



Office of Budget and Management

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GOVERNOR KASICH'S EXECUTIVE BUDGET RECOMMENDATIONS FOR FISCAL YEARS 2014 AND 2015

TESTIMONY OF DIRECTOR TIMOTHY S. KEEN, OFFICE OF BUDGET AND MANAGEMENT

HOUSE FINANCE AND APPROPRIATIONS COMMITTEE FEBRUARY 5, 2013

Chairman Amstutz, Ranking Member Sykes, and members of the Finance and Appropriations Committee, my name is Tim Keen, and I am the Director of the Office of Budget and Management. I am pleased to be here today to present Ohio's Jobs Budget 2.0, Governor Kasich's Executive Budget Recommendations for fiscal years 2014 and 2015.

While today marks the beginning of the legislative process through which the General Assembly will consider the Governor's budget recommendations, it also represents the culmination of a long process of budget and policy development by members and staff of the Kasich Administration.

The budget development process began formally in June of last year, when I sent budget guidance to state agencies, boards and commissions outlining the form and content for the submission of budget requests to OBM. But in fact, the budget and policy process had been underway far longer than that. Work on many of the proposals in this budget has been ongoing throughout Governor Kasich's first two years in office.

Sometimes it seems to me that I have been involved in one long, continuous budget process. I guess this was to be expected with a governor who spent six years as Chairman of the Congressional House Budget Committee.

Before I begin my formal presentation, I want to thank my colleagues in the cabinet, their staff; the employees of all other state agencies, boards and commissions; Governor's Office staff; and the employees of OBM who have been involved in the development of this budget.

The Executive Budget document is dependent on the work of thousands of knowledgeable and dedicated state employees. It is my privilege to represent them here today.

As you know, this is the second biennial budget recommendation presented by Governor Kasich. This effort builds upon what was a very challenging first budget, which closed a projected \$7.7 billion structural imbalance without raising taxes and, in fact, provided significant tax relief to Ohioans. We called it the Jobs Budget, for good reason, because it returned Ohio to fiscal stability and helped us regain our competitive standing in the marketplace for jobs and economic growth.

That budget was followed in 2012 by a comprehensive Mid-Biennium Review, which produced a number of important legislative reforms and initiatives in education, health care, workforce training, economic development, energy policy and state agency efficiency.

The successes achieved in those first two budget efforts were driven by a set of budget principles. This budget is no different. Ohio's Jobs Budget 2.0 is guided as well by these four fundamental principles:

The Budget Is a Means to an End

That end is economic development and jobs growth. The Governor's highest priority is to improve Ohio's economic competitiveness in order to provide better opportunities and a better future for every Ohioan. Our resource-allocation and policy decisions have been centered on this priority and our goal is to reduce cost and improve program delivery and service in ways that make Ohio an even more attractive place to work, live and raise our families.

Retain Structural Balance and Strengthen Ohio's Financial Footing

Significant efforts have been made over the past two years to return Ohio's budget to structural balance, to stabilize the state's finances and to begin rebuilding our budget reserves. We need to build on this momentum and protect the achievements of the past two years. To attain success, we must build a balanced budget that is based on conservative economic forecast and revenue estimates, while fully recognizing and appropriating funds for expected program costs and obligations.

Comprehensive Review of All Agencies, Programs and Line Items

In preparation for this budget – as with the Governor's first budget and the MBR – we undertook a careful review of all agency budgets and operations. We looked closely at every

line item, GRF and non-GRF alike. Our obligation is to be good stewards of state government resources, whether generated through taxes, fee charges or federal grants.

Continue to Reform and Restructure State Government and Services

Over the past two years, we have made significant progress toward changing the way state agencies do business and we continue to build on those efforts. Agencies have been encouraged to look for operational efficiencies and other opportunities for cost-saving program reform and improvement. The budget process is a crucial step in that process as we review our organizational structure, our processes and procedures, finding better ways to deliver quality services to Ohioans.

STATE FISCAL CONDITION – FYs 12 AND 13

Before I discuss the Governor's recommendations for FYs 14-15, I would like to briefly review the fiscal condition of the state over the past two years. Members of the committee are familiar with the actions required in HB 153, the Governor's first budget, to address the structural imbalance that faced the state. Through a series of difficult, but necessary, budget and policy decisions, that bill returned Ohio to structural balance and fiscal stability. It laid the groundwork for the positive financial results our budget has produced over the past 19 months.

Additionally, with careful fiscal management at the close of FY 2011, OBM was able to pay all the state's bills for that year rather than pushing some off to FY 2012, as contemplated by the previous budget plan. OBM was also able to make a deposit to the Budget Stabilization Fund that resulted in a balance, at that time, of \$246.9 million.

During FY 2012, conservative revenue estimates resulted in state GRF tax receipts modestly exceeding estimates. That – combined with careful fiscal management, which resulted in spending below estimates – allowed for an additional deposit of \$235.1 million to the BSF; bringing the current total balance to \$482.0 million or 1.8% of GRF revenues.

At the start of FY 2013, the second year of the biennium, OBM revised GRF revenue and spending estimates. The revenue revisions incorporated the latest economic projections and actual results from FY 2012. Disbursement estimates were updated based on actual FY 2012 results, appropriation changes in the Mid-Biennium Review (MBR), and expected continued savings in the Medicaid program. The FY 2013 revisions produced an expected GRF ending fund balance of \$552.0 million. This balance is \$408 million above the customary target ending balance of one-half of one percent, or \$144 million of GRF revenues.

Through the first seven months of FY 2013, state finances continue to slightly outperform the budget plan [see Attachment 1]. Tax revenues are \$286.2 million, or 2.5% above estimates. The Personal Income Tax is over the estimate by \$283.8 million, or 5.4%.

As I will discuss later in my testimony, this is in part due to the acceleration of income into CY 2012 by some taxpayers as a result of concerns over potential Federal tax rate changes. The Corporate Franchise Tax and the Estate Tax are also above estimate, but the Non-Auto Sales Tax is below estimate by \$45.8 million, or 0.9%.

On the expenditure side, actual disbursements are running modestly below estimate. Total disbursements are \$207.0 million, or 1.2% below estimates. The largest part of this under spending is in the Medicaid program, which is due to a number of factors including better-than-expected performance by the newly implemented MITS system regarding the accuracy of claims adjudication, lower-than-expected capitation payments for health plans, and the success of cost-containment initiatives contained in House Bill 153. For most other spending, I would expect disbursements and encumbrances to finish near the estimates.

Based on results year-to-date and expectations for the remaining five months of FY 2013, OBM has revised revenue and spending estimates, which results in a new projected GRF ending balance of \$1,707.7 million [see Attachment 2]. This new balance is expected to be sufficient to accommodate several year-end transfers proposed in the Executive Budget, allow a deposit to the Budget Stabilization Fund, and provide for a CY 2013 Personal Income Tax cut under the provisions of the Income Tax Reduction Fund (ITRF) statute.

The projected ending balance is after any encumbrances to reserve resources for state payments due, but not made, before the end of the fiscal year. The disposition of the projected ending balance would be as follows:

- First, one-half of one percent of FY 2013 resources (estimated to be \$146.1 million) would be reserved as a GRF carryover balance.
- Second, the Executive Budget proposes FY 2013 year-end transfers totaling \$167 million in order to set aside resources for several purposes. These include paying interest on the balance of the unemployment compensation funds borrowed from the federal government (\$120 million), replenishing the emergency purposes fund

(\$20 million), replenishing the disaster services fund (\$15 million), and reserving funds for possible court judgments involving the Department of Natural Resources (\$12 million).

- Third, an estimated transfer of \$978.7 million to the Budget Stabilization Fund would to bring the balance of the fund to the statutory target of 5% of FY 2013 revenue.
- And finally, the remaining amount, estimated to be \$415.9 million, would be deposited into the ITRF. This would result in a temporary reduction in Personal Income Tax rates of approximately 4% for calendar year 2013 tax liabilities.

At this time I would like to add a note of caution on these FY 2013 numbers. The revised revenues, spending projections, and the resulting fund balance that I have just reviewed are estimates based on current information. These numbers are subject to change based on actual results throughout the remainder of the fiscal year. Nonetheless, it is OBM's responsibility as part of the budget process to make such estimates to inform the decisions of the Governor and the General Assembly.

Just a quick word about the operation of the ITRF law. The amounts deposited into the ITRF at the close of the fiscal year will be compared to the FY 2014 estimated Personal Income Tax revenues to allow the calculation of the percentage by which the Personal Income Tax rates for CY 2013 will be reduced. Most Ohioans will realize benefits of the reduced rates during income tax filing season next year. This tax reduction represents the first time since tax year 2000 that the state has had sufficient balances to trigger the ITRF law.

The fact that OBM is able to project the state will soon have a Budget Stabilization Fund balance at the statutory 5% target – and that Ohioans will benefit from a “good management dividend” tax cut – are a direct result of the conservative fiscal management practices that Governor Kasich has insisted upon during his two years in office. In just over two and a half years, the state will have moved from a projected GRF structural imbalance of \$7.7 billion and a rainy day fund of \$0.89 cents to a structurally balanced budget and a rainy day fund of \$1.46 billion.

ECONOMIC OUTLOOK

The economic forecast that forms the underlying basis for the revenue forecasts in the budget assumes continued economic growth, both nationally and in Ohio. That growth, however, is expected to continue to be moderate. Since the Great Recession of 2007-09, U.S. real gross domestic product (GDP) had grown for 13 consecutive quarters, before unexpectedly falling slightly in the quarter just ended, the fourth quarter of 2012. The advance estimate from the Bureau of Economic Analysis (BEA), which is frequently revised in later releases, shows that the U.S. economy contracted by 0.1% in the fourth quarter of 2012. For the entire year 2012, despite the poor fourth quarter, real GDP grew by 2.2%, which is still an acceleration from the 1.8% growth of 2011.

Although the fourth quarter GDP number was disappointing, the forecasting firms who provide OBM with data and analysis are uniform in their opinion that the negative numbers are the result of one-time factors and are not meaningful. Two factors drove the downturn, defense spending and inventory accumulation. Defense spending in the fourth quarter fell by an annualized rate of 22%, and defense spending by itself subtracted 1.3 percentage points

from GDP growth. In other words, other than defense spending, GDP grew by 1.2% in the fourth quarter. The decline in defense spending appears to have been a response to the possibility of the federal budget sequester taking effect in January of 2013, had there been no resolution to the federal “fiscal cliff” negotiations. The reduction in inventory accumulation also subtracted 1.3 percentage points from fourth quarter growth. On the plus side, real consumer spending rose 2.2% in the fourth quarter, which was higher than the prior two quarters (spending was up 1.9% on a year-over-year basis).

Despite the fact that the fourth quarter GDP number probably overstates problems in the U.S. economy, we do not want to make the mistake of painting too bright a picture of the economic outlook. This has been the slowest U.S. recovery in the post-World War II era. In the thirteen quarters since the end of the Great Recession (not counting the fourth quarter of 2012), real GDP has increased at an annual rate of only 2.2%. Following the three prior recessions of 1981-82, 1990-91, and 2001, real GDP grew at an average annual rate of 3.9%.

A number of factors have combined to make this current recovery weaker than average. The Great Recession of 2007-2009 was not an isolated U.S. event. The downturn was global, and it was in large part the result of a financial crisis that was also global. Housing bubbles in the U.S., the U.K., and other countries as diverse as Iceland and Spain burst. As a result, banks, businesses, and households in many areas of the globe found themselves overleveraged. The reaction, which has encompassed households paying down debt rather than spending, businesses restructuring their balance sheets rather than engaging in normal recovery levels of hiring, and banks shoring up their capital rather than lending as they

usually would in a recovery, has made growth since the recession subnormal. The relatively weak recovery and expansion has, in the Administration's view, been exacerbated by federal policy changes and uncertainty about the direction of federal policy, particularly in the areas of health care, taxation, and regulation.

