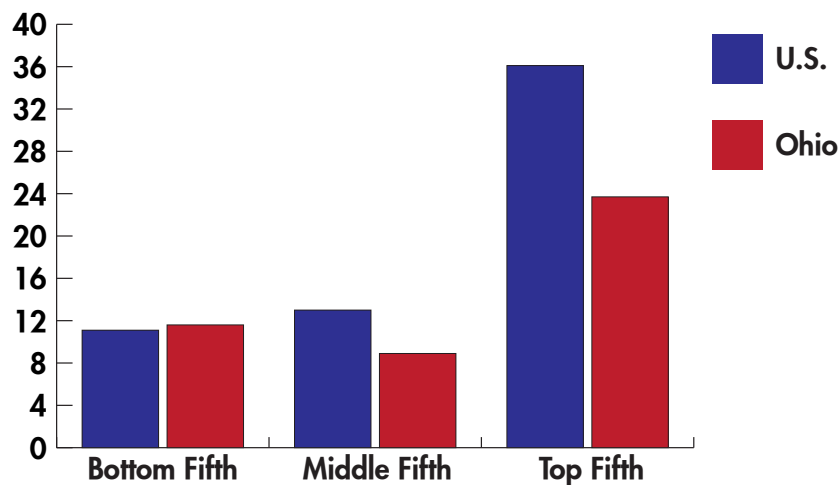
This picture obscures one aspect of federal taxation that is especially important in the arena of health and social policy: the upper limit of \$106,800 on taxable income under the Old Age, Survivors and Disability Insurance Program (OASDI) – the nation’s primary federal pension program under Title II of the Social Security Act. Generally progressive in its treatment of 80 percent of the population, the distribution becomes regressive in its favorable treatment of the wealthiest quintile, as shown in Figure 3.¹³

Figure 3. Effective Social Insurance Tax Rates by Income Quintile, 1979-2006



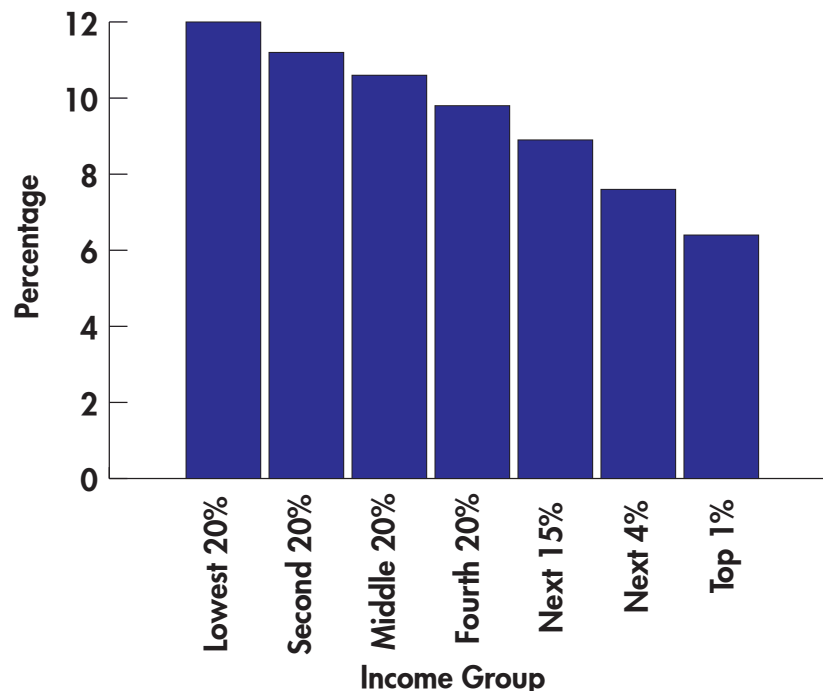
A similar review of income data for Ohioans, and the distribution of Ohio’s state and local tax burden among different income groups, paints a different picture. As shown in Figure 4,¹⁴ from the late 1980s to 2006, the income gap in Ohio grew, with inflation-adjusted incomes for the top quintile going up by 24 percent, compared to 12 percent for the lowest, and only 9 percent for the middle, quintiles. Perhaps more sobering are the Ohio data compared to the nation as a whole: Ohioans in the top four quintiles trailed their peers nationally, while those in the lowest fifth did slightly better.

Figure 4. Percent Change in Average Incomes of U.S. and Ohio Families by Income Quintile, 1987-1989 to 2004-2006



A matter of further concern for Ohioans in the middle and lower income brackets is that unlike federal taxes, state and local taxes here are regressive – as they are in 47 other states. Based on 2007 estimates from the Institute on Taxation and Economic Policy, Figure 5 charts the greater shares of family income paid in state and local taxes by the lowest quintile (12.0 percent) through the middle quintile (10.6 percent) to those with the greatest incomes (6.4 percent).¹⁵

Figure 5. Ohio State and Local Taxes as a Share of Family Income



Note: Ohio State and Local Taxes as a Share of Family Income (after offsetting effects of federal tax deductions for state and local taxes).

It is important to note that Figure 5 illustrates the combined effect of state *and local* taxes, a significant consideration for addressing the structural deficit. The progressive rates of the state’s income tax are offset by other taxes that are to varying degrees regressive – including state and local sales taxes, flat municipal income tax rates, and local property taxes. The impact of regressive local taxes on the incomes of middle class families is relatively significant in Ohio, as evidenced by their effect on state and local tax burden rankings among the states. For the latest years data are available (2009 for state data, 2007 for combined state and local data), the Washington-based Federation of Tax Administrators ranked Ohio’s state taxes 33rd as a percent of personal income and 35th per capita (with first place being the highest), while ranking *combined state and local taxes* 12th as a percent of personal income and 26thth per capita.¹⁶ While other analyses yield somewhat different rankings (e.g., *Governing Magazine’s* Source Books, using the same primary data, rank Ohio *state and local* taxes per capita 16th), the overall patterns of relatively low state taxes, and relatively high (and regressive) local taxes are consistent in most such ranking exercises.

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As noted in the discussion of tax equity principles above, the distribution of tax burden between people and business enterprises offers another way of assessing the overall fairness of taxation. In Ohio, the relative burden of state and local taxes paid by businesses has steadily declined since 1975, from 40 percent to 26 percent in 2010. This trend was reinforced by the business, personal income, and sales tax changes adopted five years ago in H.B. 66, and subsequent modifications enacted during 2009 in H.B. 318. (It is worth noting, too, that these tax changes also shifted a significant portion of taxes paid by individuals and families from the progressive income tax to the regressive sales tax.) Table 4 estimates the effects on annual state revenue of changes in major taxes since 2005; projections for SFY 2010 include the effects of both lower tax rates and the recession.

Table 4. State and Local Revenue Reductions from H.B. 66 and H.B. 318 Tax Changes, FY06-FY10 (in \$millions)¹⁷

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010 (Estimated)
Income Tax Rate Cuts and Addition of Low-Income Credit	\$ (350.5)	\$ (761.0)	\$ (1,212.2)	\$ (1,712.1)	\$ (1,785.8)
Corporate Franchise Tax Elimination	(228.6)	(587.8)	(971.3)	(1,326.4)	(1,250.0)
Tangible Personal Property Tax Phase-out with Payments to Local Entities	(88.3)	(571.3)	(931.6)	(1,275.0)	(1,624.1)
New Commercial Activity Tax (CAT)	273.4	580.0	975.5	1,160.3	1,307.5
Sales Tax (Increase Permanent Rate from 5.0 to 5.5 percent)	697.0	706.0	749.0	666.2	659.5
Increase Cigarette Tax	505.0	425.0	416.0	407.0	398.0
Eliminate 10 percent Rollback for Business Real Property (reduce tax expenditure)	166.0	314.0	329.0	348.0	365.0
Total Tax Cut Amounts	\$ 974.0	\$ 104.9	\$ (645.6)	\$ (1,732.0)	\$ (1,929.9)

Tax rates offer one part of the calculus of business tax yields and their equity. The level of commerce, rate of growth, and profitability of businesses are all factors as well. Ohio's business climate, like that of most of the industrial Midwest, has been through several decades of change and relative decline. Yet, the state's economy has continued to grow, its Gross Domestic Product (GDP) reaching over \$470 billion in 2009, an increase of 103 percent since 1991 (during the same period, the national economy grew to over \$14 trillion, up 144 percent).

Advocates of the mid-decade corporate tax reductions have urged patience through the lingering Great Recession, arguing that these changes represent "opportunity costs" necessary for Ohio's economy to grow at a rate, and in a manner, more in line with the national economy. They have some evidence to support their position, including Ohio's top ranking among the states in new job creation during April, 2010, and its number one ranking for four consecutive years by *Site Selection Magazine*, the magazine of corporate real estate strategy. And yet there are others who continue to give bad marks to Ohio's business tax climate, even in the wake of the major reductions in business taxes noted above. For example, the Tax Foundation's most recent rankings

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of state business climates placed Ohio at a lowly 47th place (a number that is somewhat hard to reconcile with their middling 23rd place ranking of Ohio in its annual “Tax Freedom Day” countdown).

Taken together, several general conclusions about these data are of central importance in considering options for the next biennium:

- While incomes for most Americans have stagnated for three decades, those of Ohioans have generally stagnated at lower levels, reducing the capacity of the middle class in particular to bear additional tax burdens.
- The wealthiest fifth of taxpayers have enjoyed soaring incomes for over 20 years. While progressive federal taxes have also made them by far the largest contributors to the overall costs of government, the regressive effects of combined state and local taxes in Ohio take a larger share of middle class incomes than the wealthy.
- Business taxes, as a proportion of state tax revenue, have been in steady decline for several decades; the long-range implications in this regard of the 2005 tax overhaul are as yet unclear.
- State personal income and business tax changes during the middle of the last decade have contributed significantly to the structural deficit.

A Time for Pragmatism

The magnitude of the structural deficit presents elected officials with their worst nightmare: the “unthinkable” prospect of having to *both increase taxes and cut spending* on public services. Enormously challenging in itself, this will be all the more difficult in the ideologically charged political climate of recent years. The rancor and ill feeling accompanying the “culture wars,” stoked throughout each day by a 24/7/365 news cycle, present the prospect of gridlock in addressing the uncertain, lingering, and evolving effects of a fundamental shift in the economy, and a crisis of the first order in state finance.

We simply cannot afford for such gridlock to set-in, and so our discussion of alternatives begins with an affirmation of more dominant, if less dramatic, tendencies in our political tradition: moderation of spirit and tone, and pragmatism in solving complex problems. It is not enough that we arrive at these by default, only after acrimonious political strife leaves those still standing tired, bruised, and ready to find any expedient way out. The resulting susceptibility to cynical deal-making is to be equally feared.

Rather, this is a time when affirmatively embracing pragmatism in its highest sense – the pragmatism that brought the nation and state through wars and economic turmoil in earlier generations – has the potential to coalesce around the political center the will and capacity to align initiatives in the public and private sectors, from the halls of power to the communities in which we live. Essential to such pragmatism are toleration of alternative points of view, and moderation in pressing agendas. Clearly, nobody yet has a satisfactory, comprehensive understanding of the changed state of our economy; just as surely, nobody could possibly have the definitive solution to how state government should address it. In the words of William James, “...success in solving this problem is eminently a matter of approximation.”¹⁸ And in the equally apt words of former Ohio Lieutenant Governor, and Ohio House Finance Chair Myrl Shoemaker, “sometimes we have to rise above our principles.”

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Our political institutions, separating functions and powers vertically in the federal system and horizontally among the three branches, are uniquely suited to force deliberation in response to rising popular tides, whether from the political left or right. They are also well suited to incrementalism – arriving at proximate solutions amidst uncertain or conflicting economic and social changes. Deliberations addressing the economic shift will – must – continue for years to come, and incremental approaches will be necessary expedients, in Ohio’s Statehouse as elsewhere. The opportunity immediately before us is one of building consensus from the creative chaos of a free society. It is toward such a consensus that the framework suggested below is offered.

The Center on Budget and Policy Priorities (CBPP) has suggested such a pragmatic paradigm for addressing state fiscal crises across the nation. As presented by Senior Advisor Iris J. Lav, it includes multiple strategies, from improving tax collections and judiciously using “rainy day” funds, to improved efficiencies, reducing tax expenditures, and carefully considering the long-term implications of short-term decisions.

“When states face a deficit, an across-the-board reduction in spending is often the first response that comes to the minds of policymakers. But...states in fact have a far wider range of policy choices they can employ to close deficits and maintain important services — the need for which grows even as revenues falter. Many of these budget-balancing policies do far less damage than budget cuts do to state economies. Some have the added advantage of strengthening the long-term fiscal situation of the state — beyond the immediate need to achieve a balanced budget this year or next. The key is to construct a balanced approach to state budget balancing, instead of overly relying on spending cuts. The enormity of deficits in many states suggests that no one strategy can be sufficient on its own to fully close deficits. By using a balanced approach, states can minimize harm to the individuals, families, and businesses that depend on state services, and can also avoid further damaging economies already made fragile by the pressures of a recession.”¹⁹

In light of the extensive use of one-time revenues and savings during the current budget, exhaustion of the state’s Budget Stabilization Fund, and the evolution of tax and spending policy over the past three decades, this “*balanced approach*” in Ohio might be reduced to a three-part strategy, utilizing a combination of:

- **tax increases,**
- **reductions in tax expenditures, and**
- **reductions in programmatic expenditures.**

While the term “tax expenditures” may be unfamiliar, their existence and significance are quite familiar indeed. More generally, and pejoratively, described as “loopholes” or “tax breaks,” they may be defined as a loss of tax revenue attributable to an exemption, deduction, preference, or other exclusion from tax law. By treating some taxpayers differently than others – for example, by treating the same type of income of some kinds of businesses differently than others – they provide publicly financed benefits, or expenditures, similar to those provided by education subsidies, public parks, fisheries, or agricultural research, to name but a few.²⁰

The discussion that follows summarizes the fiscal impact of specific options within this three-part framework, with the aim of identifying measures that in various combinations would yield *about one-third of the projected \$6 to \$7 billion biennial deficit in each category*. Throughout, consideration has been given to both the short-term impact on people and businesses, and implications for the future prosperity of the state.

