Update: Administration Announces Additional $800 Million In Cuts

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After the administration testified before the Senate Finance Committee two weeks ago to prepare legislators for a possible downward revision in the pending budget proposal, the administration announced last week that it would need to cut an additional $800 million to the proposed budget pending before the Ohio House of Representatives. The cuts would include $400 million per state fiscal year (SFY) ’18 and ’19. The revision is due to a continuing reduction in state revenues especially in light of a $200 million shortfall in March alone. The administration made the announcement alongside the House speaker and Senate president in an effort to show the commitment the legislature has to working with the Administration to navigate the cuts that need to be made. While there were no specific proposals at the time of the announcement, the Ohio Gov. John Kasich did state that all options are “on the table,” while recognizing there would be sensitivities toward certain priorities, such as the opiate epidemic. Although one option is to tap into the state’s $2 billion rainy day fund, but the governor made clear that this is not on the table. The governor has long articulated his strong belief that having a strong and stable rainy day fund is important to Ohio’s overall fiscal outlook. The pending budget is $71.4 billion for SFY ’18 and $72.7 billion for SFY ’19 when accounting for all funds. The state general revenue fund (GRF) is estimated at $33 billion for SFY ’18, which is 5.6 percent decrease from SFY ‘17 and $33.8 billion for SFY ’19, which is an increase of 2.2 percent over SFY’18. The proposed $800 million reduction will be reflected in the GRF, which equates to a 1 percent reduction each fiscal year of the biennium. While it is difficult to do a 1 percent across the board reduction, it is likely policy makers will look at certain areas of the budget for targeted reductions. For instance, many areas that received increases in the executive budget will likely be flat funded over the biennium. Adding to the complexity are areas of the budget that were already significantly reduced from SFY’17. Currently, the budget proposes the following GRF expenditures:

Programs	SFY ’18 (GRF ONLY)	% Change from ‘17	SFY ’19 (GRF ONLY)	% Change from ‘18
Medicaid	$15.6B	-12.6%	$16.0B	2.7%
K-12 Education	$11.2B	1.8%	$11.4B	1.7%
Higher Education	$2.6 B	1.6%	$2.65B	1.7%
Other Education	$478 million	4.0%	$509.8 million	6.5%
Health and Human Services	$1.4 B	-2.4%	$1.4B	.4%
Corrections and Rehabilitation	$2.25 B	3.0%	$2.3B	2.0%

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General Government	$947.4 million	.5%	$956.7 million	1.0%
State Revenue Distributions	$1.82B	1.8%	$1.85B	2.2%

Moreover, the governor's tax plan continues his goal to shift Ohio's tax burden from a previous economic model of manufacturing to one that is more reflective of Ohio's declining manufacturing base to more professional services in an effort to help Ohio attract more jobs and investments. In particular, the budget proposes additional reduction to personal income tax rates by reducing the current nine tax bracket rates to five and providing a 17 percent tax reduction for tax years '17 and '18 reducing the revenues by $1.2 million in SFY '18 and $1.883 million in SFY '19. As such, the budget contemplates offsetting revenue as follows:

Tax	**SFY '18**	**Increase in SFY '19**
Sales and Use Base Expansion	$136 million	$206 million
Sales and Use Rate Increase from 5.75% to 6.25%	$571 million	$897 million
Cigarette tax increase from $1.60 to $2.25 per pack	$184 million	$198 million
OTP tax rate 17% to 69%	$84 million	$125 million
Severance Tax on Horizontal Wells	$137 million	$311 million
Alcohol Beverage (other than spirits)	$26 million	$31 million

Since the governor has offered similar proposals in the past, which have been removed by the General Assembly, he has publicly stated that he recognizes the proposal will be changed during the legislative process. It is more likely there will be an effort to reduce spending and closing existing loopholes before shifting the tax burden. According to the Office of Budget and Management (OBM) Director Tim Keen's testimony, OBM is confident SFY '17 will end in a positive balance as projected with a .5 percent of prior-year revenues. OBM contributes this to the conservative budgeting along with underspending in Medicaid and property tax reimbursement and debt service. The Ohio House of Representatives returns this week from spring break and will unveil its budget proposal for consideration by the Finance Committee. It is anticipated the House will vote on the budget bill in early May, at which time it will be taken up by the Ohio Senate. The budget must be signed by the governor no later than June 30.