One of the factors that I did not mention in my discussion of fourth quarter GDP is that U.S. exports fell and subtracted 0.8 percentage points from GDP growth, a sign that the economies of our trading partners are still struggling. Third quarter GDP estimates for the Eurozone showed GDP declining, and unlike the U.S. decline, the Eurozone contraction probably cannot be blamed on one-time factors.

The weakness of this U.S. recovery compared to others in the postwar period is particularly evident in the labor market. While real GDP finally recovered its pre-recession peak in the fourth quarter of 2011, the U.S. labor market is still 3.2 million jobs (2.3%) below its pre-recession peak.

Fortunately, Ohio's experience since the Great Recession has been somewhat better than the national experience. For example, although incomes decreased more rapidly in Ohio than across the country in the recession, they have recovered somewhat faster. Wage and salary income, which is an important variable and a key determinant of revenues for both the income tax and the sales tax, has recovered at a faster pace through the third quarter of 2012 than it declined during the recession. It has also increased at a faster pace than the average across the country. U.S. wage and salary income decreased at an annual pace of 3.5% from peak to trough, and since then has grown at only a 3.2% pace. In contrast, Ohio wage

and salary income decreased at an annual rate of 3.6% from peak to trough, but since then has grown at a 3.8% pace.

Ohio's superior performance can also be seen in labor market statistics. The Ohio unemployment rate was 6.7% in December 2012, the lowest rate since July 2008, and well below the U.S. rate of 7.8%. The Ohio unemployment rate has been below the U.S. rate every month since November 2010, and the gap widened appreciably in 2012. Similarly, Ohio employment growth has recently been outpacing the nation. Over the last 12 months, from December 2011 through December 2012, Ohio employment has grown by 91,000 jobs, or 1.8%, while national employment has grown by only 1.4%. Since January 2011, Ohio employment has grown by 120,400 jobs, placing Ohio first in the Midwest.

Although the recovery from the Great Recession has been slow and uneven, the U.S economy does continue to recover. It has avoided the double-dip recession that appears to be unfolding in the Eurozone, where, as I mentioned earlier, GDP declined in the third quarter of 2012. Both of the sources that OBM has relied upon for economic forecasts to compile this budget – the forecasting firm Global Insight and the Governor's Council of Economic Advisors – see continued growth over the FY 2014-2015 period, with growth improving from FY 2014 to FY 2015. This improvement can be seen in both the forecasts of U.S. economic variables and Ohio economic variables, both of which are used to generate OBM's forecast of GRF tax revenues.

Since OBM must make final revenue forecasts before the Global Insight January forecasts for Ohio are completed, OBM has used Global Insight's December 2012 baseline forecast for

both the U.S. and Ohio economies as its foundation for the GRF tax revenue forecasts in the Executive Budget. In general, the assumptions in the December and January forecasts are similar, although there is now a resolution to the uncertainty about federal tax provisions that was not present in December. Global Insight's analysis of the U.S. economy sees the federal tax deal as avoiding the worst consequences of the "fiscal cliff," in that the tax increases that are part of the outcome are more limited than was feared, and thus the negative impacts on growth are limited. Global Insight does see a short-term impact from the expiration of the payroll tax cut (which is estimated to reduce disposable income by about 1.0% in 2013) reducing consumer spending somewhat in CY 2013, particularly the early part of the year.

Households are feeling more confident, but Global Insight's view is that there are still too many negatives to allow the recovery to accelerate much —high debt burdens, low house prices, slow to moderate employment growth, and continued uncertainty about federal policy, with the debt ceiling negotiations being the next potential stumbling block. Overall, Global Insight expects consumer spending, which is about 70% of total GDP, to rise 1.8% in 2013, down very slightly from estimated growth of 1.9% in 2012.

Among the sectors that are improving and that may help drive better growth in the longer run are vehicles and housing. Light-vehicle sales are the brightest spot, as they are expected to rise from 14.4-million units in 2012 to 15.0 million units in 2013. In housing, a recovery finally seems to be under way. Household formation is reviving, despite sluggish employment growth, and the recovery in demand is spreading from rental units to owner-occupied homes. Housing starts are expected to rise by roughly 25% in 2013, to just under 1 million units, and then to increase by another 32% in 2014, to 1.28 million. Recent evidence suggests that

home prices are also finally rising again. The forecast calls for a 1.5% house-price increase in 2013, following an estimated 5.3% increase in 2012.

There are, as you may know, thousands of national and state variables in the Global Insight economic forecasts. OBM pays particular attention to a relatively small group of key variables that either summarize the broad economy or are particularly important for the equations that are used to forecast GRF tax revenues. The FY 2013-2015 forecasts for those variables are summarized in the table below.

History and Global Insight Baseline Forecast of Key Economic Variables, FY 2012-15				
<i>Annual percent change unless otherwise indicated</i>				
	FY	FY	FY	FY
	2012	2013	2014	2015
	Actual	Est.	Est.	Est.
Output				
U.S. Real GDP	2.0	1.9	2.3	3.1
Ohio Real GDP	1.2	2.0	1.6	2.2
Income				
U.S. nominal personal income	3.6	3.5	4.4	4.8
Ohio nominal personal income	4.2	3.2	3.7	4.2
Ohio nominal wage and salary income	3.7	3.2	3.7	4.0
Employment				
U.S. nonfarm employment	1.4	1.4	1.7	1.8
Ohio nonfarm employment	1.1	1.7	1.4	1.3
U.S. unemployment rate (percentage)	8.6	7.9	7.6	7.1
Ohio unemployment rate (percentage)	8.0	7.0	6.7	6.6
Consumer Spending				
U.S. personal consumption expenditure	4.4	3.2	3.8	4.1
U.S. retail sales	6.8	4.0	3.0	3.1
Ohio retail sales	7.3	3.4	2.2	2.6
U.S. light vehicle sales (millions of units)	13.6	14.8	15.3	16.0

Earlier in my testimony, I mentioned that we had also incorporated the economic forecasts of the Governor's Council of Economic Advisors into our thinking about the direction of the economy in the next biennium. Although not shown in the table, the Council's forecasts are very similar to the Global Insight forecasts, although there are several variables for which they are slightly more cautious. As with the Global Insight forecasts, the Council's forecasts were made in December before the federal tax bill was known, and the forecasts therefore reflected greater uncertainty and a somewhat lesser degree of optimism.

REVENUE FORECAST

Based on the economic forecast I have described above, the Office of Budget and Management, in conjunction with the Department of Taxation, has developed GRF revenue forecasts that underlie the Executive Budget. Under current law, after the allocations from state tax receipts to the local government fund (LGF) and public library fund (PLF) are taken into account, GRF tax receipts are estimated to be \$20.60 billion in FY 2013, \$21.07 billion in FY 2014, and \$22.04 billion in FY 2015. Tax revenues are projected to increase by 8.4% in FY 2013, 2.3% in FY 2014, and 4.6% in FY 2015. This is the baseline forecast before tax reform changes are applied [see attachments 3, 4 and 5]. I discuss the tax reform changes and their impact on GRF tax revenues in a later section of my testimony.

These GRF tax revenue estimates are consistent with the Administration's conservative fiscal management philosophy. The tax revenue estimates are based on an economic forecast from Global Insight that is more conservative than the forecast from Moody's Analytics, which also provides the State of Ohio with data and analysis. Furthermore, the tax revenue estimates are produced by running various regression forecasting models and choosing

those that produce middle-of-the-road to slightly conservative outcomes. OBM was prepared to use a lower growth economic forecast if the resolution of the federal “fiscal cliff” negotiations had been different, and we examined a number of different forecasts and debated their relative merits before deciding that the Global Insight baseline was sufficiently conservative without being unduly so.

The question that immediately comes to mind when one looks at the baseline GRF tax forecasts is why the growth in FY 2013 is so high, followed by such low growth in FY 2014. The answer is rooted in federal tax policy, particularly the so-called “fiscal cliff” phenomenon where, late in tax year 2012, U.S. taxpayers were unsure of what federal tax rates would be in tax year 2013. If no action were taken by Congress, tax rates would have risen sharply on various types of income, the alternative minimum tax (AMT) would have been greatly expanded, various tax breaks would have expired, and so on. In response to this uncertainty, there is anecdotal evidence that taxpayers, particularly higher income taxpayers, responded by accelerating the realization of income over which they have some discretionary control, such as capital gains, from later years into tax year 2012. Publicly held corporations also apparently made large dividend payments in tax year 2012 that they otherwise would have made in tax year 2013 or later. It is also possible that employee bonuses were paid in tax year 2012 that otherwise would have been paid in tax year 2013.

Very recently, Moody’s Analytics estimated that nationally \$120 billion in dividend and bonus income (at annualized rates) was accelerated into the fourth quarter as a response to worries about higher federal tax rates. All these factors contribute to increasing FY 2013 income tax

payments, but at the cost of reducing income tax payments in FY 2014 and later years from what they otherwise would have been.

Neither OBM nor anyone else can know how much of this shifting of income into tax year 2012 from later years occurred in the aggregate. We can look at the anecdotal evidence, examine history for the responses to federal tax changes in the past, and see what has happened to income tax revenues in Ohio and other states in the very limited period surrounding the fiscal cliff. One piece of evidence that we already have is that January 2013 quarterly estimated income tax payments have risen very sharply from last year. Payments in Ohio were up about 30% from January last year, and were about \$120 million above the estimate. Our contacts in other states are reporting that payments are generally up 20% to 40% from last year.

The January estimated payments are a significant indicator because they are the last payment of the year and so are often used by taxpayers as a “reconciliation payment.” That is, if at year’s end taxpayers expect their liability to be much higher than they had previously thought, they sharply increase their January payment. That seems to be what has happened, and so can be taken as at least some confirmation of our hypothesis that income was accelerated into tax year 2012.

Because of this assumed acceleration of income into tax year 2012/fiscal year 2013, growth rates in the baseline personal income tax show a sharp increase in FY 2013 of 9.7%, followed by very low growth in FY 2014 of 0.9% For FY 2015, growth is expected to return to a more normal level of 4.5% Perhaps a better indicator of where OBM thinks the underlying

trend growth in the income tax would be under current law is the compound annual growth rate from FY 2012 to FY 2015, which is just under 5.0%.

Another factor that distorts baseline tax revenue forecasts somewhat in the other direction is the expansion of the Medicaid managed care base that is subject to the non-auto sales and use tax. Managed care premiums have been included in the non-auto sales tax base since FY 2010. Even without the proposed Medicaid coverage extension, during this budget period some additional groups, such as certain individuals that are dually-eligible for Medicaid and Medicare, will be covered through managed care as part of the reforms started in H.B. 153. In addition, the “woodwork” effect is expected to increase the number of participants in Medicaid, and many of these persons would end up being covered by managed care and would thus also increase aggregate Medicaid managed care premiums. This set of changes, in increasing managed care premiums, also increases the non-auto sales tax. Extension of Medicaid eligibility adds even more to managed-care premiums subject to the sales tax. Without changes in managed care, the non-auto sales tax would have increased by between 4.5% and 5.0% each year in FY 2014-2015. With managed care increases, the GRF non-auto sales tax is expected to grow by 6.9% in FY 2014 and 5.9% in FY 2015.

I will briefly discuss the other tax revenue sources for the GRF beyond the income tax and the sales tax.

