Governor John Kasich's 2012-2013 State Budget: Big Strides Made in Some Programs, But Missed Opportunities Undermine His Message

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Matt A. Mayer

Like many Ohioans, we eagerly awaited Governor John Kasich's state budget for 2012-2013. Given the rhetoric and the looming $8 billion estimated deficit, we had high hopes that Governor Kasich's budget would fundamentally alter how the state approached budgeting. As detailed more fully below, although he made big strides in several costly programs, he also missed key opportunities, thereby undermining his message of fiscal restraint.

Big Strides in Some Programs

We obviously were thrilled to see many of the recommendations in two of our 2010 reports adopted by Governor Kasich in his budget. The recommendations in **Smart on Crime: With Prison Costs on the Rise, Ohio Needs Better Policies for Protecting the Public** and **Crushing Weight: National Health Care Law Threatens to Make Medicaid an Unsustainable Burden for Ohioans** on alternative sentencing approaches to non-violent offenders and on Medicaid Long Term Care management will save Ohioans hundreds of millions of dollars. Governor Kasich should be rightly applauded for taking a traditionally non-conservative approach to crime and for taking on the nursing home establishment.

We would, however, caution Governor Kasich on over-relying on savings achieved by programmatic consolidation and other "streamlining" efforts. Many a politician has sought such savings only to find them illusory or stymied by the bureaucracy. Vigilance will be required to make these savings happen.

On education, Governor Kasich's support for Teach for America and his doubling of EdChoice Scholarships are vital lifelines to Ohio's most vulnerable kids and will inject more competition into our broken K-12 system. Equally important is his plan to scrap former Governor Ted Strickland's unfunded, one-size-fits-all Evidence-Based Model that was little more than a veiled attempt to increase the number of dues-paying union members with little proof how those unfunded mandates would improve the outcomes in Ohio's underperforming school districts.

In terms of higher education, though he could have taken a far more aggressive stance on the waste in Ohio's higher education establishment, Governor Kasich's push for a three-year degree and for making Ohio's professors spend more time teaching students are commendable. College today takes too long, costs too much, and gets poor results. Thus, injecting a little common sense into the system is always welcome. We would encourage Governor Kasich to adopt our recommendations in **Six Principles for Fixing Ohio** that make the case for leveraging technology to reduce redundancies and costs and for eliminating poorly performing programs.

Finally, not surprisingly, we remain strong advocates of privatization. That said, we caution Governor Kasich not to rush headlong into privatizing Ohio's assets when capital markets are weak. Ohio taxpayers have made billion dollar investments in those assets and deserve to see a strong return on their investments. As events unfold in Japan and the Middle East creating greater instability and market turmoil, Governor Kasich may need to delay his privatization plans so Ohioans can get a better return for their assets.

Missed Opportunities Undermine His Message

Of course, we all can quibble with decisions made on specific programs, but, broadly speaking, Governor Kasich's General Revenue Fund budget is **greater** than the 2011 budget (i.e., spending increases).[1] It is in this regard that we are most disappointed by his proposed budget.

Governor Kasich has spoken powerfully about the fiscal condition Ohio is in and the anemic state of its private sector. Despite these facts, his General Revenue Fund budget is $1.26 billion greater than the 2011 estimated General Revenue Fund budget, or is a 5 percent increase over 2011. The 2013 General Revenue Fund budget is $1.73 billion greater than the 2012 figure, or is a 6.4 percent increase over 2012. For the biennium, Governor Kasich's increases represent a nearly 12 percent jump from the 2011 General Revenue Fund budget.

As detailed in **Six Principles**, from 1990 to 2009, state general revenue expenditures increased by 131 percent and 41 percent after adjusting for inflation. After a brief respite in 2010 and 2011 (kudos to Governor Strickland), Governor Kasich's proposed General Revenue Fund budget continues that nineteen-year pattern of spending increases greater than inflation. In fact, his two-year increase of almost 12 percent would be the second largest increase from 1990 to 2013. How can spending increase with an $8 billion deficit and Ohio's weak economy?

The answer: the 2012-2013 budget forecasts revenues to exceed expenses by $8.58 billion. This approach continues the failed practice that got Ohio into the fiscal mess it is in today. With spending going up, it is clear Governor Kasich did not take this opportunity to realign state spending to any real, defensible index. Instead, he, like so many governors before him, adopted the "spend what comes in" approach to governing. Given his strong fiscal record, this outcome is disappointing.

Governor Kasich had a unique opportunity to resize Ohio's state budget more closely to what it should be given inflation and population growth. He passed on this opportunity. We must, therefore, hope that his revenue forecasts—despite growing

[1] Our focus on the General Revenue Fund and not the All Funds is simple. The Governor has the most discretion over the General Revenue Funds, and it represents the largest part of the All Funds budget. Thus, how the Governor appropriates the General Revenue Fund reveals the broader contours of his priorities.

concerns of inflation and a double-dip recession—prove true or Ohio's fiscal nightmare will return in spades.