Because of the importance of aligning tactical, or short-term, decisions with longer-range strategic considerations, this is followed by:

- a discussion of several areas where state-supported programs are in a *critical* state, or where investments of new dollars have the potential of reducing long-term costs, that in our estimation deserve consideration during the next biennium; and
- several initiatives that would not significantly affect revenue or expenses during the next biennium, but would contribute to aligning tactical decisions about state finances during the 2012 – 2013 period with long-term strategic considerations.

Tax Increases

There are reasonable approaches to increasing revenue that in various combinations would close about one-third of the structural deficit, beginning with revisiting the 2005 tax changes which lowered overall income tax rates from levels put in place with bipartisan support in the early 1990s. While restoring earlier income tax rates would alone erase about half of the structural deficit, doing so would increase taxes for the majority of Ohioans whose middle-class incomes have been compromised by decades of downward pressure on their incomes. However, returning to the former upper bracket rate of 7.5 percent for those whose incomes have outpaced the vast majority of Ohioans, would affect just over 2 percent of taxpayers, while raising \$448 million annually.

Concurrently, consideration might be given to mitigating the regressive effects of Ohio state and local taxes by increasing the amount that households can make before owing state income tax. Ohio’s threshold now is \$10,000. Raising the threshold to \$15,000, which would benefit about 430,000 Ohioans, would result in an off-setting revenue loss of about \$38 million per year. This might be complemented by adopting a refundable state Earned Income Tax Credit, structured like the federal EITC. As proposed by the nonprofit Policy Matters Ohio, setting a refundable EITC at 5 percent of the federal program would be an effective way to help working families rise out of poverty. The annual cost would be about \$75 million. Twenty-four states plus the District of Columbia already have such a credit in place.²¹

The imbalance between business and individual taxes also might be addressed in a revenue package. Currently, the rate on the CAT is set too low to reimburse schools and local governments for the full amount of lost tangible property tax revenue. The resulting drain on the General Revenue Fund during the next biennium is estimated to be \$322 to \$438 million, far short of even beginning to replace lost revenue from the former corporate franchise tax. Each 1/100 of 1 percent increase in the CAT would annually raise approximately \$50 million. An increase of 0.08 percent would yield about \$400 million *annually*, enough to cover the estimated cost of GRF subsidies to schools and local governments for loss of tangible personal property tax revenue, *and* return approximately \$200 million per year to the GRF. Table 5 outlines some options for increasing tax revenue.

Table 5. Options for Increasing Tax Revenue (in \$ millions)

Option	Annual Revenue Increase
Restore top 7.5 percent income tax rate for households with income over \$200,000	\$448

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Option	Annual Revenue Increase
Reverse balance of the 21% cut to income tax rates	1,784
Raise CAT to 0.34 percent	400
Restore 1/5 of corporate income tax liability for nonfinancial corporations	250
Raise sales tax by ½ of 1 percent	675
Extend sales tax to live entertainment admissions	55
Offset for Raising Low-Income Credit for Income Tax from \$10,000 to \$15,000	(38)
Offset for Refundable EITC at 5 percent of Federal Level	(73)
ANNUAL NET REVENUE – WITHOUT LOW-INCOME CREDIT AND EITC OFFSETS	\$ 3,612
ANNUAL NET REVENUE – WITH LOW-INCOME CREDIT AND EITC OFFSETS²²	\$ 3,501

Policy makers could also consider at least temporarily retaining part of the income component of the corporate franchise tax. Forecasting revenue from the corporate franchise tax is difficult, because the amount of revenue depends on profits, and many corporations practice shifting their income among jurisdictions in order to receive the most favorable tax treatment. Nonetheless, it would be reasonable to expect that retaining one-fifth of the former rate would yield about \$250 million per year through a temporary tax during the next biennium; depending on the performance of the CAT in an expanding economy, rates could be subsequently rolled back or eliminated in future biennia.

The sales tax also offers an alternative for raising revenue during the next biennium. Temporary sales tax increases have been adopted under governors and General Assemblies of both parties during recessionary periods. An increase of 1 percent would raise about \$ 1.3 billion per year.

Reductions in Tax Expenditures

Ending various unproductive tax expenditures is another essential tool for straightening out Ohio's finances. Estimated as part of each Governor's Executive Budget "Blue Book," state government loses over \$7 billion per year to deliberately created deductions, credits, and exemptions for an enormous variety of special purposes. The "Blue Book" offers a definitive list of options for reducing tax expenditures sufficiently to cover about one-third of the structural deficit.

Closing any loophole is difficult because each has a particular rationale and specific interest group that will rise to its defense. Often, supporters of these exemptions justify them on the grounds of economic development and job creation. Equally often, the rationales are long on theory and short on measurable evidence. Usually embedded in the statutes of the Ohio Revised Code (ORC), they receive nothing like the routine periodic scrutiny given to programmatic expenditures in the biennial budget process. There is nothing in the realm of policy governing tax expenditures that is akin to the movement toward measurable outcomes in primary and secondary education, health care, or social services.

Long-term, the state would benefit by developing tools to evaluate and monitor these claims. One approach, suggested by the Ohio Society of CPAs regarding periodic review and "sunsetting" of state agencies and pro-

grammatic expenditures, could be applied to tax expenditures as well.²³ Such policies and procedures would assure a periodic demonstration of their benefits to the public and efficacy, while also evaluating their benefit relative to those of other tax and programmatic expenditures for which public revenue must be raised. Short of such measures, tax breaks will continue to stay on the books indefinitely without any proof of an enduring public benefit.

Considering specific options that might contribute to about one-third of the structural deficit, the sales tax alone has 54 exemptions that cumulatively reduce state revenues by approximately \$5 billion annually. The largest of these is for machinery and other items used in manufacturing (\$1.7 billion per year). Packaging equipment is also exempt from the sales tax, costing the state \$230 million in foregone revenue each year. Telecommunications services provided by certain large call centers are also exempt, creating a loss of \$21 million, as are sales of items to non-profit organizations, costing \$347 million per year. Table 6 provides examples of lost revenue from a few tax exemptions.

Table 6. Selected Sales Tax Exemptions (in \$ millions)²⁴

Exemption	GRF Revenue Foregone FY 2011
Building and construction materials used in certain structures	\$435.5
Tangible personal property sold to electricity providers	331.8
Tangible personal property used in research and development	32.6
Tangible personal property sold to providers of telecommunications services	88.6
Qualified tangible personal property used in making retail sales	35.3
Tangible personal property used in agriculture or mining	153.0
Discount for vendors for administering the sales tax	50.9

One of the fastest growing exemptions from the sales tax is for prescription medicines. The Tax Department estimates that the foregone revenue from this exemption will grow from \$489 million in FY 2008 to nearly \$700 million in FY 2011. The obvious rationale for this exemption is to avoid driving up medical costs for consumers who already face spiraling premiums and out-of-pocket expenses. This is an exemption that is common to most states. Yet as health care transactions become a larger portion of the economy, it is more difficult to justify exempting such transactions from taxation.

One way to balance these concerns—one that might equally pertain to other sales tax exemptions—would be to replace full exemptions with partial exemptions in the 60 to 80 percent range (i.e., reducing the exemption from the current rate of 5.5 percent to the 4 to 4.5 percent range). Illinois takes this approach to prescription medicines,²⁵ and a similar approach uniformly applied to Ohio’s sales tax exemptions would yield a sufficient reduction in tax expenditures to itself erase one-third of the structural deficit. Doing so for prescriptions alone would raise over \$120 million per year,²⁶ an amount that could help cover soaring Medicaid drug costs.

There are also many smaller exemptions that benefit a specific industry or group. For example, businesses or wealthy individuals that share ownership rights in jet aircraft do not have to pay more than \$800 in sales tax, costing the state \$1 million in foregone revenue annually. Equipment that is used in distribution centers that ship goods out-of-state is also exempt, costing another \$4.2 million.²⁷

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Over time, as a growing economy increases tax returns, a wider base to the sales tax could allow reduction in the overall rate from its current level to 5 percent, or possibly even lower.

Table 7 provides a list of major taxes and the estimated annual cost of exemptions to state government for each. A more detailed listing is available in the 2010-2011 Executive Budget, Book 2, compiled by the Ohio Department of Taxation.

Table 7. Exemptions and Credits for Major Taxes, FY 2010-2011 (in \$ millions)²⁸

Tax	FY 2010	FY 2011	Number of Exemptions
Sales	\$4,855.0	\$5,010.9	54
Income	\$1,744.6	\$1,841.6	30
Corporate Franchise	182.6	191.5	3
CAT	456.7	481.6	17
Public Utility Excise	71.4	71.4	4
Kilowatt Hour	4.6	4.6	1
Insurance	13.7	13.8	3
Cigarettes & Tobacco	15	14.7	2
Alcoholic Beverages	1.5	1.5	4
Estate	99.1	99.1	4
	\$7,444.2	\$7,730.7	122

In addition to identifying tax expenditure reductions for the next biennium, the governor and General Assembly might consider including line items for tax expenditures in biennial budget legislation, and adopting a schedule for sunsetting the tax code provisions governing them on a rotating basis over two or three biennia. This would assure that they receive the routine legislative scrutiny that is applied to programmatic expenditures every two years, and that the burden of demonstrating their efficacy is placed on equal footing with education, public safety, civil defense, human services, parks, natural resources, and other programmatic spending.

Reductions in Programmatic Expenditures

If one-third of the biennial structural deficit, or \$1 billion to \$1.3 billion per year, is to be closed by reductions in programmatic expenditures, funding for human services will bear a significant share of reductions. In part, this is due to their share of total spending, representing as they do 46.3 percent of GRF outlays, and 44.1 percent of total state spending.²⁹ Not so simple is the implicit impact on federal financial support, and its implications: reductions in spending state matching dollars usually result in greater losses in federal matching revenue, particularly in Medicaid, the largest program in state government. More difficult still, reductions in spending on some health and social services, such as primary health care or protective services for children and older adults, often result in subsequently greater costs for treatment or remediation.

It is helpful to consider possible reductions in human service spending in the larger context of how basic human needs are addressed in the federal system. Notwithstanding the significant role that state government,

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as well as Ohio’s county governments and special purpose political subdivisions, plays in financing health and social services, the vast majority of health and social investments would be unaffected by reductions in state spending through the next biennium because of the dominant role of federal programs. Generally under the auspices of the Social Security Act, state-administered federal programs include:

- Unemployment Compensation (Titles III, IX and XII);
- Temporary Assistance to Needy Families (TANF - Title IV);
- Subsidies for child foster care (Title IV-E);
- Medicaid (Title XIX);
- Social Service Block Grant (Title XX); and
- State Child Health Insurance Program (SCHIP – Title XXI).

Other federally administered Social Security Act programs, together with other major federal programs, round-out the federal safety net, including the following:

- Old Age, Survivors, and Disability Insurance benefits (OASDI – the program we generally call “Social Security” but which is Title II of a much larger set of programs);
- Supplemental Security Income (SSI – Title XVI);
- Medicare (Title XVIII);
- Financial, educational, and health care benefits to veterans and their families;
- Earned Income Tax Credit (EITC);
- Food Stamps;
- Women, Infants and Children Nutrition Program (WIC);
- Child Care Block Grant, currently available in Ohio up to 150 percent of the poverty level;
- A variety of housing subsidies (public housing units, Section 8, Section 202, and Section 515 among others);
- Social service subsidies for older adults and people with developmental disabilities under the Older Americans Act and Developmental Disabilities Act;
- Subsidies for community health centers, vastly expanded by recently enacted health reform legislation; and
- Beginning in 2014, subsidies for private health insurance for working families.

However one views the adequacy, efficacy, or future prospects of the federal safety net, and however one views the fragile and complex weave of Ohio’s human services network, the impact of including human services in state budget cuts would leave the vast majority of the safety net intact. While the impact on the status and prospects of individuals could be devastating, depending on what decisions are made (please note in this regard the discussion of mental health, alcohol, and drug addiction services below), an opportunity exists to strategically sort through Ohio’s health and social service finances in the context of the larger federal system, targeting state (and local) dollars to where they are needed most. The long-term benefits of federal health reform alone might open significant opportunities to reduce state and local subsidies that currently cover gaps in the acute health care system.

Table 8. Ohioans Covered by Select Major Federal Safety Net Programs³⁰

Federal Safety Net Programs	Number of Recipients
Population of Ohio - 2009	11,543,000
Medicaid	1,972,590 (17.1%)
Food Stamps	1,580,704 (13.7%)

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Federal Safety Net Programs	Number of Recipients
TANF Cash Assistance	227,046 (1.9%)
WIC	303,679 (2.6%)
OASDI	2,021,874 (17.5%)
Medicare	1,830,807 (15.9%)

Looking beyond human services, it also would appear to be obvious that primary and secondary, and higher education would bear a significant portion of budget cuts, representing 35.8 percent of GRF and 23.15 percent of total state expenditures.³¹ Yet, notwithstanding its relative decline as a share of state spending over the past 20 years, education remains the top priority of state government. Long established in the constitution as a fundamental purpose of state government, education remains the foundation of state policies promoting self-reliance, reducing dependence, building a strong and sustainable economy, and generally improving the quality of lives. Leaving aside the court orders, blue ribbon commissions, and the furious interest group politics of education finance, no stronger case can be made for shelter from budget cutting. Indeed, strong cases will be made for increasing spending in this sector, the weak and uncertain economy itself cited as a reason for doing so.

Several alternative approaches to achieving spending cuts of \$1 billion-plus per year might be combined in various ways to cover one-third of the structural deficit.