The CAT forecast appears, looking at the GRF revenues alone, to actually decline in FY 2014 from FY 2013. In fact, total CAT revenues are forecast to increase by 4.1% in FY 2014 and 3.0% in FY 2015. The GRF decrease is a function of accounting differently for the impact of

the Ohio Supreme Court decision in *Beaver Excavating v. Testa* in FY 2013 and in subsequent years. The *Beaver Excavating* decision requires that CAT revenues from gross receipts related to motor fuel (used on public highways) be segregated from other CAT revenues and used for highway purposes. In FY 2013, since there will not be available tax return data to identify such motor fuel-related revenues, the Executive Budget proposes that an estimated amount of CAT revenues be transferred from the GRF to a newly created fund. The GRF continues to get the full amount of CAT revenues, but there is a transfer out of approximately \$82 million. In contrast, in FY 2014 and succeeding years, as CAT revenues are collected they will be segregated into GRF, property tax replacement, and motor fuel portions, so CAT revenues are reduced by the motor fuel earmarking.

In the domestic insurance tax, as in the non-auto sales tax, FY 2014 and 2015 tax collections are boosted by the increase in managed care premiums subject to the tax. This accounts for the high growth rates in the forecasts, particularly in FY 2015.

Finally, I must comment on three defunct taxes and one new tax. The corporate franchise tax and the “business and property tax,” also known as the dealers in intangibles tax, have no estimated revenues after FY 2013 because those taxes have been replaced by the Financial Institutions Tax (FIT) beginning in January 2014. In fact, there may be some audit findings or refunds that lead to small amounts of positive or negative revenues for those defunct taxes after FY 2013, but such amounts are inherently unpredictable and OBM has not budgeted for them.

The estate tax has also been repealed, but there is still a small amount of estimated revenue in FY 2014. The repeal is for estates where the decedent passed away on or after January 1, 2013. Since there is a statutory nine-month time period between the date of decease and the filing and payment of the return, this means that the state should stop seeing estate tax revenues by October 1, 2013 (or perhaps later, given filing extensions). So, OBM has allowed for one quarter's worth of estate tax revenue to be realized in FY 2014.

FY 2014-15 RECOMMENDED APPROPRIATIONS

The Executive Budget recommends GRF appropriations of \$30.6 billion in FY 2014 and \$32.7 billion in FY 2015. "All Funds" recommended appropriations total \$63.7 billion in FY 2014 and \$66.8 billion in FY 2015 [see Attachments 6 and 7].

Following legislative tradition, the Executive Budget will be introduced as four separate budget bills, known as the Main Operating, Transportation, Bureau of Workers Compensation, and Industrial Commission budgets. All GRF appropriations and a large majority of the non-GRF appropriations will be contained in the Main Operating Budget. The three other bills will contain only non-GRF appropriations.

Recommended state-only GRF appropriations total \$21.1 billion in FY 2014 and \$21.6 billion in FY 2015. This represents annual growth rates of 5.4% and 2.5%, respectively.

Most of the growth in state-only GRF appropriations is due to primary and secondary education and Medicaid. Education grows because the recommended budget contains full funding of Governor Kasich's Achievement Everywhere plan. Most of the Medicaid growth is

due to costs associated with the “woodwork” effect related to the federal Affordable Care Act, which necessitated significant cost-containment to reduce the impact on other areas of the budget.

If you remove education and Medicaid growth from the calculation, state-only GRF growth is reduced to 2.2% and 2.0%. In fact, if you also remove growth in higher education, property tax relief, and debt service, all other spending grows by only 1.6% in FY 2014 and then decreases by 0.2% in FY 2015. This represents significant spending restraint across all of state government. This restrained funding is only possible due to careful, conservative fiscal management and the operational improvements and program reforms that are happening across our state agencies.

Regarding total GRF appropriations, as you know, federal reimbursement for the majority of Medicaid spending is deposited into the GRF. As a result of increased federal reimbursement for the woodwork population, federal funding of the eligibility extension, and other factors, federal GRF appropriations grow by 23.9% and 16.6% This brings total GRF appropriation growth to 10.5% in FY 2014 and 6.8% in FY 2015.

THE FIVE MAJOR INITIATIVES

Although there are hundreds of changes proposed in the Governor’s Executive Budget, time will not permit me to discuss them all today. Over the next several weeks, my Administration colleagues and I will make ourselves available to members, through this committee and its subcommittees or other venues, to provide you with the information required to make a fair

and informed assessment of these proposals. I will now summarize for you what we characterize as the five major initiatives.

EDUCATION FUNDING AND REFORM

The Governor has advanced significant education reforms to create an environment where our students can succeed. These include the new “A to F” Report Card, the Third Grade Reading Guarantee, Teacher Evaluation System, Vouchers for Students in Failing Schools, and a promotion of Blended Learning Opportunities. This budget seeks to put in place a school improvement plan – not just a school funding plan – where every child, no matter where they live, will have an opportunity to succeed.

The Kasich Administration has spent well over a year developing the proposal before you today. During that time the Governor’s Office of 21st Century Education has met with hundreds of superintendents, treasurers, teachers, school board members, and other members of the education community to gather input on what improvements can be made in our support of public education. The result is the Governor’s plan for education – Achievement Everywhere.

Achievement Everywhere includes four areas:

Resources to Succeed – to invest in our classrooms and ensure a core level of funding. This includes the major funding components of the Governor’s plan, which I will discuss in detail today.

Straight A Fund – to reward innovation and help schools advance student achievement, identify opportunities for cost savings, and help more resources flow to the classroom;

Free to Achieve – will seek to remove barriers, allow for greater flexibility, and empower teachers and school administrators to make more decisions locally to meet student needs; and

Investing in What Works – to ensure students, parents, teachers, and taxpayers understand what their investments in education yield and continue to expand opportunities to students.

Recommended GRF and lottery appropriations for the Achievement Everywhere plan total \$7.388 billion in FY 2014 and \$7.694 billion in FY 2015. This represents a subset of eight line items in the education budget. GRF and lottery appropriations for primary and secondary education, without property tax relief, total \$7.734 billion in FY 2014 and \$8.066 billion in FY 2015. This represents growth of \$498.5 million, or 6.9%, in FY 2014, and another \$331.4 million, or 4.3%, in FY 2015. Relative to FY 2013 funding levels, this represents \$1.328 billion of “new” funding in the budget. The GRF portion of these appropriations is \$6.893 billion in FY 2014 and \$7.091 billion in FY 2015. Lottery comprises \$841.0 million in FY 2014 and \$974.5 million in FY 2015. You will notice that this represents a significant increase in anticipated lottery profits, which is attributable to the opening of additional video lottery gaming facilities at racetracks in Ohio.

My testimony today will focus on the Resources to Succeed component of the Achievement Everywhere plan. Before I speak more on Resources to Succeed, I want to briefly address

the other areas of our plan. Next week the committee will receive testimony from my colleagues in Governor's Office of 21st Century Education, Dr. Richard Ross and Barbara Mattei-Smith, when they will provide a more comprehensive analysis of those components.

First, the ***Straight A Fund*** will provide our schools with grants that can be used to develop and implement creative and transformative instructional models to inspire learning and student growth. The grant program is open to school districts, educational service centers, community schools, STEM schools, and education consortia. Grants will be awarded by a board appointed by the Governor, in a fashion similar to the Third Frontier program. These innovative projects should meet the following goals: student achievement, spending reduction in the five year forecast, and increased resources flowing to the classroom. Recommended appropriations for the Straight A Fund are \$100 million in FY 2014 and \$200 million in FY 2015 from the Lottery Profits Education Fund.

Next, ***Free to Achieve*** will help provide teachers and leaders the freedom to make decisions based on the needs of students. The state has adopted statutes or rules that far exceed basic standards for student learning and school operations. We seek to maintain the standards that relate to the health and safety of our students as well as the standards which promote high achieving schools. However, our proposal will repeal some statutory mandates. The budget proposal also requires the State Board of Education to review and revise operating standards for schools, which are contained within the Board's administrative rules.

Finally, ***Investing in What Works*** will expand the financial reporting currently required of school districts to community schools and STEM schools. This reporting will be done at both

the district and building level – to provide transparency to stakeholders about the level of resources provided for classroom learning. Our plan will require the Department of Education to create a performance management website with academic and fiscal performance metrics comparing similar districts.

Resources to Succeed

Now I will turn to the funding component of the Governor’s Achievement Everywhere plan, ***Resources to Succeed***. As I said before, the goal of this plan is to provide an opportunity for every student to succeed, no matter where they live. To achieve that goal, Achievement Everywhere seeks to close the disparity in resource capacity among school districts, and drive dollars to the classroom based on the needs of individual students. The following testimony will review the funding components which primarily apply to traditional school districts. I will address other proposed changes of formulaic aid to education providers later in my testimony.

The first two components of the funding plan I will discuss are the core opportunity funds and targeted resources, which are the two major components that seek to equalize the capacity of local school districts to raise revenue.

Core Opportunity: For many years, school districts have been required to levy 20 mills of property tax to participate in the state foundation program. ***Core Opportunity*** recognizes the tax bases in each district vary significantly across the state. The poorest district’s tax base of less than \$50,000 per pupil is significantly less than the wealthiest district’s tax base of over \$700,000 per pupil. At approximately the 96th percentile, the tax base is \$250,000 per pupil.

To provide capacity to those school districts with the lowest tax base, the Governor's proposal will ensure that all districts will raise the same amount of funds on the first 20 mills when local and state aid is combined as the district with a tax base of \$250,000 per pupil.

Targeted Resources: While every district in the state is required to levy 20 mills of local property taxes, most districts levy additional property taxes. However, a district's capacity to raise additional local revenue is dependent not only upon the value of the property tax base, but also on the household income level of its residents. Achievement Everywhere provides **Targeted Resources** to those districts with the least capacity for levying millage above 20 mills. A wealth measure for each district is calculated using the average of property values and household incomes. For districts that are below the top 20% in this measure of wealth, a sliding scale of between 5 and 15 equalized mills is provided, with the poorest districts receiving the highest millage. Districts are not required to levy local mills in excess of 20 mills to be eligible for this payment.

Meeting the Needs of the Individual Student: Achievement Everywhere seeks to direct resources to the classroom, rather than funding the administrative and overhead expenses of a district. Significant investments are made in the Governor's proposal to provide funding for students who need additional assistance to succeed.

- Students with Disabilities: All public schools are required to provide students with disabilities with a free and appropriate public education to engage in the educational programs of the school. This amount of support will vary, depending on the severity of the students' disability. Using recommendations made by the Ohio Coalition for

Students with Disabilities on the cost of providing services to students with disabilities, a per-pupil amount of additional funding (\$1,902-\$30,896) is provided for six different categories of student disability.

- One of the areas of concern that was repeatedly raised to us was the ability of our schools to meet the needs of students when the cost is exceptionally high. Schools serving special needs students will contribute a portion of their special education allocation under the foundation formula and participate in an **exceptional-cost reimbursement fund**. This pooling of funds will reimburse schools when the cost to provide services to an individual student significantly exceed the cost of services for most other special needs students. It is important to note that the State's commitment to reimbursing school districts for their exceptional-cost students represents more than a ten-fold increase from the current \$10 million appropriation, and acknowledges the strain that providing for these students can have on district finances. A non-GRF fund will be created to hold these funds and make payments to school districts that submit claims for reimbursement.
- English Language Learners: For students for whom English is not their native language, engaging in the educational programs at school first requires mastery of the English language. Students require staff that can bridge the gap between their native language and English. As the student gains mastery of the English language, the amount of required support will decline. Therefore, \$1,500 is provided the first year a student is classified as limited English proficient, with the amount decreasing over the

following two years. However, continued funding will support interpreters and translation services for families that are not English speakers.