We also find the steep cuts to local governments troubling since Ohio has recently made progress on the tax front. Ohio currently has the 18th highest state and local tax burden (from 7th highest a year earlier). Because of this total tax burden, we had encouraged Governor Kasich to hold a tax reform summit with representatives from local governments to come up with a solution to Ohio's tax burden. Our belief is that eliminating a tax "here" that pops up again over "there" simply rearranges the chairs on the deck of the Titanic. We need a thoughtful discussion on how to restructure our governmental units and taxes in Ohio to make us competitive with other states.

Instead, Governor Kasich's budget makes deep cuts in funding to local governments and keeps revenues projected to go to local governments. Because of a few solid reforms in procurements and other areas, as well as the **projected** savings from passage of Senate Bill 5, Governor Kasich's budget presumes that local governments will have the flexibility to adjust their budgets accordingly.

We are not as hopeful. Of note, it does not appear that Governor Kasich's budget makes across-the-board cuts in state compensation packages. As our **The Grand Bargain is Dead: The Compensation of State Government Workers Far Exceeds Their Private-Sector Neighbors** and **Dipped in Gold: Upper-Management Police and Fire Retirees become Public-Service Millionaires** reports demonstrate, government workers in Ohio have compensation packages far beyond what their private sector neighbors have. Governor Kasich should have used the budget to realign state worker compensation packages to the private sector and the new economic normal in Ohio.

If he did not make those tough choices, why does he think local governments will?[2] The reality is that many local government units will look to increase their taxes to replace the lost funding and revenue. As noted in our **Appendix to "Six Principles for Fixing Ohio": School District Charts**, even before these cuts, the 613 school districts were projecting an aggregate deficit of $7.6 billion by 2015 with compensation package costs swallowing 96 percent of projected revenue.

With compensation package costs absorbing so much of local government budgets, the only options local governments will have are (1) get the unions to agree to across-the-board cuts to realign expenses to revenues, (2) cut less senior employees and "unnecessary" programs, (3) increase taxes, or (4) a combination of these options. It is precisely this reality that led us to conclude that full repeal of collective bargaining would provide local governments with the ability to implement option (1), as the unions tend to fight such an option and push for options (2) and (3).

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[2] For many local governments, collective bargaining agreements are already in place covering the next two years. Thus, the only way—other than unlikely acquiescence by the unions—to reopen those contracts and deal with the decreased revenue is to declare "exigent circumstances"—an option the state chose not to exercise despite the most severe budget deficit in Ohio history.

Because of the state budget maneuvers, local governments will blame Governor Kasich for the loss of funding and resort to emotional blackmail (i.e., large class sizes, no extracurricular activities, reduced public safety, etc.) to pass tax hikes.[3] Some will fail and some will succeed. Keep in mind that Governor Kasich's budget did not cut taxes in an amount equal to the amount taken from local governments. As a result, our profound concern is that the **net** impact of his budget on Ohio will be an increase in Ohio's state and local tax burden. Should this concern materialize, Ohio's tax ranking will again rank among the worst, thereby undermining any private sector recovery.

Though symbolic, we wish Governor Kasich would have led by example and cut his office budget, as well as the budgets of the Ohio House of Representatives and Ohio Senate. Similarly, although we recognize some work will be done in agencies with his aggressive regulatory reform push to pass the Common Sense Initiative, it would have made sense to see an increase in the Joint Committee on Agency Rule Review budget. It also would have been reassuring to see one regulatory body eliminated to demonstrate Governor Kasich's view that Ohio needs fewer, not more, regulations.

One final word on Governor Kasich's 2012-2014 budget. It relies upon revenue from the death tax, which appears to mean that he does not support the legislation currently pending in the Ohio House of Representatives that would abolish the death tax. During the campaign, Governor Kasich voice support for the elimination of the death tax. This apparent disconnect needs to be explained.

Critically, we hope the General Assembly eliminates the conversion levy—added in the last budget deal—from the menu of options school districts can use to raise taxes on homeowners. With an expected avalanche of operational levies, the stealth conversion levy will cause widespread confusion. As detailed in **The Need for Levy Reform in Ohio—Conversion Levy: One Vote, Permanent Tax Increases** (authored by Ohio Tax Commissioner Joe Testa), passing a conversion levy would result in large tax increases indefinitely without the ability to vote again on the levy. One school district attempted to pass a conversion levy in November 2010—it failed by a 70 percent to 30 percent vote.

As the General Assembly considers Governor Kasich's proposed budget, we hope some of the missed opportunities are rectified. Given what is at stake, the final budget should be one that fundamentally departs from the status quo and puts Ohio on a path to fiscally restrained government.

[3] We use the term "emotional blackmail" because none of those "list of horribles" would happen if, instead of cutting less senior employees, all employees agreed to compensation package reductions.