- Reductions in Medicaid.** The state has no option but to take an aggressive approach to containing Medicaid costs. The largest single program in state government, its rate of spending growth surpasses any other major program in state government, going from \$6.6 billion in SFY 1999 to a projected \$16.6 billion in SFY 2011, an increase of 152 percent. Its 14.65 percent average annual rate of growth from SFY 1999 to SFY 2005 declined dramatically to 3.8 percent per year in the three years immediately following the 2005 report of the Ohio Commission to Reform Medicaid. But since SFY 2007, the average annual rate or increase has crept back up to over 7 percent, and non-GRF Medicaid spending will have nearly doubled in the four years ending June 30, 2011.

In all of the program's 45-year history, its costs have never declined from one biennium to the next, and there is little chance of that happening in the SFY 2012-2013 budget. However, establishing a firm target for limiting growth in Medicaid costs to levels experienced from SFYs 2005 through 2007 would reduce the structural deficit baseline estimate by \$400 million over the biennium. This would leave reasonable room for the possibility of caseload growth, as well as federally mandated increases in primary care payments in the lead-up to full implementation of national health reform.

Holding a firm line on inappropriate utilization and escalating reimbursement rates is essential, especially for hospitals and nursing homes under the fee-for-service portion of Medicaid. On the utilization side, arresting the silent but steady growth in admissions to nursing homes of non-elderly people with mental illness will significantly reduce costs and provide more appropriate service venues for thousands of patients. On the reimbursement side, any adjustments in the nursing home payment formula over the next biennium should be limited to improvements in the direct patient care component and held to strict budget neutrality across the system.

In addition to the \$400 million that could be culled from the biennial baseline deficit estimate through such systemic approaches, the following actions would yield about \$380 million in additional reductions over two years:

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- **Place a cap on hospital payments** by HMOs at Medicaid fee-for-service rates, and reduce capitation payments to HMOs by the current cost of excess payments. Estimated state share savings would be about \$40 million per year.
- **Adopt a reduction in the 12.5 percent administrative allowance for Medicaid HMOs.** If this were set at the mid-point between the current HMO administration rate and the state government's long-standing administrative overhead of about 3 percent, or 8.25 percent, the state-share savings would be about \$108 million per year.
- **Eliminate payments for Indirect Medical Education (IME) to teaching hospitals.** Driven by an old and arcane federal formula, but non-mandatory under federal regulations, the mechanics of and rationale for IME are inexplicable, in contrast with payments for Direct Medical Education (DME), which are specifically identified in provider cost reports, and may be documented. State-share annual savings in the fee-for-service component of Medicaid would yield about \$21 million per year. A like amount could be deducted from the capitation rates paid to Medicaid HMOs, which include a factor for historical IME costs; in combination, annual state savings of \$42 million could be achieved.

Even this aggressive approach to containing Medicaid spending, or another that pares \$700 million to \$800 million from the program's projected baseline 2012-2013 costs, leaves another \$1.2 billion to \$1.5 billion to be cut from other state spending in order to cover one-third of the overall structural deficit. In various combinations, the budget-cutting options discussed below could contribute the additional amount needed by balancing the burden between other major categories of state programmatic spending.

The first four sets of options are arrayed around groups of line items in the areas of human services; primary and secondary education; higher education; and general government (the line items included in each category are listed in the Appendix). Aggregate spending reduction targets in the range of 10 percent to 20 percent are estimated for each category. The difficult task of suggesting specific reductions in (or outright elimination of) line items is beyond the scope of this analysis, which has the more limited, if critically important, aim of conveying the scale of spending reductions that will be required. Useful recommendations for such detailed review may be found in the November, 2009 *Report to the Honorable Ted Strickland* of the Ohio Society of CPAs' Ohio Budget Advisory Task Force.³² Following this general approach to setting programmatic spending targets, options for addressing several other major categories of state spending are discussed.

Recognizing and affirming the priorities of primary and secondary education, higher education, early childhood development, and state spending that draws federal matching funds, these options *exclude* (1) reductions in formula-based support to primary and secondary education (for instruction and transportation), state support of early childhood education and development,³³ and state support of local libraries; (2) reductions in formula-based support to colleges and universities and student financial assistance from the Ohio Board of Regents; and (3) line items primarily used to meet federal maintenance of effort requirements associated with federal funds. Additional exclusions and their rationale are noted where applicable.

- **Reduce Most State-Fund-Only Human Service Line-Items by 10 to 20 percent.** Selective or across-the-board reductions from SFY 2011 human service spending levels totaling 10 to 20 percent per year would produce savings of \$112 to \$224 million over the 2012-2013 biennium.

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Table 9. Effects of Reductions to Selected Human Service Line Items – Biennium (in \$millions)³⁴

Percent Reduction to Selected Human Service Line Items	Projected Reduction from SFY 2011 Appropriations for 2012-2013 Biennium
10 percent	\$ (112)
15 percent	(168)
20 percent	(224)

With some exceptions (see endnote for Table 9 and Appendix), Table 9 includes line items in the departments of Aging, Health, Job and Family Services, and Developmental Disabilities, but excludes the departments of Mental Health and Alcohol and Drug Assistance Services because of the critical condition of behavioral health services, discussed below.

- **Reduce Non-Formula and Non-Federal Match Subsidies for Primary and Secondary Education.** Selective or across-the-board reductions from SFY 2011 primary and secondary education spending levels totaling 10 to 20 percent per year would produce savings of \$62 million to \$125 million over the 2012-2013 biennium (see endnote for Table 10 and Appendix for description of estimate).

Table 10. Effects of Reductions to Selected Primary and Secondary Education Line Items – Biennium (in \$ millions)³⁵

Percent Reduction to Selected Primary and Secondary Education Line Items	Projected Reduction from SFY 2011 Appropriations for 2012-2013 Biennium
10 percent	\$ (62)
15 percent	(94)
20 percent	(125)

- **Reduce Non-Formula, Non-Student Aid, and Non-Federal Match Subsidies for Higher Education.** Selective or across-the-board reductions from SFY 2011 higher education spending levels totaling 10 to 20 percent per year would produce savings of \$41million to \$82 million over the 2012-2013 biennium (see endnote for Table 11 and Appendix for description of estimate).

Table 11. Effects of Reductions to Selected Higher Education Line Items – Biennium (in \$ millions)³⁶

Percent Reduction to Board of Regents Line Items	Projected Reduction from SFY 2011 Appropriations for 2012-2013 Biennium
10 percent	\$ (41)
15 percent	(61)
20 percent	(82)

- **Reduce General Government GRF Appropriations, Excluding Debt Service and Property Tax Relief.** As illustrated in Table 12, selective or across-the-board reductions from SFY 2011 appropriations for other state agencies, excluding spending for debt service, property tax relief (discussed separately below) and adult prisons (also discussed separately) totaling 10 to 20 percent per year would produce savings of \$179 million to \$359 million over the 2012-2013 biennium (see Appendix for detail on 2011 line items included in this estimate).

Table 12. Effects of Reductions to Selected General Government Line Items—Biennium (in \$ millions)

Percent Reduction to General Government Line Items	Projected Reduction from SFY 2011 Appropriations for 2012-2013 Biennium
10 percent	\$ (179)
15 percent	(269)
20 percent	(359)

- **Means Testing Subsidies for Property Tax Relief.** The State of Ohio spends about \$1.6 billion each year to provide financial support to schools and other local taxing districts to offset the effects of three types of property tax relief for homeowners. These include:
 - 10 percent rollback for all residential property;
 - 2.5 percent rollback for owner-occupied property; and
 - Homestead exemption for senior citizens and disabled homeowners.

While providing popular relief from regressive property taxes to millions of Ohio homeowners, these measures are themselves regressive, yielding generally greater benefits to those with greater wealth: the more expensive one’s home (and in the case of the 10 percent rollback, multiple residential properties), the greater the tax relief. Recalibrating these programs on a progressive basis, for example by maintaining their full value for the first \$150,000 (for the full appraised value), but reducing the rate of tax relief for more expensive properties, could be done in a manner designed to reduce spending in the same ranges modeled for human service and other state programs above. Reductions of 10 to 20 percent would yield from \$320 million to \$640 million over the biennium with no adverse impact on most homeowners.

- **Reductions in and Restructuring of Local Government Fund.** Ohio offers generous support from the GRF to county and municipal governments. Reducing these subsidies from the Local Government Fund (LGF) was cited in a 2009 Ohio Society of CPAs analysis of possible ways of addressing the structural deficit, and is expected to be included in forthcoming recommendations of the Ohio Local Government Commission.³⁷ A 10 to 20 percent reduction in the combined municipal and county shares of the LGF would produce savings of about \$132 million to \$264 million over the 2012-2013 biennium. An alternative that would produce biennial savings of about \$103 million would be to eliminate the municipal government distribution from the LGF, the rationale being that Ohio is one of only a handful of states authorizing widespread use of the income tax by municipalities; of the 940 Ohio cities and villages receiving distributions from the LGF, 540 have municipal income taxes. (Ohio is unique in authorizing widespread sharing of its income tax base with both municipalities and school districts.)

Yet another alternative would be to eliminate the LGF in its current form, replacing it with new, targeted Local Government Collaboration Grants (LGCGs) that reward voluntary consolidation, collaboration, and other efficiencies in local services among the 88 counties, 940 cities and villages, 1,308 townships, 613 school districts, and numerous special purpose political subdivisions, such as local boards of Health, boards of Alcohol, Drug Addiction and Mental Health Services, Children’s Services boards, and Developmental Disabilities boards. Targeted first on helping local governments offset the loss of LGF funding, and designed to encourage local governments to develop efficiencies that fit the circumstances of their own communities, planning and start-up grants for collaborative initiatives could be structured to reward documented local savings. If funded at an annual level of \$300 million (less than half of current LGF spending),

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between 1,000 and 2,000 multi-year grant initiatives in the range of \$250,000 could be active at any given time. Assuming state administrative costs of about 5 percent, a new grant program funded at this level and phased-in during the first year of the biennium as the LGF is phased-out, would cost about \$470 million over the SFY 2012-2013 biennium, and produce GRF savings of about \$517 million. Table 13 outlines several options for reducing distributions from the LGF.

Table 13. Effects of Alternative Reductions in Distributions from the Local Government Fund (in \$ millions)³⁸

Reduction to LGF	Projected Reduction from CY 2010 LGF Distribution for 2012-2013 Biennium (~\$658 million)
Eliminate Municipal Government Distribution from LGF	\$ (103)
Reduce LGF Distributions by 10 percent	(132)
Reduce LGF Distributions by 15 percent	(198)
Reduce LGF Distributions by 20 percent	(264)
Phase-out LGF Over 2 Years (SFY 2012 by 50 percent, SFY 2013 by 100 percent)	(987)
Create New Competitive LGF Supporting Efficiencies, Collaboration (@\$250 million/yr. starting mid-SFY 2012)	470

- Phase-in 10 Percent Reduction in Prison Population over Biennium.** While the number of Ohioans has grown by about 8 percent over the past 40 years, the prison population under the supervision of the Ohio Department of Rehabilitation and Correction (DRC) has grown from under 9,000 to more than 51,200, an increase well over 500 percent. Of this number, about 16,000 are held in minimum security. Leaving aside the present and future human costs, at an annual taxpayer cost of \$25,300 per inmate, the cost-benefit ratio to society cannot possibly justify spending of this magnitude. In 2009 there were 25,031 admissions to DRC facilities and 26,211 releases.³⁹ Assuming (1) annualized savings of 75 percent of per prisoner costs, and (2) a 10 percent, or 5,000 prisoner, net reduction in the total prison population evenly phased between January, 2012, and June, 2013, the savings over the next biennium would be over \$75 million. If the prison population were to stabilize at about 45,000, annual savings thereafter would be over \$120 million.

A Balanced Approach – Two Scenarios

The revenue, tax expenditure, and programmatic expenditure options outlined above, while by no means exhaustive, are illustrative of the scope of policy changes required to erase the structural deficit during the next biennium. They may be combined in many ways to produce deficit reductions in the \$6 billion to \$7 billion range. Two examples are presented below, each of which:

- distributes the deficit reduction burden about evenly across the three categories (more tax revenue, reduced tax expenditures, and reduced programmatic expenditures);

- protects at SFY 2011 levels basic support for early childhood programs, formula-driven support for primary, secondary, and higher education, libraries, and state programs that earn federal matching dollars (other than Medicaid).

Table 14, which would cover a biennial deficit of about \$6 billion, applies progressive tax policy to individual income and business taxes, to adjust, rather than reverse, tax policy changes initiated over the past five years. Added to these are reductions in tax expenditures, along with broadly distributed targets for reducing all major categories of programmatic expenditures by about 15 percent, a net reduction of 15 percent in property tax relief for wealthier taxpayers, and a 10 percent reduction in the state prison population. For ease of reference, estimates of additional revenues and reduced expenditures are presented in the order they were discussed above in the sections on taxation, tax expenditures, and programmatic expenditures.