- For these first two components – Students with Disabilities and English Language Learners – a **State Share** is applied. This represents a commitment by the state to help share the cost of these programs with local school districts. The state share will range between 5 and 95%, based on each district's local tax base in comparison to other districts in the state. I want call specific attention to the 5% minimum state share contribution. It is important to note that prior formulas have not included such a provision. The Governor's proposal today includes a minimum commitment from the state, regardless of a district's resource capacity.
- Economically Disadvantaged Students: Students from economically disadvantaged homes, as measured by student eligibility for a free or reduced price lunch, frequently require additional supports, particularly in those districts with high concentrations of students living in poverty. Districts are provided funding ranging from a low of \$20 per pupil to a high of more than \$1000 based on the concentration of poverty. Districts with poverty rates above the statewide average receive higher levels of support and districts below the average poverty rate receive lower levels of aid. All districts are eligible for this aid.
- Early Education Access: One of the Governor's most significant education reforms has been the Third Grade Reading guarantee. Related to that benchmark of student success, and identified as a factor in improved educational outcomes, is a student's

access to quality early childhood programs. Achievement Everywhere develops a new measure of access to early childhood programs, based both on a student's access to early childhood centers and level of poverty. For districts with above average poverty rates, funding of \$317 to \$3,200 per pupil is provided on a sliding scale based the ability of students to access early learning programs.

- Gifted: In the area of gifted education, Achievement Everywhere provides \$50 for every student to allow schools to identify and serve their most talented students through alternative or more challenging instruction.

Guarantee: The components above represent the state resources necessary to help students succeed. However, over the course of the past 15 years, there have been significant and repeated changes to school funding in Ohio. Each of these changes included components that held districts harmless from changes related to the formula. These “guarantees” maintained funding levels or limited funding losses, regardless of a district's declining enrollment or increased taxing capacity. As implementation of our funding formula without continued temporary assistance could destabilize a district's finances, each district is ensured the same level of funding for these core resources as was received in the prior year. It is important to note that the cost of the guarantee is estimated at \$880 million over the biennium and represents 7.4% of FY 2014 foundation funding to traditional public school districts. These amounts represent funds that cannot be targeted to districts with lower resource capacity and are neither fair nor sustainable in the long term.

Final Funding Limitations: Moreover, over the course of the four prior fiscal years, increases in enrollment and/or declines in the taxing capacity of a district have not played a major role in funding formulas. Just as declining revenues can cause instability in finances, sudden increases can also create disruptions in the budgeting process. Thus, after allowing for the full funding of the core opportunity funds, increases in state aid are limited to the lesser of 25% of the prior year's aid or 10% of the district's total resources.

In addition to the Governor's Resources to Succeed component for traditional school districts, the Governor's recommendations include several other significant reforms. These reforms are the result of a top to bottom review of educational funding programs, and a commitment to ensure appropriate resources are available for students. These programs have not been addressed in recent school-funding reform discussions. However, they are critical to promote student success.

Preschool Special Education: For years, pre-school special education has been funded by a unit amount. This budget proposes the replacement of unit funding with a formula based upon the specific disabilities of the child and the wealth of the district, rather than on an outdated teacher cost model. Recommended FY 2014 appropriations are \$103.0 million, which is an increase of \$18.5 million, or 22%, over FY 2013.

Career-Technical Education Weights: Part of the Governor's plan for education is to connect students with career opportunities. Achievement Everywhere provides additional investments in joint vocational school districts and proposes to include all schools in our career technical

planning districts. The plan creates five levels of supplemental funding for career-technical education, based on the type and demand of each career technical program.

Boards of Developmentally Disabled: Many county boards of Developmentally Disabled provide programs for school aged children with more severe disabilities. Funds will provide a per pupil amount that is adjusted for the disability of the student served.

School Choice: The Governor's proposal includes the acknowledgement that community schools do not have the access to permanent improvement funds like many school districts, and provides \$100 per student attending a publicly funded community school to offset the cost of maintaining healthy and safe facilities. Additionally, students of families at or below 200% of the federal poverty guidelines entering kindergarten in FY 2014 will be eligible for an Educational Choice scholarship to attend a chartered non-public school. This pilot program, which will be paid by the state and not impact school district finances, will expand to first grade students in FY 2015.

In addition to these changes in funding formulas, the Department of Education's budget includes increased funding levels in the following areas:

Early Learning Funds: The Race to the Top Early Learning Challenge Grant provided Ohio with funds to evaluate early learning programs and implement quality ratings for all preschool programs. The budget includes an additional \$2 million in early learning funds in the second year of the biennium to increase the number of preschool students served by our highest performing preschools.

Non-Public Schools: Outside of the foundation formula, support is provided for nonpublic schools to support the purchase of secular services and materials, as well as to reimburse non-public schools for mandated administrative and clerical costs. Recommended FY 2014 appropriations are \$193.2 million, an increase of \$10.0 million, or 5.5%, which is tied to the growth of the GRF foundation funding line item. For FY 2015, recommended appropriations are \$199.1 million, which is an increase of \$5.8 million or 3.0%.

Assessments: An additional \$20 million in funding is recommended for FY 2015 for a new generation of assessments through Ohio's participation in the Partnership for Assessment of Readiness for College and Career Consortium (PARCC). These assessments, both formative and summative, include mid-year performance appraisals, high school end of course exams, and an increased focus on providing feedback to teachers and students of progress made over the course of the year.

Connectivity: Finally, the budget includes an additional \$10 million in technology infrastructure in FY 2014 to help connect information technology centers to the State broadband network, and allow for other connectivity upgrades to support the assessments discussed above, blended learning, and mobile computing initiatives in schools.

I have been involved in many school funding discussions over the last 20 years. Changes to the school funding formula can be frustrating and difficult, and in fact, I initially told the Governor I did not want to participate in the development of a new school funding formula. However, over the course of the last year, I have been increasingly excited about the work this administration has done to produce the recommendations before you today. I believe

there has been significant input from educators throughout Ohio, and that we have carefully considered a wide range of factors in determining the resource needs for Ohio's students. I also believe we have addressed many areas of school funding that have not been addressed in prior school funding formulas, and we have fully funded a formula that adequately and equitably allocates state resources. This proposal addresses the needs of students not just in this biennium, but in years to come.

TRANSFORMING HIGHER EDUCATION

The centerpiece of the higher education budget is the re-designed State Share of Instruction (SSI) funding formula. In the fall of 2012, Governor Kasich met with the leaders of Ohio's public colleges and universities and challenged them to work together to envision the SSI not simply as a state subsidy, but as a strategic source of funding. It was his goal that this new approach would incentivize student success as well as increased course and degree completions while holding public institutions accountable for results. Expanding upon the successful collaboration that was achieved in the most recent capital appropriations bill, the Higher Education Funding Commission, led by Ohio State University President E. Gordon Gee, was charged with re-designing the SSI formula to respond to the Governor's new challenge.

After several months of deliberation among higher education leaders, the Commission responded by submitting a final report, signed by every public college and university president in the state, recommending numerous policy changes to the SSI formula. The recommendations of the Commission were strongly endorsed by Governor Kasich. The

Executive Budget contains the necessary language within the SSI to implement these significant performance-based policy reforms. Highlights include the following:

Incentivize University Degree Completion: The bill allocates 50% of the total university funding within the SSI for degree completions. This means that 50% of the SSI available to universities will be awarded according to the number of students who actually complete a degree at the institution.

Eliminate the Stop Loss for Universities: This re-distributive mechanism, which reduces all university allocations in each fiscal year in order to mitigate formula funding losses at some institutions, is eliminated.

Eliminate Historical Set Asides: Two outdated earmarks at community colleges, the Access Challenge and Supplemental Tuition Subsidy, are eliminated. At university regional campuses, the Access Challenge and square-foot-based plant operation and maintenance earmarks are eliminated. These previously earmarked funds, totaling over \$67 million in FY 2013, will now reward performance-based outcomes by flowing through the re-designed formula. At university main campuses, the Access Challenge and square-foot-based plant operation and maintenance earmarks are eliminated in FY 2016.

Reward Community and Technical College Completion: For the first time, the bill proposes funding course completions at our community and technical colleges rather than course enrollments. In FY 2014, 25% of the SSI available to community and technical colleges will be awarded according to the number of students who actually complete a course at the institution.

Review Success Points: The current Success Point incentive system, which ties community college funding to established measures of student achievement, will be reviewed and revised accordingly for the second year of the biennium to ensure that the incentive system accurately recognizes the range of activities that lead to course and degree completions.

The Executive Budget includes total GRF appropriations of over \$2.3 billion in each fiscal year for higher education. The State Share of Instruction (SSI), which is the primary line item in the Board of Regents' budget that provides operating support to our public institutions of higher education, increases by \$33 million (1.9%) in FY 2014, to \$1.78 billion, and by \$34 million (1.9%) in FY 2015, to \$1.82 billion. The SSI appropriation increase is in recognition of the meaningful work accomplished by the university community in making Ohio a national leader in performance-based higher education funding.

In addition, the higher education budget prioritizes funding for student financial aid line items. The War Orphans Scholarship, National Guard Scholarship, Choose Ohio First Scholarship, and Ohio College Opportunity Grant all receive modest appropriation increases, as compared to estimated FY 2013 expenditure levels.

Lastly, the Executive Budget includes language to ensure that college remains affordable for students and families by limiting in-state, undergraduate tuition and general fee increases to no more than the greater of 2% over what the institution charged in the previous academic year or 2% of the statewide average cost, by sector.

MEDICAID TRANSFORMATION

From a budgeting perspective, Medicaid is always a challenge. It currently represents approximately 25% of the state share GRF budget and about 45% of the total GRF when you add in the federal reimbursement. The program historically has been associated with high growth rates due to demographic and economic factors, which impact the number of people covered, and to health care inflation rates that greatly impact the cost of their services. The Kasich Administration has done a tremendous amount of work to improve this program and slow its growth. But the Affordable Care Act, or ACA, presents challenges in the FY 2014-15 budget, even without the discussion of extending eligibility.

As you all are aware, Governor Kasich created the Office of Health Transformation in the first week of his Administration and gave it several charges, including addressing the projected growth of the Medicaid program, which was a significant contributor to the projected structural imbalance for FY 2012 and FY 2013. He also asked the new office to recommend a permanent health and human services structure and to oversee that transition.

House Bill 153 focused heavily on Medicaid cost containment through payment modernization intended to improve value. It also made progress in rebalancing long-term care, which enables seniors and people with disabilities to remain in their communities rather than in institutions. Furthermore, it improved the coordination between agencies involved in the operation of the Medicaid program by better aligning the Administration and/or funding of a number of services. This set the stage for additional restructuring, which was further advanced in the MBR by the official establishment of the Office of Medicaid within the Ohio Department of Job and Family Services.

This budget builds on the momentum of the first two years, both in terms of the design and delivery of the Medicaid program as well as the underlying administrative structure through which it is managed. And it accomplishes this in the face of significant challenges resulting from the federal Affordable Care Act (ACA).

Medicaid Baseline

Before providing a broad overview of the Medicaid-related elements of this budget proposal, I'd like to provide some contextual information. Medicaid currently provides health care services to over 2.3 million Ohioans per month at a projected FY 2013 cost of \$19.768 billion All Funds – that is, GRF and non-GRF combined. The GRF accounts for \$12.674 billion of that spending, with a state share of \$5.079 billion after the federal government reimburses the state for the federal share of the program. (The current, standard federal matching rate for Ohio is 63.58% in federal FY 2013.) These are the Medicaid-related expenditures by all six state agencies that are involved in the operation of the Medicaid program. These agencies include the departments of Job and Family Services, Aging, Alcohol and Drug Addiction Services, Developmental Disabilities, Health, and Mental Health.

In order to develop the budget recommendations, OBM and ODJFS traditionally develop “baseline” projections. These are estimates of what the Medicaid program would cost in the upcoming biennium assuming current eligibility, benefit, and payment policies remain unchanged. This focus on a baseline is unique to entitlement programs. Unlike most other state programs in which the “gate” for a program can be opened or closed as funding permits, a state’s participation in the Medicaid program requires that medically necessary, covered benefits be provided to all those who are enrolled.

