



## Governor John Kasich's Final Budget: Making Lemonade Out of Lemons

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Facing declining revenues, a likely repeal of Obamacare, including a change to Medicaid expansion, and the weakest private sector job growth since the Great Recession, Governor John Kasich's final budget represents an effort to make lemonade out of lemons. While we would have liked to see more structural spending reductions outside of Medicaid, if the Ohio General Assembly adopts the spending elements of his budget and Governor Kasich can hold to those estimates in his last two years, it will provide taxpayers with a small break from the [twenty-six years of spending hikes](#) that have outstripped inflation and population growth by 81 percent.

Some of the challenges Governor Kasich confronts come from self-inflicted wounds. The first wound was his own profligate spending over his tenure that exceeded revenue growth and made Ohio increasingly a mere ward of the federal government. For example, state spending at the [end of Fiscal Year 2011](#) (six-months into his tenure) came in at \$27.4 billion. He estimates FY 2017 spending to [end at \\$36.5 billion](#), which would be a 33.2% jump in just six years. In both FY 2016 and FY 2017, federal funds outgrew sales and use taxes to become the top source of revenue for Ohio. Being so dependent on the federal government is just bad policy.

Next, his stubborn refusal to make the single reform – right-to-work – that would help Ohio's private sector compete with neighboring states and America's south and west remains troubling. Now that Indiana (2012), Kentucky (2017), Michigan (2012), West Virginia (2016), and Wisconsin (2016) have made right-to-work the majority status in America, Ohio serves as the [left end of the union wall](#) that runs from Ohio to Maine and the only Republican-controlled state still controlled by Big Labor (assuming Missouri enacts right-to-work in 2017 as expected). The [longitudinal data on job growth](#) and per capita personal income growth unequivocally supports the benefits of becoming a right-to-work state. Ohio could enact right-to-work this year beyond the ability of Big Labor to run a veto referendum to reverse it.

In terms of the broad contours of Governor Kasich's proposed budget, we vigorously applaud the spending reductions, as we call for in our [first educational video in 2017](#) on keeping state spending in check. Specifically, he proposes [to cut General Revenue Fund spending](#) from an estimated \$36.45 in 2017 to roughly \$33.1 billion in 2018 and \$33.9 billion in 2019. The entirety of the cuts come from Medicaid spending, which is set to drop by \$2.24 billion in FY 2018. We are a bit dubious that those projected cuts will materialize. After all, Medicaid spending has increased every year since FY 2013:

Year	Spending	Spending Increase
FY 2013	<a href="#">\$12.6 billion</a>	
FY 2014	<a href="#">\$13.6 billion</a>	\$1.0 billion
FY 2015	<a href="#">\$14.9 billion</a>	\$1.3 billion

FY 2016	<a href="#">\$17.0 billion</a>	\$2.1 billion
FY 2017	<a href="#">\$17.8 billion (est.)</a>	\$0.8 billion
<b>INCREASE FY 2012 to FY 2017</b>	41.3%	\$5.2 billion

If, despite adding [nearly 700,000 enrollees](#) under expanded Medicaid, Governor Kasich can reduce Medicaid spending by more than \$2.2 billion (12.6%) in one year, then he will serve as a positive example to governors across America. Medicaid spending is expected to hit \$15.6 billion in 2018, or 47.1% of all GRF spending, and \$16.0 billion in 2019, or 47.3%. These figures are down slightly from the roughly 48.7% of the budget currently swallowed by Medicaid.

Not surprisingly, the bulk of revenue declines in his proposed budget comes from a \$1.8 billion drop in federal funds. As a result, in a reversal of the current trends, federal funds are not estimated to be the top source of revenue for Ohio in FY 2018 or FY 2019. That presumption, however, likely rests on a sales tax hike that won't get adopted by the Ohio General Assembly. Governor Kasich, as in past budgets, unwisely adopts a tax-shifting approach that cuts personal income taxes, but hikes other taxes to protect the non-Medicaid high spending status quo. His continued [zealous pursuit of a higher severance tax on oil and gas](#) production in the face of record low prices and minimal activity is mindboggling.

Outside of Medicaid, only the Department of Health and Human Services is proposed to see its topline spending cut by \$34 million in FY 2018, which mostly comes out of Veterans' Services (-\$14.2 million) and Development Disabilities (-\$15.2 million). The only other areas to see large reductions are the Environmental Protection Agency (-\$5.0 million) and the Ohio Secretary of State (-\$2.6 million), which Secretary Jon Husted requested. On the growth side, the big winner is the Department of Natural Resources (+\$12.1 million).

In FY 2019, nearly the entire increase in spending comes for an increase in Medicaid of \$429 million, with another \$136.9 million for Primary and Secondary Education, \$45.3 for Higher Education, \$31.1 million for Other Education spending, and \$12.9 million for the Development Services Agency. The spending increase of 2.2% from FY 2018 to FY 2019 nearly matches the average revenue increase over the last decade, which improves the odds of avoiding a mid-budget deficit. That said, Governor Kasich's proposed budget estimates revenues will exceed spending by just 0.5% in FY 2018 and 0.6% in FY 2019. On top of a potential deficit in the current budget, Ohio will remain on very thin ice over Governor Kasich's last 2.5 years.

As with all budget proposals, the estimates in it are subject to reality intruding for good (an economic boom) or ill (a national or global recession). Even more critical, Governor Kasich's proposed budget does not reflect a policy change in Washington, D.C., on Medicaid expansion. All signs currently indicate that President Donald Trump and the Republican-controlled Congress will repeal Obamacare and replace it with a block grant Medicaid program that provides less funding than Ohio currently receives. With a final budget not due until June, the Ohio General Assembly will have time to deal with that change should it materialize.

With his time in office ending, it would have been a fitting close to his political career had Governor Kasich used the same fiscal discipline he wielded as Congressman Kasich. Oh well. Given that his past policy failures have produced a bunch of lemons, a weak batch of lemonade is about all that can be expected. Perhaps Ohio's next governor will truly [reimagine Ohio](#) and promote state policies that allow all of Ohio to escape decades of mediocrity and tepid growth.