Table 14. Balanced Approach A – Closing a \$6 Billion Structural Deficit – Progressive Taxes - (in \$ millions)

New Revenue or Reduction in Expenditures	Estimated Effect on Structural Deficit - Biennium
Tax Revenue	
Restore 7.5 percent income tax rate for with incomes over \$200,000	\$ (896)
Raise CAT to 0.34 percent	(800)
Restore 1/5 of corporate income tax liability for nonfinancial corporations	(500)
Create Refundable EITC at 5 percent of Federal Level	146
<i>Sub-total Revenue</i>	<i>\$ (2,050)</i>
Reductions in Tax Expenditures	
Reduce Sales Tax Exemptions from 100 percent (\$0.055) to 80 percent (\$0.45) across the board	(1,822)
Reduce Corporate Franchise Exemptions by 10 percent	(38)
Reduce CAT Tax Expenditures by 10 percent	(96)
<i>Sub-total Tax Expenditures</i>	<i>(1,956)</i>
Reductions in Programmatic Expenditures	
Reduce Projected Rate of Medicaid Growth from 7.6 percent to 3.8 percent; hold FFS utilization and rates constant @ SFY 2011	(400)
Reduce Medicaid HMO Administrative Allowance to mid-point between current 12.5 percent and ODJFS Administrative cost Rate	(216)
Eliminate Hospital IME Payments – FFS and Managed Care	(84)
Reduce State Fund Only, Non-Medicaid, Non-Early Childhood Human Service Spending by 15 percent	(168)
Reduce Non-Formula, Non-Early Childhood Primary and Secondary Education Spending by 15 percent	(94)

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New Revenue or Reduction in Expenditures	Estimated Effect on Structural Deficit - Biennium
Reduce Non-Instructional and Non-Student Aid Spending by Board of Regents by 15 percent	(61)
Reduce Other General Government Appropriations by 15 percent	(269)
Reduce Property Tax Relief to Wealthier Taxpayers to Produce 15 percent savings	(480)
Reduce LGF Distributions by 15 percent	(198)
Phase-in 10 percent Reduction in Prison Inmates over 18 Months	(75)
<i>Sub-total Programmatic Expenditures</i>	<i>(2,045)</i>
TOTAL STRUCTURAL DEFICIT REDUCTION	\$ (6,056)

Table 15, producing net deficit reduction of about \$7 billion, uses a mix of progressive and regressive tax policies and less reliance on business taxes, but again within the broad framework of tax policy changes made during the past five years. While using the same tax expenditure reductions as Table 14, it increases the rate of reductions in programmatic expenditures (20 percent instead of 15 percent, plus greater savings in Medicaid and a makeover of the LGF), and excludes the impact of means testing property tax relief (variations from Table 14 are in italics.)

Table 15. Balanced Approach B – Closing a \$7 Billion Structural Deficit – Mixed Tax Policies (in \$ millions)

New Revenue or Reduction in Expenditures	Estimated Effect on Structural Deficit - Biennium
Tax Revenue	
Restore top 7.5 percent income tax rate for households with income over \$200,000	\$ (896)
Raise CAT to 0.34 percent	(800)
<i>Raise Sales Tax by ½ of 1 percent</i>	<i>(1,350)</i>
<i>Increase Low-Income Credit for Income Tax from \$10,000 to \$15,000</i>	<i>76</i>
Create Refundable EITC at 5 percent of Federal Level	146
<i>Sub-total Revenue</i>	<i>\$ (2,824)</i>
Reductions in Tax Expenditures	
Reduce Sales Tax Exemptions from 100 percent (\$0.055) to 80 percent (\$0.45) across the board	(1,822)
Reduce Corporate Franchise Exemptions by 10 percent	(38)
Reduce CAT Tax Expenditures by 10 percent	(96)
<i>Sub-total Tax Expenditures</i>	<i>(1,956)</i>
Reductions in Programmatic Expenditures	
Reduce Projected Rate of Medicaid Growth from 7.6 percent to 3.8 percent; hold FFS utilization and rates constant @ SFY 2011	(400)

New Revenue or Reduction in Expenditures	Estimated Effect on Structural Deficit - Biennium
<i>Cap Medicaid HMO Payments to Hospitals @ Medicaid FFS Rates</i>	(80)
Reduce Medicaid HMO Administrative Allowance to mid-point between current 12.5 percent and ODJFS Medicaid Administrative cost Rate	(216)
Eliminate Hospital IME Payments – FFS and Managed Care	(84)
<i>Reduce State Fund Only, Non-Early Childhood Human Service Spending by 20 percent</i>	(224)
<i>Reduce Non-Formula, Non-Early Childhood Primary and Secondary Education Spending by 20 percent</i>	(125)
<i>Reduce Non-Instructional and Non-Student Aid Spending by Board of Regents by 20 percent</i>	(82)
<i>Reduce Other General Government Appropriations by 20 percent</i>	(359)
<i>Replace LGF with New Local Government Collaboration Grants</i>	(517)
Phase-in 10 percent Reduction in Prison Inmates over 18 Months	(75)
<i>Sub-total Programmatic Expenditures</i>	(2,162)
TOTAL STRUCTURAL DEFICIT REDUCTION	\$ (6,942)

Consideration of Critical Needs and Other Opportunities

As these two examples show, the sheer magnitude of changes necessary to get into balance is breathtaking. Adopting them, or some combination of equal magnitude, would amount to a pragmatic first step in the face of an unpredictable and evolving economy, laying the groundwork for more fundamental opportunities to strengthen public services and invest in future prosperity.

The urge to immediately initiate more fundamental and sweeping agendas is natural – people in all walks of life, in both parties, of conservative, liberal, libertarian, and statist predispositions, share a desire to put the worst days behind us and move on to a better future. Standing against this yearning is the hard reality that fundamental changes have occurred in our economy, the full implications of which we simply do not – and will not for some time – understand. The wiser course is one of patience and prudence, acting decisively for the here-and-now, but also systematically analyzing our situation and preparing for more basic realignment of state and local government in the years ahead.

This does not equate to inaction – quite the contrary. In another era, changes of the magnitude needed to get through the next two years would be in themselves extraordinary. While acting now to address the immediate crisis, other steps might be taken to set the stage for more comprehensive action down the road. The following discussion explores a few of those opportunities.

Mid-Range Opportunities

The following areas deserve attention during, or prior to, the 2012-2013 biennial budget cycle:

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- **Among the many ways that state government supplements federal health and social policy, behavioral health is perhaps the most critical.** A combination of historical factors, together with the impact of economic decline on demand for mental health and alcohol and drug addiction services, have brought this part of the system to the brink of failure and collapse. These include common restrictions on mental health benefits in private health insurance plans, the impact of major deinstitutionalization during the late 20th century, growth in alcohol- and drug-related crime, growth in incarceration and the high rates of mental illness and alcohol and drug abuse among former prisoners, federal policies that exclude adults below age 65 from coverage for services in state hospitals, and dependence on local tax levies that yield highly variable levels of financial support.

Currently, Ohio relies on local Mental Health and Alcohol and Drug Addiction Service Boards to provide Medicaid matching funds for most community-based behavioral health services. This approach has created perverse incentives, including institutionalization of non-elderly mentally ill clients in nursing homes at significantly higher cost to the public. Further, it has eviscerated the capacity of local boards to subsidize services for the uninsured – including many of the homeless and former prisoners. The community mental health system is at a breaking point.

Relieving local boards of this responsibility would help stabilize precarious, if not dangerous, situations in communities across Ohio, while helping county governments and local boards address the multifaceted impact of the recession. It would also help align Ohio's Medicaid program with the impact of federal health reform on mental health benefits and expanded eligibility for currently uninsured individuals. If the cost for state assumption of behavioral health Medicaid match were shared between new appropriations and current state subsidies to local Mental Health and Alcohol and Drug Addiction Services boards, then local boards would shed a major financial burden, while a significant step toward clarifying roles and stabilizing behavioral health finance is taken. The non-federal share of the behavioral health Medicaid benefit, estimated to be \$250 million per year in FY 2012-2013, will exceed SFY 2011 GRF appropriations used for community (non-institutional) behavioral health needs (for combined appropriations through the Ohio Department of Mental Health and Ohio Department of Alcohol and Drug Addiction Services). Additional funding would be needed to cover this, as well as provide some subsidy to local communities to support the behavioral health needs of the uninsured; impossible to accurately project at this time (CCS will be conducting further research on this topic later in 2010), it would require new spending in the range of \$150 million to \$200 million over the biennium.

This immediate action to stabilize public behavioral health services could be complemented by a thorough assessment of the system's future role in light of federal health reforms scheduled to take effect in 2014. Toward this end, empanelling and staffing a bipartisan Commission to Reform Alcohol, Drug and Mental Health Services, along the lines of the effective Ohio Commission to Reform Medicaid of 2004-2005, would begin a careful evaluation of future needs and alternatives.

- **As of May 14, 2010, loans from the Federal Unemployment Account of the Unemployment Trust Fund (UTF) to Ohio's Unemployment Insurance (UI) program totaled \$2.31 billion; accrued interest on this debt since October, 2009, is \$54 million, and growing monthly.**⁴⁰ While the amount of Ohio's debt has exploded during the two years of the Great Recession, Ohio's UI program already had been losing money steadily from 2000 to 2008. As described by the Urban Institute's Wayne Vroman in a report to ODJFS in mid-2008, the decline in Ohio's Unemployment Trust Fund balance from 2000 to 2008 was gradual and persistent, with losses of reserves exceeding \$100 million in five separate years.⁴¹ Two governors and the General Assembly have done little to address what now amounts to a crisis within a crisis. Having experienced over one year of steadily declining new weekly claims *and* continuation claims, Ohio's UI caseload is

approaching levels consistent with most of the past decade. This hopeful sign provides an opportunity to update Dr. Vroman's analysis, and determine a course of action that retires the federal debt and brings solvency to the state's long-underfunded UI program. Against the predictable claims that such action would impede economic recovery, and leave Ohio at a competitive disadvantage with other states, it should be noted that 33 other states that have borrowed from the federal government to sustain their UI trust funds through the recession face the same prospect, and most have been far more active in addressing the status of their UI programs through the recession.⁴² While patience and time are needed to restore Ohio's UI program to financial health, there is also an urgent need to act soon: we are likely to experience another recession within the coming decade. The sooner UI tax rates and covered wages are reassessed, the sooner we will be prepared for this inevitability.

- **Medicaid, SCHIP, and the State Health Insurance Exchange required by the Patient Protection and Affordable Care Act of 2010, should be reorganized under a new cabinet agency during the first year of the biennium.** Detailed work has already been done on creating such an agency by the bipartisan Ohio Commission to Reform Medicaid (2004-2005) and the Ohio Medicaid Administrative Study Council (2006). The latter detailed a "business case for the new department," focusing on the unsustainable rate of growth in program costs, diffuse executive responsibilities that are out of balance with Medicaid's largest-program-in-state-government status, and the need for stronger operational, human resource, information technology, and policy capabilities. Since those reports, state staffing has been further reduced by 25 percent, or over 100 full-time employees, many of whom were seasoned and capable experts. Attempts to better coordinate Medicaid policy and administration, providing for a member of the governor's staff to serve as a liaison among the "sister agencies" sharing administrative responsibility for Medicaid, has fallen far short of the carefully defined objectives of the two reform commissions. Federal health reform will significantly expand Medicaid to more working families, while requiring the state to manage a coordinated set of private insurance options for hundreds of thousands of workers and their families. At an annual cost of \$20 million to \$30 million additional state dollars, for which an equal amount of federal matching dollars would be available, the state could establish the cabinet agency envisioned by two bipartisan panels, and reinforce professional staffing to effectively manage what is by far state government's largest program, and Ohio's largest health insurer.
- **While reducing tax expenditures – and bringing them under routine scrutiny – represent essential strategies for balancing the budget, new tax expenditures that encourage private purchases of long-term care insurance would contribute to long-term containment of state and federal costs for the most expensive set of services in the Medicaid program.** As the post World War II baby boom generation reaches and lives through old age, public programs will be unable to bear the costs of treating and coping with chronic health problems. As Congress did in recently enacted federal health initiatives, the Ohio General Assembly should enact meaningful incentives for the purchase of private long-term care insurance should be included in the biennial budget. Preparatory analysis of options and costs could and should be initiated by the governor and General Assembly during SFY 2011.
- **Expanding Medicaid coverage of family planning services to currently uninsured adults, which are reimbursable at a 90 percent federal rate, would yield savings in averted services (and prevent the social costs of thousands of unintended pregnancies).** Federal health reform legislation allows states to cover family planning services through Medicaid plan amendments rather than waivers. The Guttmacher Institute projected in 2006 that such coverage would yield *state* savings of \$1.4 million during the first year of implementation, \$29.7 million during the second year, and \$41.1 million during the third year.⁴³ Initiation

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of this amendment does not require authorization by the General Assembly, and savings could begin accruing well in advance of FY 2012 if a plan amendment were initiated during 2010.

- **Maintaining current levels of instructional subsidies and student aid for Ohio’s colleges and universities, as suggested above, is an affirmation of the importance of education to Ohio’s future. However, it does not suggest an absence of opportunity for efficiencies and savings in higher education.** A two-year freeze on tuition at state colleges and universities, combined with a constant level of state instructional subsidies, would strongly encourage the sort of creative thinking and economizing occurring in every other part of state government, not to mention nearly all Ohio households, businesses, and nonprofit organizations. If developed in tandem with comprehensive reform of the system as a whole – i.e., adding an aggressive strategy on costs to the generally solid Board of Regents *Strategic Plan for Higher Education 2008 – 2017* – the fiscal crisis might serve as a catalyst for transforming a system that is comparatively expensive to students and families, and often mediocre in performance.
- **If there is a single area where “running government like a business” has the greatest potential, it is in the arena of purchasing health care.** Health care costs are approaching 20 percent of GDP, roughly double that of other developed countries, representing one of the most significant hindrances to American global competitiveness, and imposing costs on employers and employees that far and away exceed the costs of state taxes.

As the largest purchaser of health care in Ohio – by far – state government is in a position to do something significant about this. Between Medicaid’s two million enrollees, insuring over 50,000 state employees, Workers Compensation health benefits, and the five state retirement programs, the State of Ohio’s purchasing power has the capacity to force competition among health providers and insurers for not just a reduction in the *rate of growth* in health costs, but actual reductions in costs.

If state government were to do what several counties have already begun doing – adding to its health benefit purchasing power benefits for its 61 state universities, colleges and branch campuses, 88 counties, 613 school districts, over 900 cities, 1,300 townships, and hundreds of special purpose political subdivisions – then the state would be in a position to leverage better costs and improved quality for hundreds of thousands of public employees and retirees – and the state’s taxpayers. One interesting and promising result in counties that have already initiated this on a voluntary basis has been that insurers have responded to their existing governmental clients with lower prices. Initiating action prior to or during the next budget cycle would allow savings to begin materializing by the end of the biennium.

- While focusing on aggressive management of health care costs we already incur, taking an equally affirmative approach to preventing health problems will in the long run yield improved quality of life and reduced costs. In this regard, place matters. People living in many neighborhoods of Ohio’s older industrial cities experience lower life expectancies and higher rates of disease and disability than their suburban counterparts, an extreme example of which is the 22 year gap in life expectancy between Cleveland’s Hough neighborhood and the suburb of Lyndhurst.⁴⁴ Measure after measure of health status has for decades confirmed similar patterns of disparity.