As is often the case, there are a few initiatives underway in the current biennium that have not been fully implemented and will continue being implemented in the next biennium. The most notable example is that the implementation of the Integrated Care Delivery System (ICDS) will not be fully implemented in FY 2013 due to a delay in federal approval of our waiver request. ICDS was authorized in House Bill 153 and is intended to better coordinate the care of certain individuals who are dually eligible for Medicaid and Medicare. This initiative, while expected to reduce the rate of spending growth after full implementation is achieved, has initial start-up costs associated with paying the “run-out” of fee-for-service claims at the same time prospective payments are made to the health plans that will provide integrated care.

Although the state has since received federal approval and has selected health plans through a competitive process, and enrollment is projected to begin this July, the “run-out” cost was originally expected to largely occur in FY 2013 but is now delayed until FY 2014. This is a contributing factor to the under-spending in this fiscal year and must be accounted for in the baseline for the upcoming biennium.

Challenges of the ACA – Woodwork: Given the individual insurance coverage mandate in the ACA, behavior is expected to change – individuals are going to be seeking health coverage who were not previously seeking it, and some who might have been seeking it might not have found it. Under either circumstance, given the greater awareness of the need to have health coverage and the availability of Medicaid, more individuals who are currently eligible for Medicaid but are not enrolled are likely to do so. This is commonly referred to as the “woodwork effect.” Given the fact that they will enroll without any changes in state policy,

they must be included in the baseline estimates. We estimate that 230,000 people will “come out of the woodwork” and become enrolled in Medicaid by June 2015. This increases GRF baseline estimates by \$520.4 million (\$186.3 million state share) in FY 2014 and by \$933.4 million (\$334.8 million state share) in FY 2015.

Another ACA-related impact on the baseline budget is the mandated increase in physician fees that began on January 1, 2013. Although this required two-year increase of Medicaid rates to the level of Medicare receives 100% federal reimbursement, it still requires estimated GRF appropriations of \$320.9 million in FY 2014 and \$261.9 million in FY 2015.

Baseline Projections: With these things in mind, total “baseline” growth for the Medicaid program across all six state agencies involved in the operation of the Medicaid program is projected to grow as follows:

- All Funds appropriations reflect projected growth of 13.3% to \$22.397 billion in FY 2014 and growth of 4.5% to \$23.402 billion in FY 2015.
- GRF appropriations, which I will focus on today, reflect projected growth of 18.9% to \$15.070 billion in FY 2014 and growth of 4.5% to \$15.755 billion in FY 2015.
- State share-only GRF appropriations reflect projected growth of 15.0% to \$5.843 billion in FY 2014 and growth of 5.2% to \$6.144 billion in FY 2015.

Cost Avoidance: Clearly these growth rates, especially 15.0% in state share GRF, are not sustainable. While such rates would be of concern under any circumstances, they are particularly troubling after all of the Medicaid modernization and cost containment efforts in the current biennium that helped return Ohio’s budget to structural balance. Those actions

were necessary after the FY 2012 and FY 2013 baseline projections estimated a 42% increase in state share GRF spending from FY 2011 to FY 2012 due to the expiration of the stimulus-related, federal enhanced matching rate.

Therefore, the Executive Budget includes a number of cost-avoidance initiatives intended to again emphasize value, establishing the right incentives for cost-effective, quality care.

These initiatives, generally payment methodology changes, are largely targeted at providers that benefit the most from the projected enrollment growth, such as health plans and hospitals. This package of savings and cost avoidance totals \$517.2 million (\$190.5 million state share) in FY 2014 and \$801.2 million (\$296.3 million state share) in FY 2015, all of which would accrue to the GRF.

Extension of Benefits/Eligibility Simplification/ACA

As enacted, the ACA required states to increase Medicaid eligibility for all adults to 138% of the federal poverty level, or more technically stated, to 133% of poverty with a standard five percent income disregard. This change was to begin on January 1, 2014. The law provided enhanced federal funding, with the federal government paying 100% of the costs for the newly eligible population during the first three years, decreasing to 90% by 2020. The penalty to states for not increasing eligibility would have been the loss of all federal Medicaid support.

However, a U.S. Supreme Court ruling in June 2012 made this eligibility change optional for states. Thus, states now have flexibility to decide whether or not and when to extend coverage, but the years of federal funding are fixed. Enhanced federal funding is not available for a partial Medicaid expansion – Ohio and some other states explored that

possibly with the federal government, but our request was denied. So the decision facing states is to either extend Medicaid coverage to adults below 138% of poverty using enhanced federal match, or to leave eligibility unchanged.

Governor Kasich viewed the decision regarding what to recommend in his budget using the same lens he always uses. That is, what is in the best interest of all Ohioans as well as what can help create a stronger economy and jobs-friendly climate in this state? After evaluating the many complex facets of this decision, the Governor's FY 2014 and FY 2015 budget makes changes to Ohio's Medicaid eligibility guidelines that maximize the benefit to Ohio. That decision both extends eligibility to adults up to 138% of poverty, and it simplifies eligibility guidelines in such a way that some individuals eligible for Medicaid under current guidelines will no longer be eligible; they will likely move to the federal health care exchange. Thus, we estimate a net increase in Medicaid enrollment of 275,000 by June 2015 at an estimated Medicaid GRF appropriation impact of \$499.7 million in FY 2014 and \$1.815 billion in FY 2015 – but a state share Medicaid GRF appropriation savings of \$22.9 million in FY 2014 and \$68.2 million in FY 2015.

OHT Director Greg Moody will undoubtedly spend more time discussing this issue with you when he testifies before this committee, but Governor Kasich's decision basically comes down to a few key factors:

- Extending eligibility closes the health coverage gap that the ACA's federal health insurance exchange leaves for childless adults below 100% of poverty. Not only would the current eligibility criteria leave these low-income Ohioans, most of whom are working, without health care coverage; it would also leave hospitals with the burden of

providing them uncompensated care at the same time the ACA reduces such funding support to hospitals. This would lead to cost-shifting to all Ohioans. Instead, extending eligibility avoids this potential, negative impact of the ACA by providing health coverage and bringing back to Ohio an estimated \$13.0 billion over the next seven years that can be used to support providers who are caring for these individuals. Ultimately, proactively providing health coverage will lead to a healthier workforce.

- The state receives direct financial benefit from this proposal. As I mentioned previously, by simplifying eligibility, the state is able to reduce the number of individuals receiving Medicaid under the guidelines of the current program, thereby reducing state share GRF costs by \$22.9 million in FY 2014 and \$68.2 million in FY 2015. It also will enable the Department of Rehabilitation and Correction to divert some of their costs to Medicaid, thereby enabling them to avoid an estimated \$9.0 million in FY 2014 and \$18.0 million in FY 2015. Furthermore, the state will receive additional sales taxes and domestic insurance taxes from Medicaid health plans that insure the newly eligible population. This is estimated to be approximately \$18 million in FY 2014 and \$97 million in FY 2015. In total, this eligibility extension will benefit the state share of the GRF by more than \$230 million over the biennium.
- Counties also receive a significant benefit from extending eligibility. Local behavioral health costs currently borne by county boards will be reduced significantly after more of their clients become Medicaid eligible. After already “elevating” previously locally-funded Medicaid responsibilities to the state in House Bill 153, this is another positive

step by the Kasich Administration to repair years of neglect of the local behavioral system. Additionally, counties also will benefit from sales tax collections from Medicaid health plans that insure the newly eligible population.

For these reasons, along with others that Director Moody will explain in his testimony, this eligibility proposal is included in Governor Kasich's recommended budget.

Executive Recommended Appropriations

After factoring in baseline projects, savings and cost avoidance, and eligibility changes, the recommended budget for Medicaid across six agencies is as follows:

- All Funds appropriations reflect projected growth of 13.2% to \$22.380 billion in FY 2014 and growth of 9.6% to \$24.528 billion in FY 2015.
- GRF appropriations reflect projected growth of 18.8% to \$15.052 billion in FY 2014 and growth of 11.4% to \$16.769 billion in FY 2015.
- State share-only GRF appropriations reflect projected growth of 10.8% to \$5.629 billion in FY 2014 and growth of 2.7% to \$5.779 billion in FY 2015.

Thus, savings and cost avoidance, coupled with eligibility changes, were able to reduce state share GRF appropriations by \$213.4 million in FY 2014 and by \$364.5 million in FY 2015 relative to baseline projections. This represents a reduction in the rate of growth of 4.2 percentage points in FY 2014 and 2.5 percentage points in FY 2015 – over 25% less growth and almost 50% less growth, respectively.

Reorganization—Administrative and Budget Structure

Administrative Restructuring: As I mentioned previously, the Kasich Administration has already made a number of changes in the way Medicaid is administered. For example, funding responsibilities for Medicaid mental health and addiction services that were once borne by local ADAMH boards were “elevated” to the state, first to the Department of Mental Health in FY 2014 and then to the Ohio Department of Job and Family Services FY 2015; the funding and administration of services for Intermediate Care Facilities for individuals with intellectual disabilities were moved from ODJFS to the Department of Development Disabilities; and PASSPORT funding was moved from the Department of Aging to ODJFS.

While those represented significant improvements, this budget makes even more fundamental changes to the administration of the program. I would like to note the two most significant. First, through the creation of a new Department of Medicaid, the Department of Job and Family Services and the Office of Medicaid will be officially separate, which will enable each agency to focus on its core missions. Regarding Medicaid, ODJFS will become a “sister agency,” retaining only functions related to providing administrative funding to county departments of job and family services.

Second, after having already sharing a number of services, the Department of Alcohol and Drug Addiction Services will merge with the Department of Mental Health to create a new Department of Mental Health and Addiction Services. This will enable them to better support their constituencies by improving communication and leveraging their resources.

The directors of each of the related agencies will address the benefits of these restructurings more fully in their respective testimonies.

Budget Restructuring: I would like to say one final word on the Medicaid budget. Although the Medicaid program is operated by six agencies, some of you might have noticed that this is the first time that OBM testimony has been able to provide information about spending across the entire program rather than just the single, JFS Medicaid 525 line item. That is because an extensive amount of work has been done across the involved agencies to restructure line items that contain Medicaid funding. While OHT was able to calculate a comprehensive Medicaid budget for House Bill 153, it was very challenging because so many of the agencies had line items that had mixed uses. Many contained both Medicaid and non-Medicaid funding, and many contained funding for both services and program support activities.

This budget reworks the line item structure in each of these agencies to ensure that Medicaid-related lines no longer contain non-Medicaid uses, and it goes even further by ensuring that line items no longer mix spending on services and program support. It also clearly identifies these Medicaid line items through the use of a common numbering system – the use of a 650 series line item prefix. For example, all of the Department of Medicaid’s budget will have line items beginning with 651. The Department of Mental Health and Addiction Services’ Medicaid line items begin with 652, the Department of Disabilities’ Medicaid line items begin with 653, et cetera. I would like to thank all of the agency directors and staff involved in these changes across the agencies. We believe that this change will greatly improve the ability to understand and analyze Medicaid spending.

TAX CUTS AND REFORM

Ohio has been engaged in intensive reconsideration of its tax structure for more than 10 years. The Committee to Study the State and Local Tax Structure (CSSLT), which met in 2002, issued a report in 2003 that evaluated the Ohio tax structure at the time according to the principles of neutrality, equity, competitiveness, simplicity, and stability. The 2005 tax reform package addressed a number of the concerns that the CSSLT report found with the Ohio tax structure, but there is work remaining to be done, and Governor Kasich believes that now is the time to do it. Rather than addressing changes to the tax system in a piecemeal way, the Governor believes that what is needed is a broad structural reform that focuses on the state's two biggest taxes, the income tax and the sales tax.

