



**The False Narrative on the Ohio Budget
July 14, 2016**

A quick word on [this Columbus Dispatch story](#) from July 7, 2016. The thrust of the story is that lower spending allowed Ohio to meet budget numbers despite revenues being down about \$250 million. The story is just plain wrong. State spending is up. It is only because revenues and federal funds have kept ahead of the spending that Ohio's budget hasn't produced deficits.

First, the revenue trends are not good going forward. In the [latest monthly financial report from Governor John Kasich's Office of Budget and Management](#), the fiscal year-end figures show trouble ahead. In comparison to 2015, the two largest sources of tax revenues either fell substantially or came in just ahead of inflation. Specifically, personal income tax revenue generated \$707 million less in 2016 than in 2015, which is an 8.3% drop (despite an increase in receipts federally due to more people working). Sales and Use tax revenue came in \$387 million above the 2015 total, which is a meager 3.9% increase.

For fiscal year 2016, total tax receipts only increased by 1.9%, with federal funds for expanded Medicaid stepping in to fill the tax revenue gap. In fact, 2016 is the first Kasich budget in which federal funds generated more revenue for Ohio than any other tax revenue category. Ohio received \$11.65 billion in federal funds compared to \$10.35 billion in sales and use tax revenue. Other than in fiscal year 2011 (Governor Ted Strickland's last federal bailout budget), sales and use taxes haven't ever represented a smaller amount of revenues than federal funds in the state budget.

Federal funds now represent 34% of the revenues funding state government. Never before has Ohio been more dependent upon the federal government for balancing its state budget than today. As a gentle reminder, the federal government is perpetually in deficit spending mode and fiscally headed toward bankruptcy. The federal largesse will come to an end at some point.

In addition to a slowdown in tax revenue coming in, as earlier reported, the [state tax on Medicaid is going away](#). This one-two punch on the revenue side will present a growing problem to Governor Kasich and the Republican-controlled Ohio General Assembly who have failed to actually cut spending at any point and have overseen a fairly weak job market in Ohio, with private sector job growth only up 9.7% since January 2011. Ohio's private sector job growth is the 25th best (i.e., smack dab in the middle or mediocre) over the last 5.5 years. Ohio [still needs nearly 240,000 private sector jobs](#) to match the peak employment in March 2000.

This stark future exists without a possible recession hitting.

The second key point is that this story shamefully continues the false narrative that politicians are being good fiscal stewards when spending comes in below ESTIMATES made a year or two earlier. Think about it for a minute. Any politicians worth his salt would estimate spending higher than he really thinks, as it inevitably leads to these types of stories. The reality is that spending from 2015 to 2016 is up 9.5% as of fiscal year close on June 30, 2016. When spending comes in below an estimate, but above the previous year, it is called a “DC spending cut,” as it isn’t a cut at all.

See the picture below for details on spending in 2015 as compared to the same point in 2016 – this image [comes from Governor Kasich's budget office](#). Note: spending is up in 2016 from 2015 by nearly \$3 billion – \$2,987,421,000 to be exact. What exactly is fiscally responsible about increasing spending by 9.5% in just one year, especially when non-federal fund tax revenues only grew by 1.9%?

Table 4
GENERAL REVENUE FUND DISBURSEMENTS
ACTUAL FY 2016 VS ACTUAL FY 2015
 (\$ in thousands)

Functional Reporting Categories Description	MONTH				YEAR-TO-DATE			
	JUNE FY 2016	JUNE FY 2015	\$ VAR	% VAR	ACTUAL FY 2016	ACTUAL FY 2015	\$ VAR	% VAR
Primary and Secondary Education	337,033	324,868	12,165	3.7%	7,555,949	7,246,517	309,432	4.3%
Higher Education	181,562	170,647	10,915	6.4%	2,222,774	2,139,555	83,219	3.9%
Other Education	3,470	2,214	1,256	56.7%	68,153	52,934	15,219	28.8%
Medicaid	390,088	866,686	(476,598)	-55.0%	16,995,860	14,863,212	2,132,649	14.3%
Health and Human Services	73,880	50,445	23,435	46.5%	1,283,641	1,249,822	33,819	2.7%
Justice and Public Protection	138,639	128,317	10,323	8.0%	1,983,765	1,850,280	133,485	7.2%
General Government	26,624	20,430	6,194	30.3%	362,353	340,119	22,234	6.5%
Property Tax Reimbursements	28,242	215,190	(186,947)	-86.9%	1,786,704	1,801,479	(14,775)	-0.8%
Capital Outlay	0	0	0	N/A	0	0	0	N/A
Debt Service	57,055	48,899	8,157	16.7%	1,333,866	1,287,681	46,185	3.6%
Total Expenditures & ISTV's	1,236,593	1,827,695	(591,102)	-32.3%	33,593,065	30,831,598	2,761,466	9.0%
Transfers Out:								
BSF Transfer	0	0	0	N/A	425,500	0	425,500	N/A
Operating Transfer Out	19,304	4,614	14,690	318.4%	430,331	629,876	(199,545)	-31.7%
Temporary Transfer Out	0	0	0	N/A	0	0	0	N/A
Total Transfers Out	19,304	4,614	14,690	318.4%	855,831	629,876	225,955	35.9%
Total Fund Uses	1,255,898	1,832,309	(576,412)	-31.5%	34,448,896	31,461,475	2,987,421	9.5%

Finally, the story gives the Kasich Administration credit for beating its own ESTIMATE due to reduced spending in Medicaid. Again, look at the picture above – notice the line on Medicaid spending. It shows that Medicaid spending is UP by 14.3% from 2015 to 2016, or increased by \$2.1 billion. Heck, look at every line item -- not one non-tax category shows that spending in 2016 is lower than spending in 2015. To make matters worse, Ohioans will start getting hit with

the bill for the Obamacare expanded Medicaid population in January 2017, which at over 677,000 is nearly three times greater than Governor Kasich said it would be.

None of this information is news. After all, we detailed the likelihood of this outcome back in February 2015 in [When the Lines Cross Part II: Ohio Still Headed for Big Deficits](#). Luckily for Ohio, our estimate on spending was high by \$851 million and our estimate on revenues was low by \$1.4 billion. Given the above, we fully expect our prediction of deficits in the near future to materialize by 2018.

Here is an example of what could happen as early as 2017:

•Spending increases by 3%	= \$35,482,363,000
•Revenue increases by 2.62% less 5% of increase in federal funding between 2015 and 2016*	= <u>\$34,702,304,000</u> (\$780,059,000)

An \$800 million deficit would swallow nearly 40% of the rainy day fund. If revenues decline due to an additional slowdown or a recession occurs and/or spending comes in closer to the 9.5% increase this year, these figures will be much worse.

At the end of the day, the Establishment and the media can't figure out why they are held in such low esteem by Main Street America. Misleading stories like this one that allow politicians to get credit for grossly misleading "successes" are why, as I wrote in 2012, [taxpayers don't stand a chance no matter who wins](#).

Let's hope the Ohio General Assembly finally makes some tough choices in the next budget by actually reducing state spending.

*The 2.62% figure represents the average increase in revenues since 2000. The 5% figure represents a rough estimate of the amount Ohioans will have to pay in 2017 towards Governor Kasich's expansion of Medicaid under Obamacare. The actual amount likely will be higher.