Comprising less than 5 percent of total American health expenditures, public health programs have contributed to life expectancies and improved health through vaccination programs, motor vehicle safety, control of infectious disease, assuring safer and healthier foods, family planning, fluoridation of drinking water, and reduced tobacco use – to name just a few of its accomplishments over the past century.⁴⁵ Yet,

public health has become a virtual backwater of state government, which provides less than 10 percent of the financial resources of Ohio's local health departments. Even the state's most successful public health initiative in decades – public information on the hazards of smoking and a ban on smoking in public places – has been compromised by the diversion of tobacco settlement dollars to other purposes. CCS, with support of the Mt. Sinai Health Care Foundation, is conducting a comparative analysis of the organization and finance of public health in Ohio. Its release later this year will provide an opportunity to begin a fundamental reassessment of a system that has more capacity to contain long-range health costs than any other part of the health and social service system.

Long-range Tax and Finance Reforms

At regular intervals of about 10 years since the late 1960s, Ohio leaders have created bipartisan blue ribbon commissions to advise them on state and local tax policy, from the Ohio Tax Study Commission of 1967 to the Committee to Study State and Local Taxes in 2003. Each occasioned problems in state finance – none as challenging as the aftermath of the recent recession. While making tactical decisions to bring the next biennial budget into balance, setting the stage for long-range changes in state and local taxation could be initiated with a new **Commission on State and Local Finance**. In addition to revisiting topics addressed in the 2003 study, specific attention should be given to:

- **Tax policy changes** made in H.B. 66, H.B. 318, and subsequent changes during the coming biennial budget, in light of the recession.
- **Opportunities for enabling tax revenue gain sharing between local governments**, allowing them to share a portion of the benefits of economic development, and encouraging greater collaboration, and less competition, in attracting new and expanding investment.
- **The efficacy, fairness, and impact of health care provider and HMO taxes used specifically to raise match for federal Medicaid funding.** While 44 states and the District of Columbia use similar taxes, they are dubious public policy, in effect allowing states to earn federal dollars by taxing federal dollars (since Medicare and Medicaid revenue are included in the base against which the taxes are levied), and, in effect, guaranteeing a greater financial return to most of the organizations being taxed through increased Medicaid payment rates. With Medicaid already contributing to a ballooning federal deficit, these taxes further run-up the federal share of Medicaid for expenses the state is unwilling to raise via general taxation, in effect escaping the constitutional prohibition on borrowing for operating purposes by using the debt capacity of the federal government to finance runaway health care costs.
- **Considering taxation of the net revenue, or “profits,” of nonprofit organizations.** Long considered taboo, the large and growing role of nonprofits in the Ohio (and national) economy is sufficient on its face to raise a question of fairness: nonprofit and public hospitals have evolved to fill the role once played by steel mills and refineries. Smaller nonprofits, like those clustered in Cleveland's Playhouse Square and surrounding areas, are at the heart of urban revitalization. There are good reasons for providing favorable tax treatment to nonprofit organizations, such as the tax deductibility of contributions by individuals. Burdening them with taxes on real property, sales or commercial activity, could depress revenue needed to sustain their missions. On the other hand, taxes levied on their net revenues might avoid many or all of these detrimental effects, while providing revenue for public financial support of programs and services so many of them provide.

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Preparation for such consideration might be considered during the current General Assembly. Consistently reported data on the sector is not available from state or national sources, notwithstanding considerable literature of a general nature on the growth of the nonprofit sector over the past two decades, including the large and growing presence of nonprofit hospital systems in the Northeast and Midwest.²⁶ The General Assembly could provide for systematic collection of such information by either the Attorney General or Secretary of State, using the expanded IRS Form 990 and recent IRS initiatives to step-up enforcement of nonprofit tax return filings, to build a data-base for use by the Commission.

- **Replenishing the state's Budget Stabilization Fund (BSF – or "Rainy day" Fund).** First established during the late 1970s, the BSF has been an important tool in managing state finances through recessions in the early 1980s, early 1990s, early 2000s, as well as during the current crisis. Prescribed by law at the level of 5 percent of state spending, or \$1 billion to \$1.5 billion, the BSF has had virtually no balance since the end of SFY 2009. Barring substantial and unforeseen economic growth, there is no possibility of there being sufficient revenue to replenish it during the next biennium. Restoring the BSF to a level of at least 5 percent of annual GRF spending, or perhaps as much as 10 percent, should be planned during the next biennial budget, and monitored by the proposed Commission on State and Local Finance.

Concluding Comments

The mind-boggling scope of the crisis in state finance, and the mind-numbing details that are inescapable in addressing it, suggest the utility of a brief summary of major themes that can keep the endless variations in some order. Reflecting on Georges Clemenceau's comment on Woodrow Wilson's *Fourteen Points*, "Even the good Lord contented himself with only ten..." here are nine:

- The likely range of the structural deficit for the biennium is \$6 billion to \$7 billion. A variety of strategies, aimed principally at stabilizing state finances in the short-term, will be required to address it.
- A balanced approach to addressing the deficit – approximately equal shares of one-third in new tax revenue, reduced tax expenditures, and reduced programmatic expenditures – represents a viable and fair way of sharing the sacrifices required to stabilize state finances.
- The balance of the additional tax burden between individuals and businesses deserves careful attention.
- Initiating regular oversight of tax expenditures – as is done for programmatic expenditures during each biennial budget cycle – can better assure the efficacy and fairness of this spending over the long term, and provide greater transparency to the budget process.
- The importance of investing in Ohio's youth can be addressed by sustaining SFY 2011 spending levels for early childhood development, libraries, and instructional, transportation, and student aid subsidies for primary and secondary, and higher education. Ohio's school districts, colleges, and universities should contribute their fair share to deficit reduction through other GRF subsidies.
- Cost cutting in human service programs, especially Medicaid, will be necessary to balance the budget.

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- Reframing the Local Government Fund offers a way to both cut costs and assist local governments in achieving economies through collaboration and consolidation of services.
- Investing new resources to stabilize Ohio's behavioral health programs (mental health, alcohol, and drug addiction services), and commissioning work on the future of that system in light of national health reform, should be a top priority.
- Taking a pragmatic approach to balancing the 2012-2013 budget, albeit through actions that would be considered "sweeping change" in earlier eras, buys time to fully understand fundamental shifts in the economy. However, initiating consideration of long-range adjustments to state and local finance should not wait.

As with the nation, the challenge of effectively governing Ohio through the next several years will be met, or not, through the willful acts, or failures to act, of individuals – especially the governor, members of the General Assembly, and those engaged in influencing public policy for private or public purposes. The uncertainty of macroeconomic trends in the global economy is in itself reason for all parties to approach the task with moderation and tolerance. Ideological approaches to analyzing our situation, anchored as they are in past eras and circumstances, are likely to be askew or simply wrong. Pursuit of private advantage at the public trough in such a time is egregiously inappropriate. In combination, these all-too common tendencies could be downright dangerous.

In past crises, ingenuity and pragmatism in the public interest have relegated ideological strife and narrow self-interest to the background. As a nation, we are only in the early stages of an uncertain recovery. Ohio's elected leaders, like their peers around the country, have major roles to play, none more important than stabilizing the operation and finance of a state government that is in serious trouble – and in so doing, laying the groundwork for strategic initiatives that can carry the Buckeye State into a new era of rising hopes and prosperity.

Endnotes

1. Posner, Paul L. *The Deficit Inferno*, Governing Magazine, June 9, 2010. <http://www.governing.com/columns/mgmt-insights/deficit-inferno.html>.
2. Updated from The Center for Community Solutions, *Financing Ohio's Future: Human Services in Tough Times: Primer, 2010*.
3. **Assumptions**
Revenue Scenario A:
2012: 2.5% increase in Personal Income Tax, Corporate Franchise Tax, Sales Tax
2013: 3.5% increase in Personal Income Tax, Corporate Franchise Tax, Sales Tax
One time non-GRF sources removed
Revenue Scenario B:
2012: 4% increase in Personal Income Tax, Corporate Franchise Tax, Sales Tax
2013: 6% increase in Personal Income Tax, Corporate Franchise Tax, Sales Tax
One time non-GRF sources removed
Baseline spending:
**All amounts are state share only
**Uses SFY 2011 appropriations from HB 1 as adjusted by HB 318 with the following exceptions:
 - ODJFS Medicaid Spending: Assumed federal matching rate of 63.81%. Non-GRF, non-Federal revenues are held flat. FY 2011 GRF appropriations are increased to account for the impact of enhanced federal match for GRF and non-GRF spending.
 - ODA/ODDD/ODMH/ODADAS Medicaid spending: FY 2011 levels are increased to account for the loss of enhanced federal match.
 - ODJFS Early Care and Education: maintained \$34.1 million previously funded with stimulus dollars added to the federal Child Care Development Block Grant
 - ODE/BOR/DRC: Foundation Funding (200-550); State Share of Instruction (235-501); and Institutional Operations (501-321) have been increased to account for loss of one time federal State Stabilization Funds.
 - Debt Service estimates are based on the state's latest Determination and Certification of the state's debt. OBM dated 4/1/2010, online at www.obm.ohio.gov/sectionpages/bondsdebt/default.aspx.
 - Removed one time funding for Controlling Board line item Unemployment Compensation/Early Retirement (911-418) and OBM line item Gubernatorial Transition (042-435)
4. Ohio Department of Taxation, *Tangible Property Tax Phase Out: Background Material*. Powerpoint presentation to Local Government Officials, January 25, 2010. Slide 21, "CAT Shortfalls and GRF Subsidies."
5. Ohio Department of Job and Family Services, Projected Medicaid Expenditures, SFY2010-2011, Budget as Passed, August 2009; Ohio Legislative Service Commission Budget in Detail as Enacted for HB 1 of the 128th General Assembly and HB 119 of the 127th General Assembly; "Community Mental Health Medicaid and the State/Local Share" by Helen Anne Sweeney, Lynne Lyon, and Holly Jones, Ohio Department of Mental Health, March 23, 2010; and analysis by The Center for Community Solutions.
6. Centers for Medicare and Medicaid Services, Office of the Actuary, National Health Expenditures Data, NHE Projections 2009-2019, Table 3, released January 2010. (<http://www.cms.gov/NationalHealthExpendData/downloads/proj2009.pdf>)
7. Annual Ohio Medicaid expenditures compiled by The Center for Community Solutions from various reports of the Ohio Office of Budget and Management, Ohio Department of Job and Family Services, the 2010-2011 Executive Budget, and appropriations included in Am. Sub. H.B. 1, 128th General Assembly.
8. Federal Funds Information Service, *Issue Brief 10-13: FY 2012 FMAP Projections*. April 6, 2010.
9. Loan balance information is from the U.S. Department of Labor, Employment & Training Administration, "Unemployment Insurance Data Summary" for the 4th Quarter, 2009. Available at www.ows.doleta.gov/unemploy/content/data.asp. Interest payment estimate from presentation by Dr. Wayne Vroman of the Urban Institute to the Ohio Unemployment Compensation Advisory Council, May 18, 2010. See also testimony of Bruce Madson, ODJFS Deputy Chief of Staff, reported in Gongwer News Service, *Ohio Report*, "Lack of guidance on unemployment debt at issue during Senate hearing; \$120 million annual payments possibly due," Feb. 23, 2010.

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10. Summarized from: The Center for Community Solutions, *Taxing Issues Redux: Paying for Essential State Health and Human Services Fiscal Year 2010 and Beyond*, 2009, pp. 35 – 38, which in turn drew upon Richard A. Musgrave and Peggy B. Musgrave, *Public Finance in Theory and Practice*, 1976, p. 212 and John L. Mikesell, *Fiscal Administration: Analysis and Applications for the Public Sector*; Fort Worth, TX: Harcourt Brace College Publishers, 1999.
11. Using post tax-post transfer incomes, the data used in this figure are averages within each income group. Source: Lane Kenworthy, University of Arizona, using data from the Congressional Budget Office, *Historical Effective Federal Tax Rates: 1979 to 2005*, available at www.cbo.gov/ftpdoc.cfm?index=8885&type=2.
12. Congressional Budget Office. Data on the Distribution of Federal Taxes and Household Income April 2009. <http://www.cbo.gov/publications/collections/taxdistribution.cfm>
13. *Ibid.*
14. Jared Bernstein, Elizabeth McNichol, Andrew Nicholas. "Pulling Apart: A State-by-State Analysis of Income Trends," Center on Budget and Policy Priorities and the Economic Policy Institute. April 2008. www.cbpp.org/files/4-9-08sfp.pdf
15. Institute on Taxation and Economic Policy. "Who Pays: A distributive analysis of the Tax Systems in All 50 States." Third Edition. <http://www.itepnet.org/whopays3.pdf>
16. Federation of Tax Administrators using U.S. Department of Commerce, Bureau of the Census data from *State and Local Government Finances* and U.S. Department of Commerce, Bureau of Economic Analysis, Regional Economic Accounts, *Annual State Personal Income*. <http://www.taxadmin.org/fta/rate/burden/html>. For alternative rankings of Ohio's combined state and local tax burden, see The Tax Foundation, *Ohio's State/Local Tax Burden, 1977-Present*, <http://www.taxfoundation.org/research/topic/50.html>.
17. Source: *2008 Business Tax Guide*, Ohio Department of Taxation
18. Konvitz, Milton R. and Kennedy, Gail, eds. *The American Pragmatists*. New York: Meridian Book World Publishing, 1971, p. 36.
19. Lav, Iris J. *A Balanced Approach to Closing State Deficits*. Washington, D.C.: The Center on Budget and Policy Priorities, February 16, 2010. <http://www.cbpp.org/cms/index.cfm?fa=view&id=3084>. The Center for Community Solutions participates in CBPP's State Fiscal Analysis Initiative (SFAI), and receives financial support from several national foundations that support SFAI in more than 40 states.
20. For an excellent overview of tax expenditures in Ohio, see Schiller, Zach, *Exempt from Scrutiny: Tax Breaks in Ohio*. Policy Matters Ohio, 2007. <http://policymattersohio.org/pdf/ExemptFromScrutiny2007.pdf>.
21. David Rothstein, *Dollars that Make Sense 2009*. Policy Matters Ohio, April 2009. <http://www.policymattersohio.org/DollarsThatMakeSense2009.htm>
22. Note that this estimate overstates the combined impact of the low-income credit plus refundable EITC, as those qualifying for both would experience less than their combined values.
23. Ohio Society of CPAs, Ohio Budget Advisory Task Force. *Report to the Honorable Ted Strickland*. November 6, 2009, p. 6.
24. Source: Ohio Department of Taxation. Executive Budget for FYs 2010-2011, Book 2.
25. Illinois Department of Revenue, *Sales and Use Tax*. <http://www.revenue.state.il.us/businesses/taxinformation/sales/rot.htm>
26. This estimate is based on the Tax Department's previous estimate of \$696.9 million foregone in FY 2011 from the prescription drug exemption.
27. Schiller, Zach, *op cit.*, p. 8.
28. *Ibid.*
29. State of Ohio, Office of Budget and Management. <http://obm.ohio.gov/sectionpages/Budget/FY1011/Default.aspx>.
30. Number of Medicaid, TANF Cash Assistance, and Food Stamp recipients from February 2010 Ohio Department of Job and Family Services Public Assistance Monthly Statistics online at <http://www.jfs.ohio.gov/pams/>; WIC recipients from Ohio Department of Health, Ohio WIC Program Facts for SFY 2009 online at <http://www.odh.ohio.gov/ASSETS/35FD395217DD4938A87ABAC2F9238765/wicfacts.PDF>; OASDI recipients from OASDI Recipients by State and County 2008, online at http://www.ssa.gov/policy/docs/statcomps/oasdi_sc/2008/oh.html; Medicare recipients from Number of Medicare Recipients by State 2008, Kaiser State Health Facts online at <http://www.statehealthfacts.org/comparable.jsp?ind=290&cat=6>.
31. State of Ohio, Office of Budget and Management. <http://obm.ohio.gov/sectionpages/Budget/FY1011/Default.aspx>
32. Ohio Society of CPAs, Ohio Budget Advisory Task Force, *op. cit.*, pp. 5-6.