The vision behind the tax reform proposal is to provide a tax system that will make Ohio more competitive in attracting investment and jobs, while also spreading the tax burden more fairly across industries. In broad terms, the reform proposal provides a net tax cut of \$1.4 billion across three fiscal years, while shifting some of the tax burden from income to consumption in order to increase after-tax rates of return on investment in Ohio. It also takes advantage of the discovery of significant oil and gas reserves in the Utica shale formation to cut taxes for all Ohioans.

The proposal also addresses the inequity in the application of the sales tax to goods and services by putting services on the same basis as goods, so that they are taxable unless specifically exempted, rather than being exempt unless explicitly made taxable. This should prevent the continuation of past practice of picking out a few services to subject to taxation when the state needs revenue in the wake of a recession, which has led to not only an

un-level playing field between goods and services, but between different kinds of services. At the same time, the proposal exempts from taxation those services that are vital to well-being and opportunity, such as health care and education.

To summarize, the tax reform proposal cuts small business income taxes by 50%, cuts income tax rates by 20%, and cuts the state sales tax rate from 5.5% to 5.0%. It broadens the sales tax base and modernizes the severance tax structure, and provides a net tax cut to Ohioans of \$1.4 billion over three fiscal years: \$240 million in FY 2014, \$644 million in FY 2015, and \$487 million in FY 2016.

Income Tax Cuts

Governor Kasich has been clear that he believes that Ohio must reduce its personal income tax rates in order to improve its competitive position relative to other states. The 2005 tax reform package, which cut rates 21% for all tax brackets (including the last cut that took effect in tax year 2011), was a start. However, even after the 21% tax cut, one of the places where Ohio's combined state and local tax burden is still relatively high is in the personal income tax. The Administration continues to seek ways to reduce Ohio's income tax burden and thereby to help small business.

The proposed income tax cut has two parts. The first part of the income tax cut would be targeted at small business owners in order to foster greater hiring. Historically, small businesses in the U.S. are responsible for 65% to 90% of new job creation. Owners of pass-through entities – which are mostly small businesses – pay the federal and Ohio personal income tax. Under the Administration proposal, these taxpayers would be allowed a

deduction of 50% of their annual pass-through income, up to \$750,000 with the deduction capped at \$375,000. The tax savings could be used to hire additional labor or invest in equipment to enhance productivity. This part of the tax cut proposal would provide tax relief of between \$600 million and \$650 million annually.

The second part of the income tax cut would be for all taxpayers. Income tax rates would be cut by 20% for all 9 brackets. This would reduce the top marginal tax rate from 5.925% to 4.74%. The marginal tax rate on incomes between approximately \$40,000 and \$80,000 would drop from 4.109% to 3.287%. This proposed cut would be phased in over three tax years, from 2013 to 2015, with the cuts being 7.5%, 15.0%, and 20.0%. These cuts would provide tax relief of \$1.04 billion in FY 2014, \$2.08 billion in FY 2015, and \$2.15 billion in FY 2016. Taxpayers would begin to see tax relief even before they have filed their tax year 2013 tax returns in early 2014, because the plan is to cut employer withholding rates in September 2013, July 2014, and January 2015.

Sales Tax Changes

Following the well-established public finance principle that taxes with broader bases and lower tax rates are preferable to those with narrower bases and higher rates, the reform proposal would expand the sales tax base to include a wide range of services, but cut sales tax rates. Those services that are connected to the essentials of life, such as medical care and education, would continue to be tax exempt.

The reform proposal would reduce the state sales tax rate from 5.5% to 5.0%. This would reverse a long trend of increasing state sales tax rates either to raise general revenue or to compensate for the progressive narrowing of the sales tax base. While the tax reform

proposal is expected to add about \$53 billion to the sales tax base in FY 2015, the sales tax base that is being subjected to the tax rate cut is \$175 billion. So, there is a high volume of transactions that are taxable under current law that would benefit from the proposed tax rate reduction.

Local Sales Taxes – Balancing the Interests of Taxpayers and County Governments

Many states have local add-on taxes to the state sales tax (by our count, 33 states including Ohio). However, Ohio's local sales tax is somewhat more complicated to deal with in the context of a base broadening tax reform than a typical state's local taxes might be. For one thing, local sales tax authority in Ohio is very broad. Every one of the 88 counties levies a sales tax, and in addition, eight transit authorities levy sales taxes. By contrast, in Pennsylvania only Philadelphia and Allegheny County levy local sales taxes, and in West Virginia, only Williamstown and Huntington do so. In addition, Ohio's local sales tax rates vary quite a bit by county and transit authority, whereas in some states there is less variation in rates to contend with.

Finally, the local sales taxes in Ohio are split into general and special purposes tax levies, with somewhat different rules applying to each. The Administration believes that the counties and transit authorities should benefit from the expansion of the sales tax base, but that the additional revenue should be limited to protect taxpayers. At the extreme, if local tax rates were allowed to remain as they are, then in the first full year of the sales tax base expansion, local sales tax revenues would increase by almost \$700 million. This would be enough to turn a net tax cut into a net tax increase when state and local impacts are combined. In the Administration's view, this is an unacceptable result.

Therefore, the tax reform proposal would also reduce local sales tax rates by differing amounts based on the expected level of sales tax base expansion by county or transit authority. The local sales tax rate cuts would not be revenue neutral, but would provide the counties and transit authorities with modest revenue growth over a three-year period of FY 2014 to FY 2016. The average reduction for local tax rates would be 20%, but the cuts range in size from 11% to 35%. Even with these rate changes, the reform allows local sales tax growth of 10% from current estimated revenue amounts. If in fact the tax rates that have been calculated for local governments to realize 10% revenue growth do not actually produce that growth in the first year following the reform, the rates will be recalculated in order for counties to realize such growth. The state also will make hold harmless payments to counties to assure 10% revenue growth over the first twelve months and an additional 5% growth over the last seven months of FY 2015. Beginning in July 2016, counties will again be able to set their own tax rates.

The net impact of all the proposed sales tax changes is an increase in GRF sales tax revenue of \$1,322 million in FY 2014 and \$1,799 million in FY 2015. Local sales tax revenues would increase by an estimated \$50 million in FY 2014 and \$70 million in FY 2015. FY 2014 impacts are much smaller than FY 2015 impacts because the proposal would take effect September 1, 2013 and affect tax collections beginning in October 2013, so in effect it would be in place for only three-quarters of a year.

Severance Tax Changes

Finally, severance tax is put in place for high-volume horizontal wells operating in the Utica shale formation. For the conventional wells, the tax structure is mostly left in place; although there is a new exemption created for small volume gas wells (gas wells with average daily

production of under 10 thousand cubic feet (MCF) would be exempt from the tax). Also, rather than being a straight 3 cents per MCF, gas from conventional wells will be taxed at the lesser of 3 cents per MCF or 1% of value, which will provide tax savings when gas prices are below \$3 per MCF. This will result in almost 45,000 currently taxable conventional gas wells becoming exempt from taxation.

For horizontal wells, the tax rates will be 1% for natural gas, and 4% for oil, natural gas liquids, and condensate. However, there will be a lower tax rate of 1.5% for the first year of production, in order to allow producers to recover the cost of preparing the well site and drilling the well.

The Administration has researched the severance tax structures of other states with significant oil and gas production, particularly those states with shale resources. We have found that even with a 4% tax rate, the tax burden on the revenues from these horizontal Utica wells will be lower than in other states. I would refer you in particular to the Ernst & Young (E&Y) study of the severance tax proposal done for the Ohio Business Roundtable, which found that even at the proposed 4% severance tax rate, Ohio's overall taxes, including taxes other than severance, would still rank lowest among the eight states included in the study in terms of overall effective tax rates. The E&Y study examined all major state and local taxes, for two types of wells: wells producing both dry natural gas and natural gas liquids (NGLs), and wells producing dry natural gas and oil. The seven comparison states in the study were Ohio's resource-extracting neighbors, Michigan, Pennsylvania, and West Virginia, and four other oil and gas dependent states: Arkansas, North Dakota, Oklahoma,

and Texas. All seven of those states either already have substantial horizontal well extraction or are expected to have such extraction in the near future.

The E&Y study found that Ohio's overall effective tax rate (ETR) on the output from the two types of wells would be 40% or 48% below the average ETR in the other seven states, depending on the type of well output.

The severance tax changes produce an estimated gain to the GRF of \$45 million in FY 2014 (a half-year's worth of revenue) and \$155 million in FY 2015. As production and pipeline capacity increase, the severance tax is projected to grow significantly outside the biennium, reaching \$305 million in FY 2016 and \$415 million in FY 2017.

I would note, finally, that the GRF revenue losses due to tax reform are somewhat larger than the net impact on taxpayers for all state and local taxpayers. This is because the Administration felt that it was important to allow the counties and transit authorities to realize some revenue growth from the sales tax base broadening, even though it meant that in order to provide a given amount of total tax relief, the GRF would have to bear a greater loss.

OHIO JOBS AND TRANSPORTATION PLAN

Ohio's highway system is perhaps our single most important asset for economic development and jobs growth. Virtually every sector of our economy – manufacturing, commerce, agriculture, small business, logistics – depends on this transportation network for access to its workforce, raw materials and markets. But our ability to pay for a modern, well-maintained and efficient highway system depends almost entirely on federal and state gas-

tax revenue, a diminishing source of funds that is less and less able to keep pace with the rising costs of our highway needs.

Already, the resulting shortfall between our highway needs and the available revenue has delayed at least \$1.6 billion in the state's highest priority construction commitments, as projected by the Transportation Review Advisory Commission (TRAC). In TRAC's 2013 to 2016 program, 21 critically needed projects have been pushed as far back as a decade or more from their original start dates. That's unacceptable in every respect.

To bridge this gap and identify a sufficient source of funding that will allow critical transportation projects to proceed on a timely schedule, the Administration has turned to another key Ohio resource – the Ohio Turnpike – a valuable asset than has never been utilized to its fullest financial potential.

One year ago, the Department of Transportation and the Office of Budget and Management, at the request of Governor Kasich, jointly commissioned the Ohio Turnpike Opportunity Analysis to assess options available to unlock the value of the Turnpike, while at the same time preserving its future viability and the quality of service that the toll road's customers have come to expect.

The Turnpike Analysis assessed three options that sought to best achieve those goals. Option one would maintain the *status quo*, with modifications to the Turnpike Commission's bonding capabilities. Second was a public option, which considered keeping the Turnpike in state hands, but with a closer alignment between the Turnpike Commission and ODOT.

The third was a long-term public/private partnership, which assumed leasing the Turnpike to a private concessionaire for a period of 50 years.

After more than ten months of study and deliberation – including multiple forums to gather input from the public and local officials – the decision was made to pursue the second option. As laid out in the *Ohio Jobs and Transportation Plan*, announced by Governor Kasich in December, the Ohio Turnpike will remain in state hands, under control of a restructured Turnpike Commission, now to be called the Ohio Turnpike and Infrastructure Commission.

I understand that Director Wray will be here tomorrow to testify on this and other matters contained in the Transportation Bill, while today I will focus on fiscal aspects of the plan, including appropriation authority and some of the language changes requested in this budget.

In accordance with the Jobs and Transportation Plan, the Ohio Turnpike and Infrastructure Commission will issue bonds backed by future Turnpike revenues. The vast majority of the proceeds will be directed toward transportation projects in northern Ohio, including maintenance and modernization of the Turnpike itself. We expect an initial bond issuance of approximately \$1 billion, from which a portion of the proceeds – about \$70 million – will allow the Turnpike to accelerate its plans for a required and total reconstruction of the Turnpike base roadbed. A second bond issue of \$500 million is anticipated four to six years subsequently.

The availability of these additional highway dollars, primarily for use in northern Ohio, will permit ODOT to apply its traditional funding sources to accelerate completion of high-priority

projects throughout the rest of the state. What's more, the \$1.5 billion in Turnpike bond proceeds can potentially attract federal and local matching funds for additional investment in Ohio's transportation system.

