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## Time for straight talk on the state budget

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By Jon Honeck

COLUMBUS: Ohio legislators are faced with one of the most difficult state budget problems in memory. State revenues are falling but the need for government services grows as more Ohioans lose their jobs and have trouble meeting basic needs. The recession is partly to blame for the revenue shortfall, but so is the legacy of previous decisions to make deep cuts in state taxes regardless of the need for public services.

State leaders have dealt with previous recessions by cutting spending first, and when the cuts reached the bone — as the old saying goes — finding ways to raise revenue. Each of the past five governors faced this dilemma and, in the end, agreed to some kind of tax increase when the cuts simply could not continue. The process has always been messy and contentious, and full of the political posturing one would expect.

While the current controversy over slot machines has grabbed the headlines, the real story for House Bill 1, the state budget bill for the next two years, is that the governor and legislative leaders are using massive cuts and short-term budget gimmicks to address the vast majority of the revenue shortfall. This approach is not a solution. It leaves Ohioans with the worst of both worlds: Government shirks its responsibilities but postpones hard choices for another year or two.

In the worst recession in a generation, the state will cut support for low-income disabled adults, protective services for the elderly and children, drug and alcohol treatment, mental health services, child care for low-income workers, and need-based financial aid for college students. These cuts will be magnified by the loss of federal matching grants in certain areas, such as the school lunch program, in a series of penny-wise and pound-foolish moves.

With all of the state's cash reserves used to make ends meet this year, state accountants are using every trick in the book to get through the next budget. The administration plans to delay payments to health-care providers and state universities, eliminate health-care coverage for retired public employees and push debt service into future budgets at the cost of higher payments down the road. None of this chicanery solves the real long-term issue: Ohio will be faced with another huge budget gap when federal stimulus aid expires in 2011.

Instead of passing seven-day continuation budgets, it's time for state leaders to admit that they cannot leave revenue policy on auto-pilot while we fly through a storm. Legislation passed in 2005 cut the personal income tax for five straight years and eliminated the state corporate income tax on non-financial businesses. This tax overhaul is costing the state treasury well over \$2 billion each year in badly needed revenue.

Even in better times, the new tax on business gross receipts barely brought in enough money to reimburse schools and local governments for the phase-out of a local tax on business machinery and inventory. Now that it is faltering, the state's general fund will have to take resources away from other programs to help make up the difference.

Discussions about taxes create hand-wringing about where Ohio's tax levels stand in relation to those of other states. The reality is, we're about average. The national association of state tax administrators, using U.S. Census Bureau data, calculated that Ohio's state-only tax collections ranked 38th among states on a per-person basis, and 35th as a percentage of personal income. When local revenues are included, Ohio's level of state and local tax collection moved to 18th as a percentage of personal income, and 24th on a per-person basis.

The most obvious option is to start plugging tax loopholes. Thus far, legislators have not closed a single loophole in the budget bill but instead have added new ones, like the proposed tax credit for movie productions. Closing loopholes will bring howls of protest from special interests, but in this environment strong leadership is essential.

Given the size of the budget hole, some of the cuts to the state income tax and to business taxes should be reversed. The new business gross receipts tax should be set at a level that reimburses local governments for lost property tax revenue and still makes a significant contribution to the state's general fund. Likewise, restoring original income tax rates on the wealthiest families makes sense in this environment.

It's time for a balanced approach to Ohio's budget problem. It should not be solved through cuts for services to children, the elderly, disabled individuals and the unemployed, but through shared sacrifice.

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