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33. For an introduction to quantifiable costs and benefits of public spending for early childhood development, see Heckman, James J., *Return on Investment: Cost vs. Benefits*. University of Chicago, 2008. http://www.childandfamilypolicy.duke.edu/pdfs/10yranniversary_Heckmanhandout.pdf.
34. In addition to exempting ODMH and ODADAS, the following Medicaid line items are exempted: Aging, Long Term Care (490-423); ODJFS, Healthcare/Medicaid (600-525), Medicare Part D (600-526); Developmental Disabilities, Waiver State Match (322-416), Martin Settlement Agreement (322-504), and Residential Facility Operations (323-321); as are the following federal match/maintenance of effort line items: ODJFS TANF State (600-410), Child Care Match/Maintenance Of Effort (600-413), Early Care and Education (600-535); Health AIDS Prevention & Treatment (440-444), Child and Family Health Services Match (440-452), and Quality Assurance (440-453), ; and Aging Senior Community Services (490-411)
35. Includes Ohio Department of Education expenses only – tax relief has been removed. Exempted lines include: School Lunch Match (200-505), Public Preschool (200-408) Foundation Funding (200-550), which has been adjusted for federal stimulus, Pupil Transportation (200-502, Special Education Enhancements (200-540), and Career-Technical Enhancements (200-545).
36. Includes Board of Regents expenses only – debt service has been removed. Exempted lines include: Federal Match line items – ABLE-State (235-443) and AWE-GRF Match (235-575) and State Share of Instruction (235-501); Ohio College Opportunity Grant (235-563), War Orphans Scholarship (235-504), and National Guard Tuition Grant Program (235-599).
37. Ohio Society of CPAs, Ohio Budget Advisory Task Force, *op. cit.*, p. 12.
38. Center for Community Solutions estimates, based on: Ohio Department of Taxation, *Updated Information on CY 2010 Local Fund Distributions*, January 4, 2010. <http://www.tax.ohio.gov>
39. Data on number of prisoners, admissions, discharges, security level, and annual cost from Department of Rehabilitation and Correction, Monthly Fact Sheet May 2010 online at <http://www.drc.ohio.gov/web/Reports/FactSheet/May%202010.pdf>.
40. Treasury Direct, *Title XII Advance Activities Schedule*, May 13, 2010.
41. Wayne Vroman, *Solvency Recommendations for Ohio Report—Executive Summary*, Ohio Department of Job and Family Services, July 10, 2008.
42. For example, UWC-Strategic Services on Unemployment & Workers Compensation, *State Unemployment Compensation Advisory Program: Legislative Advisory*, Washington, D.C., April, 2010.
43. Guttmacher Institute, *What Expanding Medicaid Eligibility for Family Planning Would Mean in OHIO*, based on Frostt, J.J., Sonfield, A. and Gold R.B., *Estimating the Impact of Expanding Medicaid Eligibility for Family Planning Services*, Occasional Report, New York, Guttmacher Institute, 2006, No. 28.
44. Based on U.S. Census data from 2000 by Itan, Anthony, M.D., J.D., MPH. *Beyond Health Care Coverage*. Presentation for Cuyahoga County Board of Health, September 16, 2009. <http://www.ccbh.net/ccbh/opencms/CCBH/pdf/landuse/iton02.pdf>.
45. Allan, Terry. *Our Public Health Role in the Community*. Cuyahoga County Board of Health, April 6, 2010.
46. A good brief introduction to the challenges and complexities of data on the nonprofit economy was written by Ronald A. Wirtz, Editor of *fedgazette*, the online publication of the Federal Reserve Bank of Minneapolis.: http://www.minneapolisfed.org/publications_papers/pub_display.cfm?id=1325

Appendix: Ohio Budget Line Items Included in Targets for Funding Reductions — Human Services, Primary and Secondary Education, Higher Education, and General Government

The following tables include the line items and estimated dollar amounts that are embedded within spending reduction estimates in Tables 9, 10, 11, 12, 14 and 15. Programs and line items that are addressed elsewhere in the paper, such as Medicaid, property tax relief, and adult prisons, were excluded from these estimates, as were line items used primarily as maintenance of effort for federal programs and all debt service payments.

Health and Human Services

Agy	Line Item	Appropriation Line Item Description	FY 2011 Budget Final Approp	Biennial Total 10% Cut	Biennial Total 15% Cut	Biennial Total 20% Cut
AGE	490-321	Operating Expenses	\$1,709,817	\$341,963	\$512,945	\$683,927
AGE	490-409	AmeriCorps Operations	\$147,034	\$29,407	\$44,110	\$58,814
AGE	490-410	Long-Term Care Ombudsman	\$535,857	\$107,171	\$160,757	\$214,343
AGE	490-412	Residential State Supplement	\$5,225,417	\$1,045,083	\$1,567,625	\$2,090,167
AGE	490-414	Alzheimer's Respite	\$4,131,595	\$826,319	\$1,239,479	\$1,652,638
AGE	490-506	National Senior Services Corps	\$268,237	\$53,647	\$80,471	\$107,295
DDD	320-321	Central Administration	\$4,662,675	\$932,535	\$1,398,803	\$1,865,070
DDD	320-412	Protective Services	\$2,174,826	\$434,965	\$652,448	\$869,930
DDD	322-413	Residential and Support Services	\$4,854,555	\$970,911	\$1,456,367	\$1,941,822
DDD	322-451	Family Support Services	\$6,591,953	\$1,318,391	\$1,977,586	\$2,636,781
DDD	322-501	County Board Subsidies	\$62,259,252	\$12,451,850	\$18,677,776	\$24,903,701
DDD	322-503	Tax Equity	\$14,000,000	\$2,800,000	\$4,200,000	\$5,600,000
DDD	322-647	ICF/MR Franchise Fee-Developmental Centers	\$7,146,609	\$1,429,322	\$2,143,983	\$2,858,644
DOH	440-407	Animal Borne Disease & Prevention	\$642,291	\$128,458	\$192,687	\$256,916
DOH	440-412	Cancer Incidence Surveillance System	\$774,234	\$154,847	\$232,270	\$309,694
DOH	440-413	Local Health Department Support	\$2,311,345	\$462,269	\$693,404	\$924,538
DOH	440-416	Mothers and Children Safety Net Services	\$4,338,449	\$867,690	\$1,301,535	\$1,735,380
DOH	440-418	Immunizations	\$7,239,432	\$1,447,886	\$2,171,830	\$2,895,773
DOH	440-431	Free Clinic Safety Net Services	\$437,326	\$87,465	\$131,198	\$174,930
DOH	440-437	Healthy Ohio	\$2,169,998	\$434,000	\$650,999	\$867,999
DOH	440-438	Breast & Cervical Cancer Screenings	\$739,171	\$147,834	\$221,751	\$295,668

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Agy	Line Item	Appropriation Line Item Description	FY 2011 Budget Final Approp	Biennial Total 10% Cut	Biennial Total 15% Cut	Biennial Total 20% Cut
DOH	440-446	Infectious Disease Protection and Surveillance	\$915,883	\$183,177	\$274,765	\$366,353
DOH	440-451	Public Health Laboratory	\$2,899,138	\$579,828	\$869,741	\$1,159,655
DOH	440-454	Local Environmental Health	\$1,155,219	\$231,044	\$346,566	\$462,088
DOH	440-459	Help Me Grow	\$36,500,000	\$7,300,000	\$10,950,000	\$14,600,000
DOH	440-465	Federally Qualified Health Centers	\$2,686,688	\$537,338	\$806,006	\$1,074,675
DOH	440-467	Access to Dental Care	\$540,484	\$108,097	\$162,145	\$216,194
DOH	440-468	Chronic Disease and Injury Prevention	\$792,363	\$158,473	\$237,709	\$316,945
DOH	440-505	Medically Handicapped Children	\$8,762,451	\$1,752,490	\$2,628,735	\$3,504,980
DOH	440-507	Targeted Health Services for Adults over 21	\$1,045,414	\$209,083	\$313,624	\$418,166
JFS	600-321	Support Services (state share)	\$39,559,293	\$7,911,859	\$11,867,788	\$15,823,717
JFS	600-416	Computer Projects (state share)	\$73,337,904	\$14,667,581	\$22,001,371	\$29,335,162
JFS	600-417	Medicaid Provider Audits	\$1,191,010	\$238,202	\$357,303	\$476,404
JFS	600-421	Office of Family Stability	\$3,753,002	\$750,600	\$1,125,901	\$1,501,201
JFS	600-423	Office of Children and Families	\$5,232,561	\$1,046,512	\$1,569,768	\$2,093,024
JFS	600-502	Child Support Match	\$19,838,659	\$3,967,732	\$5,951,598	\$7,935,464
JFS	600-511	Disability/Other Cash Assistance	\$30,759,074	\$6,151,815	\$9,227,722	\$12,303,630
JFS	600-521	Entitlement Administration - Local	\$80,223,023	\$16,044,605	\$24,066,907	\$32,089,209
JFS	600-528	Adoption Services (state share)	\$24,126,683	\$4,825,337	\$7,238,005	\$9,650,673
JFS	600-533	Child, Family & Adult Protective Services	\$15,000,000	\$3,000,000	\$4,500,000	\$6,000,000
JFS	600-534	Adult Protective Services	\$406,670	\$81,334	\$122,001	\$162,668
JFS	600-537	Children's Hospital	\$6,000,000	\$1,200,000	\$1,800,000	\$2,400,000
JFS	600-540	Second Harvest Foodbank	\$3,500,000	\$700,000	\$1,050,000	\$1,400,000
JFS	600-541	Kinship Care	\$5,000,000	\$1,000,000	\$1,500,000	\$2,000,000
HHS Total				\$112,100,069	\$168,150,104	\$224,200,138

Spending in the Departments of Alcohol and Drug Addiction Services and the Department of Mental Health were excluded due to critical condition of Ohio's behavioral health system. Within the Department of Aging specific line items excluded from this scenario include Senior Community Services (490-411), which is used to meet the maintenance of effort for the Older Americans Act, and Long Term Care Budget-State (490-423), used for the non-federal share of the Medicaid waiver programs administered by the Department. Within the Department of Developmental Disabilities the three line items that support Medicaid spending were exempted from cuts. They include Waiver State Match (320-416), Martin Settlement Agreement (322-504), and Residential Facility Operations (323-321). Fed-

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eral match line items including AIDS Prevention and Treatment (440-441), Child and Family Health Services Match (440-452), and Quality Assurance (440-453) within the Department of Health were excluded. In the Department of Job and Family Services the line items used to meet maintenance of effort requirements for the TANF and Child Care Development Block grants (TANF State: 600-410, Child Care Match/Maintenance of Effort: 600-413, and Early Care and Education: 600-535). In addition the state's premium payment for the Medicare Part D (600-526) prescription drug benefit, Medicaid (600-525), and the Office of Ohio Health Plans (600-425) line items were also excluded.