The Governor's Executive Budget proposes changes in law required for this plan to move forward as well as appropriation authority allowing ODOT to spend the proceeds of bonds issued by the Commission. Among the more notable language changes:

- Changes the name of the Ohio Turnpike Commission to "The Ohio Turnpike and Infrastructure Commission."
- Adds a new definition for "infrastructure projects," which is separate and distinct from the existing turnpike "project."
- Adds authority for the Commission to issue bonds and authorize agreements with ODOT for funding (in whole or in part) of infrastructure projects that have been recommended by the ODOT Director. These are projects that have been previously reviewed and recommended by TRAC.
- Allows the Commission to adopt rules relating to the approval of infrastructure projects. These rules will establish the criteria to be used by the Commission in approving infrastructure projects. The Commission must find an anticipated economic or transportation-related impact.
- Changes the size and terms of some members of the Ohio Turnpike and Infrastructure Commission, including the addition of two new public members.

The Governor's proposed Transportation Budget includes appropriations of \$200 million in FY 2014 and \$300 million in FY 2015 to allow ODOT to spend bond proceeds provided by the Turnpike Commission.

This is a balanced and forward-thinking plan, which allows the state to address a serious and growing shortfall between Ohio's transportation needs and our ability to meet those needs with existing revenue streams. By leveraging the value of our Turnpike asset – while keeping the Turnpike under strong, independent public control – we will close our highway-funding gap for the lasting benefit of Ohio's economy and move forward with essential transportation projects that will otherwise be held off for years.

CONTINUING REVIEW AND REFORM OF STATE GOVERNMENT

Throughout Governor Kasich's first two years in office, he has challenged his Administration to continually review and improve the operations of state government in order to ensure that taxpayer-funded services are delivered in the most cost-effective and efficient manner.

These actions have contributed significantly to the state's strong financial position.

Earlier in my testimony I touched on some the restructuring occurring in this budget within the realm of health and human services, such as the merger of the departments of Alcohol and Drug Addiction Services and Mental Health into the new Department of Mental Health and Addiction Services, and the creation of the new Department of Medicaid by separating the Office of Medicaid from ODJFS. These changes, while significant, are but two examples of the numerous reforms and realignments in this budget. I would like to note just a few other examples.

The Department of Rehabilitation and Correction's GRF budget grows by only 0.5% in FY 2014 and then declines by 0.5% in FY 2015. In fact, these levels are below FY 2011 spending levels. It would not be possible to operate at these levels were it not for Director Mohr's careful review of all aspects of the agency and the successful implementation of so many cost-containment initiatives.

DRC will continue to generate savings on medical services in the coming biennium. After establishing greater utilization management in the current biennium to ensure that health care is provided appropriately, DRC will be consolidating all aspects of medical care into the Office of Correctional Healthcare in FY 2014. The office will oversee all aspects of medical care, including recovery service, mental health, and traditional medical services. Efficiencies gained from this consolidation will further relieve the department's health care budget.

Also, DRC will privatize food service for the institutions, enabling savings of approximately \$18.6 million per year once fully realized. Additionally, the Department of Youth Services will take part in these contracts as well, allowing DYS to also realize savings. DRC and DYS will also work together to share some back office functions, further enabling both agencies to focus their resources on institutional and community operations, including security.

Another example of operational reforms in this budget relates to my own agency. Ohio Shared Services is a division of OBM. It is a financial processing organization that allows us to centralize processing activities, thereby freeing up resources to allow agencies to focus on their core missions. We are nearing completion in the "onboarding" of all Cabinet agencies for accounts payable transactions, and we continue to do travel and expense reimbursement

processing on their behalf. In the coming biennium, we plan to expand into accounts receivable, including the collection of past-due balances in the period prior to their certification to the Ohio Attorney General. Additionally, we will continue to look for ways to reduce costs across the enterprise through the inclusion of new services and new customers.

Another way that agencies are working together involves the targeted use of Lean Ohio and Six Sigma tools. In the coming biennium, the Department of Administrative Services will bolster their support of state agencies' efforts to improve processes and operational efficiency. These tools are helping us bring major, demonstrable improvement to state government in a way that engages employees, benefits citizens and business customers, and saves money.

Although there is not enough time to mention, nor could I possibly recite, all of the operational improvements across state government that are planned for the coming biennium, I would just like to note a few other agency consolidations in the FY 2014-15 budget that will help to streamline state government. First, the budget merges the Ohio Medical Transportation Board and the State Board of Emergency Medical Services to form the State Board of Emergency Medical, Fire, and Transportation Services. The combined board will operate under the Department of Public Safety. Second, eTech Ohio's functions related to technology, education, and public broadcasting are merging into the Board of Regents, the Department of Education, and the Opportunities for Ohioans with Disabilities Agency.

The proposed merger will reduce costs and redundancy and align with the state's goals of creating a seamless education system for all of primary and secondary and higher education.

Third, the responsibilities of the Cultural Facilities Commission will move to the Facilities Construction Commission. This continues the movement of vertical construction management to a single state agency.

CONCLUSION

In summary, the Governor's Executive Budget – which I believe is aptly titled “Jobs Budget 2.0” – continues the important momentum that began with our first Jobs Budget in 2011 and the Mid-Biennium Review in 2012.

Based on the same fundamental budget principles, which I outlined for you earlier, Ohio's Jobs Budget 2.0 lowers taxes to improve economic competitiveness and job growth, helps ensure better schools and more college graduates, reforms Medicaid and provides a stable funding stream for Ohio highways. Each of those key priorities – and the hundreds of other state-agency reforms and efficiencies contained in this budget – is focused squarely on one over-arching goal. That is to provide better opportunities and a better future for every Ohioan through a stronger, jobs-creating economy.

Mr. Chairman, members of the committee, I am happy to answer any questions you may have.

ATTACHMENTS

- | | |
|---------------------------------|-----------------------------------|
| 1: FY 2013 YEAR-TO-DATE REVENUE | 5: FY 2014-15 REVENUE ESTIMATES |
| 2: FY 2013 REVISIONS | 6: FY 2014-15 GRF BY AGENCY |
| 3: BASELINE REVENUES | 7: FY 2014-15 ALL FUNDS BY AGENCY |
| 4: TAX REFORM IMPACTS | 8: FUND BALANCE |

Preliminary

**Attachment 1
GENERAL REVENUE FUND RECEIPTS
ACTUAL FY 2013 VS ESTIMATE FY 2013
(\$ in thousands)**

<u>REVENUE SOURCE</u>	<u>MONTH</u>				<u>YEAR-TO-DATE</u>			
	<u>ACTUAL JANUARY</u>	<u>ESTIMATE JANUARY</u>	<u>\$ VAR</u>	<u>% VAR</u>	<u>ACTUAL Y-T-D</u>	<u>ESTIMATE Y-T-D</u>	<u>\$ VAR</u>	<u>% VAR</u>
TAX RECEIPTS								
Non-Auto Sales & Use	686,235	712,300	(26,065)	-3.7%	4,360,126	4,409,500	(49,374)	-1.1%
Auto Sales & Use	86,421	88,400	(1,979)	-2.2%	617,573	614,000	3,573	0.6%
Subtotal Sales & Use	<u>772,656</u>	<u>800,700</u>	<u>(28,044)</u>	<u>-3.5%</u>	<u>4,977,698</u>	<u>5,023,500</u>	<u>(45,802)</u>	<u>-0.9%</u>
Personal Income	1,235,414	1,027,839	207,575	20.2%	5,515,063	5,231,294	283,769	5.4%
Corporate Franchise	28,117	62,000	(33,883)	-54.7%	79,776	62,000	17,776	28.7%
Commercial Activity Tax	32,768	26,400	6,368	24.1%	430,251	437,000	(6,749)	-1.5%
Public Utility	1,030	(1,000)	2,030	203.0%	45,005	49,900	(4,895)	-9.8%
Kilowatt Hour	23,689	25,400	(1,711)	-6.7%	182,119	187,200	(5,081)	-2.7%
MCF Tax	1,770	0	1,770	N/A	16,959	18,100	(1,141)	-6.3%
Foreign Insurance	444	200	244	121.9%	142,882	137,900	4,982	3.6%
Domestic Insurance	0	0	0	N/A	4,625	(500)	5,125	1025.0%
Other Business & Property	11	0	11	N/A	371	(1,200)	1,571	130.9%
Cigarette	70,313	68,500	1,813	2.6%	438,452	439,400	(948)	-0.2%
Alcoholic Beverage	3,360	4,400	(1,040)	-23.6%	32,059	34,400	(2,341)	-6.8%
Liquor Gallonage	4,165	4,200	(35)	-0.8%	24,416	24,000	416	1.7%
Estate	207	200	7	3.4%	73,579	34,000	39,579	116.4%
Total Tax Receipts	<u>2,173,943</u>	<u>2,018,839</u>	<u>155,104</u>	<u>7.7%</u>	<u>11,963,257</u>	<u>11,676,994</u>	<u>286,263</u>	<u>2.5%</u>
NON-TAX RECEIPTS								
Federal Grants	655,783	639,356	16,427	2.6%	4,815,589	4,924,613	(109,024)	-2.2%
Earnings on Investments	2,185	1,000	1,185	118.5%	4,448	2,500	1,948	77.9%
License & Fees	5,740	4,668	1,072	23.0%	17,094	17,793	(700)	-3.9%
Other Income	1,495	1,738	(243)	-14.0%	7,318	17,586	(10,268)	-58.4%
ISTV'S	79	1,001	(922)	-92.1%	12,315	5,871	6,444	109.8%
Total Non-Tax Receipts	<u>665,281</u>	<u>647,763</u>	<u>17,518</u>	<u>2.7%</u>	<u>4,856,764</u>	<u>4,968,364</u>	<u>(111,600)</u>	<u>-2.2%</u>
TOTAL REVENUES	2,839,224	2,666,601	172,622	6.5%	16,820,020	16,645,358	174,662	1.0%
TRANSFERS								
Budget Stabilization	0	0	0	N/A	0	0	0	N/A
Liquor Transfers	10,000	10,000	0	0.0%	88,000	88,000	0	0.0%
Transfers In - Other	379	0	379	N/A	9,251	5,166	4,085	79.1%
Temporary Transfers In	0	0	0	N/A	0	0	0	N/A
Total Transfers	<u>10,379</u>	<u>10,000</u>	<u>379</u>	<u>3.8%</u>	<u>97,251</u>	<u>93,166</u>	<u>4,085</u>	<u>4.4%</u>
TOTAL SOURCES	2,849,603	2,676,601	173,002	6.5%	16,917,271	16,738,524	178,747	1.1%

Attachment 2
General Revenue Fund Revenues
Fiscal Year 2013
(dollars in millions)

