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## It's Time For *Leadership!*

*Making smart choices in this two-year budget for a stronger economy and stronger, healthier families in Ohio*

### Background

- Ohio has not fully recovered from previous recessions. The last Ohio Budget (2008-2009, \$52 billion in General Revenue Funds) was the lowest growth budget in 42 years. With the exception of the Rainy Day Fund, the last budget also utilized all possible state funds, including using the TANF surplus and securitizing the tobacco settlement funds.
- Since the last budget was enacted it has been revised three times to reduce spending a total of \$1.9 billion. *The Office of Budget Management reported that income tax receipts for the general revenue fund for the month of April '09 fell \$322 M short of projections, with total tax receipts \$397 M below FY09 targets; **additional cuts in FY 09 are imminent.*** These budget reductions have already had a dramatic impact on health and human service delivery in the state. At a time when the downturn in the economy is forcing more families to seek assistance from the state and private sector agencies, funding for those services is not available.
- Estimated General Revenue Fund appropriations for the upcoming 2010-2011 budget currently under consideration in the legislature are \$54 billion, of which \$6.9 billion are one-time funds (all but \$1.7 billion of the one-time funds are federal). The \$54 billion budget also includes \$1.5 billion in new fees or fee increases which may not make it through the legislative budget process. State-only General Revenue Funds come from the following sources (FY 2007): Personal Income Tax 44%, Sales & Use Tax 36%, Corporate Franchise Tax 5%, Tobacco 5%, and others 10%.
- The overall budget shortfall is due to two things. The first is the reduction in revenues that all states and the country are experiencing. The second cause of the revenue shortfall is changes made in the Ohio tax system in 2005 designed to remove over \$2 billion dollars in tax revenue upon full implementation. These changes include moving from a Corporate Franchise Tax to a Corporate Activity Tax and reducing the rate of business taxes. It also includes a 21% reduction in personal income taxes implemented over the past five years. There is little Ohio can do to counteract the reduction in revenues due to current economic conditions. Tax rates are within the control of the legislature.
- The SFY 2010-11 Budget as submitted includes significant cuts in human services, including cuts to *(United Way's early care and education priorities)*. There is also a total reduction of \$162 million per year in funding for county jobs and family services. The resulting staff reductions *(20% in Hamilton County)* are reducing all county services for low-income families at a time when their numbers are increasing dramatically (caseloads for cash assistance climbed 14% in 18 months, 1 in 3 families seeking assistance are new to the public assistance system, child abuse cases are increasing in number and degree of abuse).
- A growing number of legislators are considering the need for additional revenue, including rolling back some of the tax cuts of the last five years. It is very difficult for elected leaders to raise taxes even when it is a last resort. Health and human services organizations are organizing to ensure that the Governor and Legislators know how important and needed these services are and showing their support for increased revenues.



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The Campaign to Protect Ohio's Future recognizes the difficult decisions and choices Ohio's leaders and policymakers face when crafting the state's 2010-2011 budget. However, the only response to budget shortfalls cannot be to further cut services to Ohio's most vulnerable children, families, seniors, and those struggling to make ends meet during this downturn in the economy.

During difficult economic times, it is even more important to focus resources on local services that keep our workforce strong and help our families hang on. In order to avoid additional cuts and restore funds to services desperately needed by Ohioans, we call on our Governor and Legislators to increase revenues to help meet these needs. Ohio's budget cannot be balanced only by cuts. We need to increase state revenues to provide necessary funding for such critical areas as health, education, safety and social services.

The Campaign does not recommend a specific revenue increase but has catalogued some potential revenue increases being considered in our state and others.

### ***Possible Ohio Revenue Options: For Discussion Purposes Only***

- Cuts in the personal income tax could be restored:
  - Restoring the last across-the-board rate cut in the personal income tax, currently being implemented would save more than \$400 million a year.
  - Restoring the top personal-income tax rate of 7.5% -- the level in 2005 -- for incomes over \$200,000 a year would yield estimated annual revenue of \$470 million
  - A roll back of the personal income tax rates across the board to 2007 levels would generate roughly \$800 million, (double the amount for the final year rollback)
- Restricting tax breaks could generate up to \$150 million a year. For consideration:
  - Levy sales tax on lobbying and debt collection
  - Eliminate the tax on dealers in intangibles and require such companies to pay the corporate franchise tax for financial institutions
  - Means-test the 10% and 2.5% property-tax rollbacks for residential homeowners and owner occupants
  - Tighten the residency requirement for the state income tax
  - Apply the Commercial Activity Tax to suppliers of large distribution centers
  - Eliminate the credit companies with large previous losses will be able to take against the CAT
  - Revoke the ability of certain trusts to choose whether to pay the CAT or the individual income tax



- Repeal the sales-tax exemption for equipment used in retailers' warehouses
- Consider limiting the exclusion of goodwill, appreciation and abandoned property from the net worth tax on financial institutions.
- Eliminating the \$20 personal exemption credit for the personal income tax would generate about \$152 million.
- Raising the cigarette tax 1 cent per cigarette would generate \$130 million and doubling the current tax on other tobacco products would generate \$20 million.
- A temporary increase in the sales tax would yield about \$675 million for each ½ percentage point increase.
- Ohio should examine other states' initiatives to increase revenues through liquor taxes, and taxes on soda and bottled water.
- House Bill 66, the 2005 tax reform, reduced business taxes by \$1 billion or more a year by replacing the corporate franchise tax and the tangible personal property tax with the new Commercial Activity Tax (CAT). There are a number of ways to restore some of the lost revenue:
  - Increase the rate of the Commercial Activity Tax. Each 0.01 percent increase in the CAT would generate about \$50 million or more in annual revenue (currently, the CAT is due to reach its full rate of 0.26 percent in April 2009). The state could also increase the minimum CAT payment of \$150 a year; a \$50 increase would generate \$6 million annually.
  - Plan for possible court decisions invalidating the CAT for food sellers and declaring the CAT must be used for highway purposes only, respectively, if either of those should happen by (a) increasing the rate of the CAT according to the lost revenue, or (b) reinstating the corporate franchise tax for food sellers and oil marketers, or some combination of the two.
  - The final cut in the corporate franchise tax could be halted. This would leave the tax at 20% of its rate when the tax cuts began. Estimated GRF revenue in FY09: \$305 million. This tax should also be strengthened so companies can't easily shift Ohio income out of state (would produce tens of millions of dollars annually).

**It's Time For *Leadership!*** To attract growing industries, Ohio needs a job-ready workforce and healthy families and communities. We need to make smart choices in this budget to invest in the education, training, health and family supports that keep our workforce strong. JOIN US IN PROTECTING OHIO'S FUTURE today!