



# OHIO'S JOBS BUDGET 2.0

JOBS. MOMENTUM. TRANSFORMATION.

## Budget Overview

Ohio is successfully emerging from one of the most pivotal economic periods in its history, a time during which it closed an historic \$7.7 billion budget imbalance without raising taxes. We cut taxes by \$800 million in 2011 and brought needed new reforms to Medicaid, education and other important efforts. Ohio has risen from 48<sup>th</sup> in the nation to one of the top job creators in the country and 1<sup>st</sup> in the Midwest. Yet, too many Ohioans are still out of work and too many changes to state government are still needed. Building on the momentum begun by the last state budget is essential to put Ohio's fiscal house back in order and continue our progress.

### **ACHIEVEMENT EVERYWHERE: EDUCATION IMPROVEMENT AND FUNDING REFORM:** *Achievement*

*Everywhere* helps ensure that every child's school has the resources to help them achieve, regardless of where they live. By distributing resources fairly, with a special effort to help children in districts with very low tax bases, every district will have at least as much funding as districts at the 96<sup>th</sup> percentile of per-pupil property tax value.

- **No School District Receives Less than Last Year:** Over the past two decades, declining enrollment would have caused state support to be reduced for many school districts, including in the FY14-15 budget. Despite this, *Achievement Everywhere* provides every district at least what it received last year from the state, and provides increases to many of the state's districts with the greatest needs. Over the next two-year budget, Ohio's schools will receive \$1.3 billion in new funding.
- **Dollars Are Focused on the Classroom:** Resource decisions are made with an emphasis on what happens for children in the classroom: including needed aid for disabled students, early childhood programs, gifted students and students who are not yet proficient with the English language.
- **The Straight A Fund—Extra Resources for Innovation:** Teachers and school districts with the will to pursue creative ways to promote innovative teaching and learning, or to improve efficiencies, will have opportunities to receive one-time grants from the new \$300 million Straight A Fund.

**CONTINUING MEDICAID'S TRANSFORMATION: BETTER QUALITY AND BETTER VALUE:** Ohio has made nationally recognized progress improving Medicaid's services to low-income Ohioans and its value to taxpayers. In the three years prior to Governor Kasich taking office, Medicaid spending increased 33 percent. The governor's first budget helped bend this cost curve, saving Ohio taxpayers almost \$2 billion.

- **Improving Program Integrity and Fighting Fraud:** Nationally, fraud accounts for approximately 10 percent of all health care waste, so fighting fraud and maximizing integrity and accountability in Medicaid is a key to improving efficiency. Ohio will expand its efforts to improve program integrity through a series of reforms, saving \$74 million over the biennium.
- **Improving Quality and Reducing Spending by Rewarding Value, Not Volume:** This budget continues to reduce Medicaid costs by implementing innovative strategies for paying Medicaid providers, including doubling payments to managed care plans that meet certain quality measures, linking long-term care payments to quality and reforming hospital payments methods to incentivize quality outcomes instead of being based on volume.
- **Extending Medicaid Coverage to Working, Low-Income Ohioans:** Gov. John Kasich and Lt. Gov. Mary Taylor have opposed Obamacare and called for it to be repealed and replaced with reforms that reduce costs and improve health outcomes. Given the results of the presidential election, the Supreme Court's decision and Washington's inaction on real health care reform, Obamacare is the law of the land for now and Ohio needs to

work to reduce its impact. Ohio has already said “no” to a state-run exchange and “no” to federal takeovers of Medicaid eligibility and insurance regulation. Further strategic decisions like these can help Ohio minimize Obamacare’s further impacts.

- Ohio will offer coordinated coverage through its Medicaid program: Low-income Ohioans, most of whom have jobs, earning up to 138 percent of the federal poverty level (\$15,415 per year) will have access to health care coverage through Medicaid. The federal government will pay 100 percent of this cost for three years, decreasing to 90 percent in 2020 and beyond. *If the federal government changes this agreement then Ohio will reverse this decision, as it would not be fiscally sustainable.* Other benefits and details include:
  - Supporting Ohio’s jobs-friendly climate: If Ohio doesn’t extend Medicaid, \$13 billion in federal tax dollars over seven years goes to other states, giving businesses there a healthier workforce and a competitive advantage.
  - Holding the line on premium increases: Obamacare is projected to increase insurance premiums significantly, and states that do not extend Medicaid benefits could see individual market premiums go even higher.
  - Protecting hospitals: Obamacare largely eliminates reimbursements to hospitals for uncompensated care, forcing them to absorb those losses or pass them on to the private sector. Some rural and safety-net hospitals could be pushed to the brink. Extending Medicaid sees that hospitals are paid for their services.
  - Protecting businesses: Providing Medicaid coverage to more low-income, working Ohioans can spare employers job-killing penalties. Obamacare imposes a financial penalty on any employer with 50 or more workers if any of their full-time employees receives a premium subsidy for coverage on the Health Insurance Exchange.
  - Shoring up the mental health safety net: Extending Medicaid coverage frees up an estimated \$105 million statewide in county funds for needed additional supports for Ohioans with mental illnesses; supports that in some cases can prevent them from cycling in and out of the criminal justice system.
  - Improving care: Offering coordinated care to low-income Ohioans can reduce mortality by as much as six percent and allow them to live healthier and more productive lives.
- Simplifying and Automating Medicaid Eligibility Determination: Ohio will simplify the state’s current 150+ Medicaid eligibility categories into three groups and implement simplified eligibility processes and information technology systems.
- Updating Provider Regulations to be More Person Centered: Ohio will continue to drive quality improvements in services that are administered in the community and in institutional settings.