Primary and Secondary Education

Agy	Line Item	Appropriation Line Item Description	FY 2011 Budget Final Approp	Biennial Total 10% Cut	Biennial Total 15% Cut	Biennial Total 20% Cut
EDU	200-100	Personal Services	\$10,723,972	\$2,144,794	\$3,217,192	\$4,289,589
EDU	200-320	Maintenance and Equipment	\$3,144,897	\$628,979	\$943,469	\$1,257,959
EDU	200-416	Vocational Education Match	\$2,233,195	\$446,639	\$669,959	\$893,278
EDU	200-420	Technical Systems Development	\$4,880,871	\$976,174	\$1,464,261	\$1,952,348
EDU	200-421	Alternative Education Programs	\$7,918,749	\$1,583,750	\$2,375,625	\$3,167,500
EDU	200-422	School Management Assistance	\$3,230,469	\$646,094	\$969,141	\$1,292,188
EDU	200-424	Policy Analysis	\$361,065	\$72,213	\$108,320	\$144,426
EDU	200-425	Tech Prep Consortia Support	\$1,260,542	\$252,108	\$378,163	\$504,217
EDU	200-426	Ohio Educational Computer Network	\$20,425,556	\$4,085,111	\$6,127,667	\$8,170,222
EDU	200-427	Academic Standards	\$5,300,074	\$1,060,015	\$1,590,022	\$2,120,030
EDU	200-431	School Improvement Initiatives	\$7,391,503	\$1,478,301	\$2,217,451	\$2,956,601
EDU	200-437	Student Assessment	\$56,703,265	\$11,340,653	\$17,010,980	\$22,681,306
EDU	200-439	Accountability/Report Cards	\$3,804,673	\$760,935	\$1,141,402	\$1,521,869
EDU	200-442	Child Care Licensing	\$877,140	\$175,428	\$263,142	\$350,856
EDU	200-446	Education Management Infosystem	\$11,934,284	\$2,386,857	\$3,580,285	\$4,773,714
EDU	200-447	GED Testing/Adult High School	\$988,553	\$197,711	\$296,566	\$395,421
EDU	200-448	Educator Preparation	\$1,328,240	\$265,648	\$398,472	\$531,296
EDU	200-455	Community Schools	\$1,000,000	\$200,000	\$300,000	\$400,000
EDU	200-457	STEM Initiatives	\$5,000,000	\$1,000,000	\$1,500,000	\$2,000,000
EDU	200-458	School Board Employee Health Care	\$800,000	\$160,000	\$240,000	\$320,000
EDU	200-511	Auxiliary Services	\$111,979,388	\$22,395,878	\$33,593,816	\$44,791,755
EDU	200-532	Nonpublic Admin Cost Reimbursement	\$50,838,939	\$10,167,788	\$15,251,682	\$20,335,576
EDU	200-578	Safe and Supportive Schools	\$200,000	\$40,000	\$60,000	\$80,000
<i>Primary/ Secondary Ed Total</i>				\$62,465,075	\$93,697,613	\$124,930,150

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Property tax relief (200-901) and foundation funding line items were excluded from the cut scenario. Foundation line items include: Foundation Funding (200-550), Pupil Transportation (200-502), Special Education Enhancements (200-540), and Career-Technical Enhancements (200-545). In addition, Public Preschool (200-408) and School Lunch Match (200-505) were also excluded.

Higher Education

Agy	Line Item	Appropriation Line Item Description	FY 2011 Budget Final Approp	Biennial Total 10% Cut	Biennial Total 15% Cut	Biennial Total 20% Cut
BOR	235-321	Operating Expenses	\$2,366,640	\$473,328	\$709,992	\$946,656
BOR	235-402	Sea Grants	\$300,000	\$60,000	\$90,000	\$120,000
BOR	235-406	Articulation and Transfer	\$2,531,700	\$506,340	\$759,510	\$1,012,680
BOR	235-408	Midwest Higher Education Compact	\$95,000	\$19,000	\$28,500	\$38,000
BOR	235-409	Information System	\$937,800	\$187,560	\$281,340	\$375,120
BOR	235-414	State Grants & Scholarship Administration	\$1,414,366	\$282,873	\$424,310	\$565,746
BOR	235-417	Technology	\$2,723,320	\$544,664	\$816,996	\$1,089,328
BOR	235-428	Appalachian New Economy Partnership	\$819,295	\$163,859	\$245,789	\$327,718
BOR	235-433	Economic Growth Challenge	\$511,715	\$102,343	\$153,515	\$204,686
BOR	235-438	Choose Ohio First Scholarship	\$15,845,591	\$3,169,118	\$4,753,677	\$6,338,236
BOR	235-442	Teacher Fellowship	\$2,500,000	\$500,000	\$750,000	\$1,000,000
BOR	235-444	Adult Career Tech Education	\$15,317,547	\$3,063,509	\$4,595,264	\$6,127,019
BOR	235-474	AHEC Program Support	\$1,059,078	\$211,816	\$317,723	\$423,631
BOR	235-502	Student Support Services	\$692,974	\$138,595	\$207,892	\$277,190
BOR	235-507	OHIOLINK	\$6,433,313	\$1,286,663	\$1,929,994	\$2,573,325
BOR	235-508	AFIT	\$1,785,439	\$357,088	\$535,632	\$714,176
BOR	235-510	Ohio Supercomputer Center	\$3,719,354	\$743,871	\$1,115,806	\$1,487,742
BOR	235-511	Cooperative Extension Service	\$22,467,678	\$4,493,536	\$6,740,303	\$8,987,071
BOR	235-513	OU Voinovich Center	\$326,000	\$65,200	\$97,800	\$130,400
BOR	235-514	Central State Supplement	\$12,109,106	\$2,421,821	\$3,632,732	\$4,843,642
BOR	235-515	CWRU School of Medicine	\$2,525,003	\$505,001	\$757,501	\$1,010,001
BOR	235-519	Family Practice	\$3,724,923	\$744,985	\$1,117,477	\$1,489,969
BOR	235-520	Shawnee State Supplement	\$2,577,393	\$515,479	\$773,218	\$1,030,957
BOR	235-521	OSU Glenn Institute	\$277,500	\$55,500	\$83,250	\$111,000
BOR	235-524	Police and Fire Protection	\$119,793	\$23,959	\$35,938	\$47,917
BOR	235-525	Geriatric Medicine	\$614,295	\$122,859	\$184,289	\$245,718
BOR	235-526	Primary Care Residencies	\$1,839,083	\$367,817	\$551,725	\$735,633
BOR	235-535	AGR Research and Development Center	\$34,000,000	\$6,800,000	\$10,200,000	\$13,600,000

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Agy	Line Item	Appropriation Line Item Description	FY 2011 Budget Final Approp	Biennial Total 10% Cut	Biennial Total 15% Cut	Biennial Total 20% Cut
BOR	235-536	OSU Clinical Teaching	\$11,375,225	\$2,275,045	\$3,412,568	\$4,550,090
BOR	235-537	UCN Clinic Teaching	\$9,355,968	\$1,871,194	\$2,806,790	\$3,742,387
BOR	235-538	MCO Clinical Teaching (UTO)	\$7,292,471	\$1,458,494	\$2,187,741	\$2,916,988
BOR	235-539	WSU Clinical Teaching	\$3,542,823	\$708,565	\$1,062,847	\$1,417,129
BOR	235-540	OHU Clinical Teaching	\$3,424,956	\$684,991	\$1,027,487	\$1,369,982
BOR	235-541	NEM Clinical Teaching	\$3,522,563	\$704,513	\$1,056,769	\$1,409,025
BOR	235-552	Capital Component	\$20,382,568	\$4,076,514	\$6,114,770	\$8,153,027
BOR	235-555	Library Depositories	\$1,477,274	\$295,455	\$443,182	\$590,910
BOR	235-556	OARNET	\$3,253,866	\$650,773	\$976,160	\$1,301,546
BOR	235-558	Long-Term Care Research	\$217,000	\$43,400	\$65,100	\$86,800
BOR	235-572	OSU Clinic Support	\$901,703	\$180,341	\$270,511	\$360,681
BOR	235-596	Hazardous Materials Program	\$373,858	\$74,772	\$112,157	\$149,543
<i>Higher Ed Total</i>				\$40,950,836	\$61,426,254	\$81,901,672

The State Share of Instruction line item (235-501) was excluded from this cut scenario as were the following student aid line items: Ohio College Opportunity Grant (235-563), War Orphans Scholarship (235-504), and the National Guard Scholarship (235-599). In addition federal match for the adult education and workforce programs (ABLE-State: 235-443 and AWE-GRF Match: 235-575) were also excluded.

General Government

Agy	Line Item	Appropriation Line Item Description	FY 2011 Budget Final Approp	Biennial Total 10% Cut	Biennial Total 15% Cut	Biennial Total 20% Cut
ADJ	745-401	Ohio Military Reserve	\$13,675	\$2,735	\$4,103	\$5,470
ADJ	745-407	National Guard Benefits	\$400,000	\$80,000	\$120,000	\$160,000
ADJ	745-409	Central Administration	\$2,849,096	\$569,819	\$854,729	\$1,139,638
AFC	371-321	Operating Expenses	\$98,636	\$19,727	\$29,591	\$39,454
AGO	055-321	Operating Expenses	\$45,469,699	\$9,093,940	\$13,640,910	\$18,187,880
AGO	055-405	Law Related Education	\$100,000	\$20,000	\$30,000	\$40,000
AGO	055-411	County Sheriffs Pay Supplement	\$757,921	\$151,584	\$227,376	\$303,168
AGO	055-415	County Prosecutors Pay Supplement	\$831,499	\$166,300	\$249,450	\$332,600
AGR	700-401	Animal Disease Control	\$3,713,876	\$742,775	\$1,114,163	\$1,485,550
AGR	700-403	Milk Lab Program	\$1,163,700	\$232,740	\$349,110	\$465,480
AGR	700-404	Ohio Proud	\$196,895	\$39,379	\$59,069	\$78,758

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Agy	Line Item	Appropriation Line Item Description	FY 2011 Budget Final Approp	Biennial Total 10% Cut	Biennial Total 15% Cut	Biennial Total 20% Cut
AGR	700-406	Consumer Analytical Lab	\$1,289,982	\$257,996	\$386,995	\$515,993
AGR	700-407	Food, Dairies & Drugs	\$875,043	\$175,009	\$262,513	\$350,017
AGR	700-409	Farmland Preservation	\$200,000	\$40,000	\$60,000	\$80,000
AGR	700-411	International Trade/Market Development	\$507,005	\$101,401	\$152,102	\$202,802
AGR	700-412	Weights and Measures	\$200,000	\$40,000	\$60,000	\$80,000
AGR	700-415	Poultry Inspection	\$400,401	\$80,080	\$120,120	\$160,160
AGR	700-418	Livestock Regulation Program	\$1,343,676	\$268,735	\$403,103	\$537,470
AGR	700-424	Livestock Testing & Inspections	\$120,906	\$24,181	\$36,272	\$48,362
AGR	700-501	County Agricultural Society	\$434,903	\$86,981	\$130,471	\$173,961
AIR	898-402	Coal Development Office	\$296,902	\$59,380	\$89,071	\$118,761
ART	370-321	Operating Expenses	\$1,450,782	\$290,156	\$435,235	\$580,313
ART	370-502	Program Subsidies	\$5,143,508	\$1,028,702	\$1,543,052	\$2,057,403
AUD	070-321	Operating Expenses	\$29,279,031	\$5,855,806	\$8,783,709	\$11,711,612
AUD	070-403	Fiscal Watch/Emergency Tech Assistance	\$700,000	\$140,000	\$210,000	\$280,000
BTA	116-321	Operating Expenses	\$1,149,715	\$229,943	\$344,915	\$459,886
CEB	911-401	Emergency Purposes/Contingency	\$2,800,000	\$560,000	\$840,000	\$1,120,000
CEB	911-404	Mandate Assistance	\$545,417	\$109,083	\$163,625	\$218,167
CEB	911-441	Ballot Advertising Costs	\$487,600	\$97,520	\$146,280	\$195,040
CIV	876-321	Operating Expenses	\$4,897,185	\$979,437	\$1,469,156	\$1,958,874
CLA	015-321	Operating Expenses	\$2,780,350	\$556,070	\$834,105	\$1,112,140
CSR	874-100	Personal Services	\$1,311,358	\$262,272	\$393,407	\$524,543
CSR	874-320	Maintenance & Equipment	\$526,813	\$105,363	\$158,044	\$210,725
DAS	100-417	EEO Project Tracking Software- Federal	\$100,000	\$20,000	\$30,000	\$40,000
DAS	100-418	E-Government Development	\$2,943,076	\$588,615	\$882,923	\$1,177,230
DAS	100-419	Ohio SONET/Website & Business Gateway	\$1,111,250	\$222,250	\$333,375	\$444,500
DAS	100-433	State of Ohio Computer Center	\$4,289,127	\$857,825	\$1,286,738	\$1,715,651
DAS	100-439	Equal Opportunity Certification Program	\$712,724	\$142,545	\$213,817	\$285,090
DAS	100-449	DAS-Building Operating Payments	\$3,271,384	\$654,277	\$981,415	\$1,308,554
DAS	100-451	Minority Affairs	\$50,016	\$10,003	\$15,005	\$20,006
DAS	102-321	Construction Compliance	\$1,108,744	\$221,749	\$332,623	\$443,498
DAS	130-321	State Agency Support Services	\$3,339,578	\$667,916	\$1,001,873	\$1,335,831
DEV	195-401	Thomas Edison Program	\$15,796,751	\$3,159,350	\$4,739,025	\$6,318,700

The Center for Community Solutions

Agy	Line Item	Appropriation Line Item Description	FY 2011 Budget Final Approp	Biennial Total 10% Cut	Biennial Total 15% Cut	Biennial Total 20% Cut
DEV	195-404	Small Business Development	\$1,565,770	\$313,154	\$469,731	\$626,308
DEV	195-405	Minority Business Development	\$1,238,528	\$247,706	\$371,558	\$495,411
DEV	195-412	Business Development Grants	\$5,000,000	\$1,000,000	\$1,500,000	\$2,000,000
DEV	195-415	Regional Offices/Economic Development	\$5,882,129	\$1,176,426	\$1,764,639	\$2,352,852
DEV	195-416	Governor's Office of Appalachia	\$4,508,741	\$901,748	\$1,352,622	\$1,803,496
DEV	195-422	Technology Action	\$3,500,000	\$700,000	\$1,050,000	\$1,400,000
DEV	195-426	Clean Ohio Implementation	\$168,365	\$33,673	\$50,510	\$67,346
DEV	195-432	International Trade	\$3,889,566	\$777,913	\$1,166,870	\$1,555,826
DEV	195-434	Industrial Training Grants	\$7,643,940	\$1,528,788	\$2,293,182	\$3,057,576
DEV	195-497	CDBG Operating Match	\$955,000	\$191,000	\$286,500	\$382,000
DEV	195-501	Appalachian Local Development District	\$391,482	\$78,296	\$117,445	\$156,593
DEV	195-502	Appalachian Regional Comm Dues	\$195,000	\$39,000	\$58,500	\$78,000
DNR	725-401	Wildlife-GRF Central Support	\$2,000,000	\$400,000	\$600,000	\$800,000
DNR	725-456	Canal Lands	\$150,000	\$30,000	\$45,000	\$60,000
DNR	725-502	Soil and Water Districts	\$2,900,000	\$580,000	\$870,000	\$1,160,000
DNR	727-321	Division of Forestry	\$5,420,376	\$1,084,075	\$1,626,113	\$2,168,150
DNR	730-321	Division of Parks and Recreation	\$32,693,791	\$6,538,758	\$9,808,137	\$13,077,516
DNR	733-321	Division of Water	\$2,546,000	\$509,200	\$763,800	\$1,018,400
DNR	736-321	Division of Chief Engineer	\$2,572,000	\$514,400	\$771,600	\$1,028,800
DNR	737-321	Division of Soil and Water	\$3,128,562	\$625,712	\$938,569	\$1,251,425
DNR	738-321	Real Estate/Land Management	\$1,546,090	\$309,218	\$463,827	\$618,436
DNR	744-321	Division of Mineral Resource Management	\$1,000,000	\$200,000	\$300,000	\$400,000
DOT	775-451	Public Transportation-State	\$10,870,642	\$2,174,128	\$3,261,193	\$4,348,257
DOT	776-465	Ohio Rail Development Commission	\$2,287,950	\$457,590	\$686,385	\$915,180
DOT	777-471	Airport Improvements-State	\$923,064	\$184,613	\$276,919	\$369,226
DVS	900-100	OVH - Personal Services	\$25,219,282	\$5,043,856	\$7,565,785	\$10,087,713
DVS	900-200	OVH - Maintenance	\$4,427,264	\$885,453	\$1,328,179	\$1,770,906
DVS	900-402	OVH - Hall of Fame	\$118,750	\$23,750	\$35,625	\$47,500
DVS	900-403	Veterans Records Conversion	\$40,631	\$8,126	\$12,189	\$16,252
DVS	900-408	Department of Veterans Services	\$2,054,790	\$410,958	\$616,437	\$821,916
DYS	470-401	Reclaim Ohio	\$184,026,374	\$36,805,275	\$55,207,912	\$73,610,550
DYS	470-510	Youth Services	\$16,702,728	\$3,340,546	\$5,010,818	\$6,681,091
DYS	472-321	Parole Operations	\$11,400,020	\$2,280,004	\$3,420,006	\$4,560,008

The Center for Community Solutions

Agy	Line Item	Appropriation Line Item Description	FY 2011 Budget Final Approp	Biennial Total 10% Cut	Biennial Total 15% Cut	Biennial Total 20% Cut
DYS	477-321	Administrative Operations	\$13,580,057	\$2,716,011	\$4,074,017	\$5,432,023
EBR	172-321	Operating Expenses	\$487,000	\$97,400	\$146,100	\$194,800
ELC	051-321	Operating Expenses	\$343,420	\$68,684	\$103,026	\$137,368
ERB	125-321	Operating Expenses	\$2,863,613	\$572,723	\$859,084	\$1,145,445
ETC	935-401	Statehouse News Bureau	\$219,960	\$43,992	\$65,988	\$87,984
ETC	935-402	Ohio Govt Telecom Studio	\$716,417	\$143,283	\$214,925	\$286,567
ETC	935-408	General Operations	\$1,515,111	\$303,022	\$454,533	\$606,044
ETC	935-409	Technology Operations	\$4,521,712	\$904,342	\$1,356,514	\$1,808,685
ETC	935-410	Content Development, Acquisitions, and Distribution	\$2,896,771	\$579,354	\$869,031	\$1,158,708
ETC	935-411	Tech Integration and Professional Development	\$4,884,241	\$976,848	\$1,465,272	\$1,953,696
ETC	935-412	Information Technology	\$945,276	\$189,055	\$283,583	\$378,110
ETH	146-321	Operating Expenses	\$1,513,908	\$302,782	\$454,172	\$605,563
EXP	723-403	Junior Fair Subsidy	\$252,000	\$50,400	\$75,600	\$100,800
GOV	040-321	Operating Expenses	\$2,674,751	\$534,950	\$802,425	\$1,069,900
GOV	040-403	Federal Relations	\$181,081	\$36,216	\$54,324	\$72,432
IGO	965-321	Operating Expenses	\$1,214,218	\$242,844	\$364,265	\$485,687
JCO	018-321	Operating Expenses	\$800,000	\$160,000	\$240,000	\$320,000
JCR	029-321	Operating Expenses	\$435,168	\$87,034	\$130,550	\$174,067
JLE	028-321	Legislative Ethics Committee	\$550,000	\$110,000	\$165,000	\$220,000
JSC	005-321	Operating Expenses-Judiciary	\$131,055,370	\$26,211,074	\$39,316,611	\$52,422,148
JSC	005-401	State Criminal Sentencing Council	\$206,770	\$41,354	\$62,031	\$82,708
JSC	005-406	Law-Related Education	\$236,172	\$47,234	\$70,852	\$94,469
JSC	005-409	Ohio Courts Tech Initiative	\$4,250,000	\$850,000	\$1,275,000	\$1,700,000
LIB	350-321	Operating Expenses	\$5,477,369	\$1,095,474	\$1,643,211	\$2,190,948
LIB	350-401	Ohioana Library Support	\$128,560	\$25,712	\$38,568	\$51,424
LIB	350-502	Regional Library Systems	\$582,469	\$116,494	\$174,741	\$232,988
LRS	054-321	Support Services	\$99,830	\$19,966	\$29,949	\$39,932
LRS	054-401	Ombudsman	\$146,789	\$29,358	\$44,037	\$58,716
LSC	035-321	Operating Expenses	\$15,117,700	\$3,023,540	\$4,535,310	\$6,047,080
LSC	035-402	Legislative Interns	\$1,022,120	\$204,424	\$306,636	\$408,848
LSC	035-405	Correctional Institution Inspection Committee	\$438,900	\$87,780	\$131,670	\$175,560
LSC	035-407	Legislative Task Force-Redistricting	\$750,000	\$150,000	\$225,000	\$300,000
LSC	035-409	National Associations	\$460,560	\$92,112	\$138,168	\$184,224

The Center for Community Solutions

Agy	Line Item	Appropriation Line Item Description	FY 2011 Budget Final Approp	Biennial Total 10% Cut	Biennial Total 15% Cut	Biennial Total 20% Cut
LSC	035-410	Legislative Information Systems	\$3,661,250	\$732,250	\$1,098,375	\$1,464,500
MIH	149-321	Operating Expenses	\$449,998	\$90,000	\$134,999	\$179,999
MIH	149-501	Minority Health Grants	\$1,105,833	\$221,167	\$331,750	\$442,333
MIH	149-502	Lupus Program	\$114,632	\$22,926	\$34,390	\$45,853
OBM	042-321	Budget Development & Implementation	\$2,350,805	\$470,161	\$705,242	\$940,322
OBM	042-410	National Association Dues	\$31,361	\$6,272	\$9,408	\$12,544
OBM	042-412	Biennial Audit	\$46,309	\$9,262	\$13,893	\$18,524
OBM	042-416	Executive Medicaid Management Agency	\$369,298	\$73,860	\$110,789	\$147,719
OHS	360-501	Operating Subsidy	\$2,304,228	\$460,846	\$691,268	\$921,691
OHS	360-502	Site Operations	\$3,791,149	\$758,230	\$1,137,345	\$1,516,460
OHS	360-504	Ohio Preservation Office	\$228,246	\$45,649	\$68,474	\$91,298
OHS	360-505	Afro-American Museum	\$414,798	\$82,960	\$124,439	\$165,919
OHS	360-506	Hayes Presidential Center	\$281,043	\$56,209	\$84,313	\$112,417
OHS	360-508	Historical Grants	\$420,420	\$84,084	\$126,126	\$168,168
OHS	360-509	Outreach and Partnership	\$492,547	\$98,509	\$147,764	\$197,019
OLA	355-501	Library Subsidy	\$125,000	\$25,000	\$37,500	\$50,000
OSB	226-100	Personal Services	\$6,593,540	\$1,318,708	\$1,978,062	\$2,637,416
OSB	226-200	Maintenance	\$619,527	\$123,905	\$185,858	\$247,811
OSB	226-300	Equipment	\$65,505	\$13,101	\$19,652	\$26,202
OSD	221-100	Personal Service	\$7,842,334	\$1,568,467	\$2,352,700	\$3,136,934
OSD	221-200	Maintenance	\$814,532	\$162,906	\$244,360	\$325,813
OSD	221-300	Equipment	\$70,785	\$14,157	\$21,236	\$28,314
PUB	019-321	Public Defender Administration	\$612,600	\$122,520	\$183,780	\$245,040
PUB	019-401	State Legal Defense Services	\$3,471,400	\$694,280	\$1,041,420	\$1,388,560
PUB	019-403	Multi-County: State Share	\$1,456,835	\$291,367	\$437,051	\$582,734
PUB	019-404	Trumbull County-State Share	\$467,727	\$93,545	\$140,318	\$187,091
PUB	019-405	Training Account	\$50,000	\$10,000	\$15,000	\$20,000
PUB	019-501	County Reimbursement-Non-Capital Costs	\$10,711,478	\$2,142,296	\$3,213,443	\$4,284,591
REP	025-321	Operating Expenses	\$18,517,093	\$3,703,419	\$5,555,128	\$7,406,837
RSC	415-402	Independent Living Council	\$252,000	\$50,400	\$75,600	\$100,800
RSC	415-406	Assistive Technology	\$26,618	\$5,324	\$7,985	\$10,647
RSC	415-431	Office for People with Brain Injury	\$126,567	\$25,313	\$37,970	\$50,627
RSC	415-508	Service for the Deaf	\$28,000	\$5,600	\$8,400	\$11,200
SEN	020-321	Operating Expenses	\$10,911,095	\$2,182,219	\$3,273,329	\$4,364,438

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Agy	Line Item	Appropriation Line Item Description	FY 2011 Budget Final Approp	Biennial Total 10% Cut	Biennial Total 15% Cut	Biennial Total 20% Cut
SOS	050-321	Operating Expenses	\$2,290,508	\$458,102	\$687,152	\$916,203
SOS	050-407	Pollworkers Training	\$250,197	\$50,039	\$75,059	\$100,079
SPA	148-100	Personal Services	\$229,847	\$45,969	\$68,954	\$91,939
SPA	148-200	Maintenance	\$35,000	\$7,000	\$10,500	\$14,000
SPA	148-402	Community Programs	\$90,485	\$18,097	\$27,146	\$36,194
TAX	110-321	Operating	\$89,941,055	\$17,988,211	\$26,982,317	\$35,976,422
TAX	110-404	Tobacco Settlement Enforcement	\$265,708	\$53,142	\$79,712	\$106,283
TAX	110-412	Child Support Administration	\$17,561	\$3,512	\$5,268	\$7,024
TOS	090-321	Operating Expenses	\$8,281,875	\$1,656,375	\$2,484,563	\$3,312,750
TOS	090-401	Commissioners of the Sinking Fund	\$537,223	\$107,445	\$161,167	\$214,889
TOS	090-402	Continuing Education	\$403,959	\$80,792	\$121,188	\$161,584
TOS	090-524	Police and Fire Disability Pension	\$7,500	\$1,500	\$2,250	\$3,000
TOS	090-534	Police & Fire Ad Hoc Cost of Living	\$90,000	\$18,000	\$27,000	\$36,000
TOS	090-554	Police and Fire Survivor Benefits	\$680,000	\$136,000	\$204,000	\$272,000
TOS	090-575	Police and Fire Death Benefits	\$20,000,000	\$4,000,000	\$6,000,000	\$8,000,000
VTO	743-501	American Ex-Prisoners of War	\$27,533	\$5,507	\$8,260	\$11,013
VTO	746-501	Army & Navy Union USA, Inc	\$60,513	\$12,103	\$18,154	\$24,205
VTO	747-501	Korean War Veterans	\$54,398	\$10,880	\$16,319	\$21,759
VTO	748-501	Jewish War Veterans	\$32,687	\$6,537	\$9,806	\$13,075
VTO	749-501	Catholic War Veterans	\$63,789	\$12,758	\$19,137	\$25,516
VTO	750-501	Military Order of the Purple Heart	\$62,015	\$12,403	\$18,605	\$24,806
VTO	751-501	Vietnam Veterans of America	\$204,549	\$40,910	\$61,365	\$81,820
VTO	752-501	American Legion of Ohio	\$332,561	\$66,512	\$99,768	\$133,024
VTO	753-501	AMVETS	\$316,711	\$63,342	\$95,013	\$126,684
VTO	754-501	Disabled American Veterans	\$237,939	\$47,588	\$71,382	\$95,176
VTO	756-501	Marine Corps League	\$127,569	\$25,514	\$38,271	\$51,028
VTO	757-501	37th Division Veterans Assoc	\$6,541	\$1,308	\$1,962	\$2,616
VTO	758-501	Veterans of Foreign Wars	\$271,277	\$54,255	\$81,383	\$108,511
General Gov't. Total				\$179,267,185	\$268,900,778	\$358,534,370

In this scenario the spending in the Department of Rehabilitation and Correction and for Property Tax Relief (110-901) in the Department of Taxation were excluded as they were dealt with in other sections of the paper. In addition the following federal match line items were excluded in this scenario: Rehabilitation Services Commission, Services for People with Disabilities (415-506); Department of Agriculture, Meat Inspection Match (700-499); and Adjutant General Air National Guard (745-404) and Army National Guard (745-499).



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