**TAX REFORM: CUTTING AND REFORMING TAXES TO HELP CREATE JOBS:** Ohio’s high taxes and complex tax system is a barrier to job creation. Reducing small business taxes, income taxes, sales taxes, eliminating taxes on small natural gas producers and broadening the tax base more evenly across the economy helps create a more jobs-friendly tax system in Ohio.

- 50 percent Tax Cut for Virtually Every Small Business: Small businesses employ half of Ohio’s public sector workforce and almost 75 percent of small businesses pay their taxes as personal income, not as business income. Cutting their taxes in half over the next two years will free up massive amounts of new capital for them to use to hire more Ohioans, improve their productivity and become more competitive.
- 20 percent Tax Cut for All Ohioans: Building on the more than \$325 million in income tax cuts in Gov. Kasich’s FY12-13 budget, the FY14-15 Executive Budget cuts income taxes for all Ohioans by an additional 20 percent over three years.
- 9 percent Sales Tax Rate Cut and a Broader, Fairer Base: Reducing Ohio’s sales tax rate by 9 percent [from 5.5 to 5.0 percent] will provide relief for low-income Ohioans who often pay no income taxes, while also helping boost consumer spending. At the same time, broadening the sales tax to include services is a fair, equitable reform that reflects the evolution of Ohio’s economy from one based almost exclusively on goods and manufacturing to one more heavily based on services.
- Modernizing the Severance Tax: Ohio must modernize its tax system for oil and gas production to keep up with new technologies that will cause production to skyrocket. The current system was written decades ago, long

before our current shale boom was envisioned, and imposes a mere 20 cent tax on a barrel of oil that can earn from \$80-\$100. The new tax system eliminates taxes completely for small, conventional producers [more than 90 percent of all wells] and converts the current 20-cents-per-barrel tax to a flat 4 percent rate, which will still be the lowest of neighboring shale states and among the lowest rates in the country.

- **Good Management Dividend:** Controlling government costs and achieving strong revenue growth will allow Ohio to maximize the Budget Stabilization Fund at its statutory target of about \$1.5 billion. Any surplus above that level would result in a temporary income-tax rate reduction of approximately 4 percent for all Ohio taxpayers. This tax relief would be in addition to the governor's proposal to cut income taxes by 20 percent over three years.

**HIGHER EDUCATION FUNDING REFORM: FOCUSING ON DEGREE COMPLETION:** Despite having some of the best colleges and universities in the country, only about 25 percent of Ohio adults have bachelor's degree – much less than the national average. That makes Ohio a less desirable place for job creators to expand and relocate.

Encouraging more degree completion helps Ohio and Ohioans on many fronts.

- **Incentivizing Colleges to Graduate Students, Not Just Enroll Them:** To help increase the number of Ohioans with degrees, Ohio college presidents have proposed basing state higher education funds less on how many students colleges enroll and more on how many students colleges help successfully complete their degrees. The share of state funding tied to enrollment would increase from 20 to 50 percent. Community college funding would be tied to actual course and degree completion.
- **Driving Affordability:** Gov. Kasich's plan for higher education will cap tuition and general fee increases for FY14-15 at two percent of average tuition and general fees, making college more affordable and graduation a reality for more students.

**THE JOBS AND TRANSPORTATION PLAN: INVESTING IN OHIO'S INFRASTRUCTURE:** Investing in Ohio's infrastructure is key to the state's economic success. Ohio's economy – especially our agriculture and manufacturing businesses, and the logistics operations that support them – depend on the ability to quickly and efficiently use our highway system to ship raw materials and finished goods throughout Ohio and the country. Without good highways our economy suffers, we lose jobs and we can't attract new job creators to Ohio.

- **The best decision for Ohio was to keep the Turnpike in public hands:** While leasing the Turnpike would have generated more funds, it brought with it unacceptable ramifications. Bonding against future Turnpike revenue generates more than enough funds (\$1.5 billion) to reduce Ohio's highway budget deficit as well as rebuild the entire Turnpike sooner than planned. This option provides the least amount of change to the Turnpike operations that Ohioans have come to appreciate. Under this plan, no Turnpike employee layoffs are anticipated and tolls for local passenger trips will be frozen at current levels for the next 10 years.
- **Virtually all Turnpike Funds will go to Northern Ohio highways:** Working with ODOT, the Turnpike will dedicate almost all (more than 90 percent) of the \$1.5 billion in new bond proceeds to Northern Ohio road projects. It's important to remember that 56 percent of Turnpike revenue comes from out-of-state travelers. In addition, the \$1.5 billion in new bonds will attract an additional \$1.0 to \$1.5 billion from matching local and federal funds to generate a total of \$3 billion for major Ohio transportation projects.
- **All of Ohio will benefit from this plan:** While transportation projects in northern Ohio will enjoy most of the new Turnpike funds, this plan frees up ODOT to spend the state's gas tax and federal funds on highways downstate—which allows all projects to move forward faster. The Ohio Turnpike Commission will now work closely with ODOT on implementing Ohio's highway plan under the new name "The Ohio Turnpike and Infrastructure Commission."

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