REVENUE SOURCE	Jan, 2013	Feb, 2013	MFR vs Executive Budget	
	Monthly Financial Report	Executive Budget	\$ Change	% Change
Auto Sales & Use	1,075.0	1,070.0	(5.0)	-0.5%
Non-Auto Sales & Use	7,350.0	7,297.9	(52.1)	-0.7%
Total Sales & Use	8,425.0	8,367.9	(57.1)	-0.7%
Personal Income	8,970.0	9,250.5	280.5	3.0%
Corporate Franchise	150.0	180.0	30.0	16.7%
Commercial Activity Tax	850.0	831.4	(18.7)	N/A
Public Utility	115.0	110.0	(5.0)	-4.5%
Kilowatt-Hour Tax	305.0	296.9	(8.1)	-2.7%
Natural Gas Consumption	60.0	60.0	0.0	
Foreign Insurance	270.0	270.0	0.0	0.0%
Domestic Insurance	195.0	200.0	5.0	2.5%
Business & Property	25.0	25.0	0.0	0.0%
Cigarette	815.0	815.0	0.0	0.0%
Alcoholic Beverage	58.0	58.0	0.0	0.0%
Liquor Gallonage	40.0	40.0	0.0	0.0%
Estate	66.0	100.0	34.0	34.0%
Total Tax Receipts	20,344.0	20,604.6	260.6	1.3%
Earnings/Investment	5.5	5.5	0.0	0.0%
Licenses and Fees	46.0	46.0	0.0	0.0%
Other Income	33.0	533.0	500.0	93.8%
ISTV's & IDC's	15.0	15.0	0.0	0.0%
Total Non-Tax Receipts	99.5	599.5	500.0	83.4%
Liquor Transfers	160.0	160.0	0.0	0.0%
Transfers In - Other	27.5	241.6	214.1	88.6%
Transfers In - Temporary	0.0	0.0	0.0	0.0%
Total Transfers In	187.5	401.6	214.1	53.3%
Total Sources w/o Fed	20,631.0	21,605.7	974.7	4.5%
Federal Grants	8,151.3	7,608.6	(542.7)	-7.1%
TOTAL SOURCES	28,782.3	29,214.3	432.0	1.5%

Attachment 3
Baseline Estimated Revenues for the General Revenue Fund Tax Sources
Fiscal Years 2013 to 2015
(Dollars in Millions)

Revenue Source	FY 2013	FY 2014	\$ Chg	% Chg	FY 2015	\$ Chg	% Chg
Tax Revenue							
Auto Sales and Use	1,070.0	1,119.0	49.0	4.6%	1,172.0	53.0	4.7%
Non-Auto Sales and Use	7,297.9	7,802.1	504.3	6.9%	8,261.5	459.4	5.9%
Subtotal Sales and Use	8,367.9	8,921.1	553.3	6.6%	9,433.5	512.4	5.7%
Personal Income	9,250.5	9,335.7	85.2	0.9%	9,760.3	424.6	4.5%
Corporate Franchise	180.0	0.0	(180.0)	-100.0%	0.0	0.0	0.0%
Financial Institutions Tax	0.0	190.0	190.0	100.0%	200.0	10.0	5.3%
Commercial Activity Tax	831.4	795.1	(36.3)	-4.4%	820.9	25.8	3.2%
Public Utility	110.0	110.0	0.0	0.0%	110.0	0.0	0.0%
Kilowatt Hour Tax	296.9	279.1	(17.7)	-6.0%	270.5	(8.6)	-3.1%
Natural Gas Consumption	60.0	60.0	0.0	0.0%	60.0	0.0	0.0%
Foreign Insurance	270.0	272.0	2.0	0.7%	276.0	4.0	1.5%
Domestic Insurance	200.0	214.0	14.0	7.0%	254.0	40.0	18.7%
Severance Tax	0.0	0.0	0.0	0.0%	0.0	0.0	0.0%
Business and Property	25.0	0.0	(25.0)	-100.0%	0.0	0.0	0.0%
Cigarette	815.0	790.0	(25.0)	-3.1%	765.0	(25.0)	-3.2%
Alcoholic Beverage	58.0	58.0	0.0	0.0%	58.0	0.0	0.0%
Liquor Gallonage	40.0	41.4	1.4	3.5%	42.5	1.1	2.7%
Estate	100.0	15.0	(85.0)	-85.0%	0.0	(15.0)	-100.0%
Total of Tax Revenue	20,604.6	21,081.4	476.9	2.3%	22,050.7	969.2	4.6%

Source: Ohio Office of Budget and Management, February 2013

Attachment 4
General Revenue Fund Tax Reform Impacts
Fiscal Years 2014 and 2015
(Dollars in Millions)

Revenue Source	FY 2014			FY 2015		
	Baseline	Tax Reform	Total	Baseline	Tax Reform	Total
Auto Sales and Use	1,119.0	(73.7)	1,045.3	1,172.0	(103.0)	1,069.0
Non-Auto Sales and Use	7,802.1	1,351.9	9,154.0	8,261.5	1,841.4	10,102.9
Personal Income	9,335.7	(1,602.0)	7,733.7	9,760.3	(2,578.3)	7,182.0
Severance Tax	0.0	43.5	43.5	0.0	149.8	149.8
Total Tax Reform	18,256.8	(280.3)	17,976.5	19,193.8	(690.1)	18,503.7

GRF impacts are smaller than total state-level impacts because state-level impacts include effects in The Local Government Fund and the Public Library Fund.

Source: Ohio Office of Budget and Management, February 2013

Attachment 5
Actual and Estimated Revenues for the General Revenue Fund
Fiscal Years 2012 to 2015
(Dollars in Millions)

Revenue Source	Actual			Estimated			
	FY 2012	FY 2013	% Chg	FY 2014	% Chg	FY 2015	% Chg
Tax Revenue							
Auto Sales and Use	1,053.5	1,070.0	1.6%	1,045.3	-2.3%	1,069.0	2.3%
Non-Auto Sales and Use	7,033.5	7,297.9	3.8%	9,154.0	25.4%	10,102.9	10.4%
Subtotal Sales and Use	8,087.0	8,367.9	3.5%	10,199.3	21.9%	11,171.9	9.5%
Personal Income	8,432.9	9,250.5	9.7%	7,733.7	-16.4%	7,182.0	-7.1%
Corporate Franchise	117.1	180.0	53.8%	0.0	-100.0%	0.0	0.0%
Financial Institutions Tax	0.0	0.0	N/A	190.0	N/A	200.0	5.3%
Commercial Activity Tax	417.1	831.4	99.3%	795.1	-4.4%	820.9	3.2%
Public Utility	113.9	110.0	-3.4%	110.0	0.0%	110.0	0.0%
Kilowatt Hour Tax	294.8	296.9	0.7%	279.1	-6.0%	270.5	-3.1%
Natural Gas Consumption	60.2	60.0	-0.3%	60.0	0.0%	60.0	0.0%
Foreign Insurance	266.5	270.0	1.3%	272.0	0.7%	276.0	1.5%
Domestic Insurance	189.1	200.0	5.8%	214.0	7.0%	254.0	18.7%
Severance Tax	0.0	0.0	N/A	43.5	N/A	149.8	244.4%
Business and Property	19.9	25.0	25.8%	0.0	-100.0%	0.0	0.0%
Cigarette	843.2	815.0	-3.3%	790.0	-3.1%	765.0	-3.2%
Alcoholic Beverage	57.6	58.0	0.7%	58.0	0.0%	58.0	0.0%
Liquor Gallonage	39.4	40.0	1.4%	41.4	3.5%	42.5	2.7%
Estate	66.5	100.0	50.3%	15.0	-85.0%	0.0	-100.0%
Total of Tax Revenue	19,005.2	20,604.6	8.4%	20,801.1	1.0%	21,360.6	2.7%
Non-Tax Revenue							
Earnings on Investments	5.4	5.5	2.4%	6.0	9.1%	6.0	0.0%
Licenses and Fees	65.3	46.0	-29.6%	46.0	0.0%	46.0	0.0%
Other Income	139.1	533.0	283.2%	32.9	-93.8%	36.2	10.2%
Interagency Transfers	25.2	15.0	-40.5%	15.0	0.0%	15.0	0.0%
Total of Non-Tax Revenue	235.0	599.5	155.1%	99.9	-83.3%	103.2	3.3%
Transfers							
BSF Transfer	0.0	0.0	0.0%	0.0	0.0%	0.0	0.0%
Liquor Transfers	92.5	160.0	73.0%	0.0	-100.0%	0.0	0.0%
Transfer In - Other	264.0	241.6	-8.5%	353.6	46.4%	377.9	6.9%
Transfers In - Temporary	225.9	0.0	-100.0%	0.0	N/A	0.0	0.0%
Total Transfers	582.3	401.6	-31.0%	353.6	-11.9%	377.9	6.9%
Total Sources Excluding Federal Grants	19,822.5	21,605.7	9.0%	21,254.6	-1.6%	21,841.7	2.8%
Federal Grants Deposited in the GRF	7,363.0	7,608.6	3.3%	9,423.3	23.9%	10,982.1	16.5%
Total Sources	27,185.5	29,214.3	7.5%	30,677.9	5.0%	32,823.8	7.0%

Source: Ohio Office of Budget and Management, February 2013

Attachment 6
Estimated Expenditures and Recommendations by Agency
General Revenue Fund, FYs 2013, 2014, 2015

State Agency	FY 2013 Estimate	FY 2014 Recommendations	% Change	FY 2015 Recommendations	% Change
Education					
Arts Council	9,605,704	9,599,204	-0.1%	9,599,204	0.0%
Education, Department of	6,538,946,944	6,893,183,496	5.4% [a]	7,091,094,651	2.9%
Etech Ohio Commission	12,253,394	0	-100.0% [a]	0	0.0%
Historical Society	7,762,091	7,871,521	1.4%	8,371,521	6.4%
Library Board	5,764,270	5,759,947	-0.1%	5,759,947	0.0%
Ohioana Library Association	120,000	135,000	12.5%	140,000	3.7%
Regents, Board of	2,307,974,102	2,322,959,052	0.6% [a]	2,376,131,797	2.3%
Facilities Construction/School Facilities Comm	332,587,358	387,408,251	16.5% [b]	409,464,951	5.7%
State School for The Blind	7,278,579	7,278,579	0.0%	7,278,579	0.0%
State School for The Deaf	8,727,657	8,727,657	0.0%	8,727,657	0.0%
Total Education	9,231,020,099	9,642,922,707	4.5%	9,916,568,307	2.8%
Health and Human Services					
Aging, Department of	14,547,425	14,547,425	0.0%	14,547,425	0.0%
Alcohol and Drug Addition Services, Dept. of	7,889,633	0	-100.0% [c]	0	0.0%
Health, Department of	85,720,926	85,720,926	0.0%	85,720,926	0.0%
Hispanic-Latino Affairs, Commission on	324,922	324,922	0.0%	324,922	0.0%
Job and Family Services, Department of	12,926,640,150	752,298,675	-94.2% [d]	752,298,675	0.0%
<i>Job and Family Services State</i>	5,290,840,932	714,096,118	-86.5%	714,096,118	0.0%
<i>Job and Family Services Federal</i>	7,635,799,218	38,202,557	-99.5%	38,202,557	0.0%
Legal Rights Service	42,872	0	-100.0% [e]	0	0.0%
Medicaid, Department of	0	14,547,998,048	0.0% [d]	16,259,120,217	11.8%
<i>Medicaid State</i>	0	5,124,686,536	0.0%	5,269,117,803	2.8%
<i>Medicaid Federal</i>	0	9,423,311,512	0.0%	10,990,002,414	16.6%
Mental Health and Addiction Services, Department	307,086,335	315,711,367	2.8% [c]	315,944,767	0.1%
Developmental Disabilities, Department of	513,656,934	520,186,339	1.3%	525,937,865	1.1%
Minority Health, Commission on	1,580,637	1,580,637	0.0%	1,580,637	0.0%
Opportunities for Ohioans with Disabilities Agency	13,211,069	15,956,070	20.8% [a]	15,956,070	0.0%
Service and Volunteerism, Commission on	126,664	286,661	126.3%	294,072	2.6%
Veterans' Services, Department of	39,590,944	37,021,444	-6.5%	39,393,644	6.4%
Veterans' Organizations	1,887,986	1,887,986	0.0%	1,887,986	0.0%
Total Health and Human Services	13,912,306,497	16,293,520,500	17.1%	18,013,007,206	10.6%
<i>State Total</i>	6,276,507,279	6,832,006,431	8.9%	6,984,802,235	2.2%
<i>Federal Total</i>	7,635,799,218	9,461,514,069	23.9%	11,028,204,971	16.6%
Justice and Public Protection					
Adjutant General	9,359,648	8,594,883	-8.2%	8,594,883	0.0%
Civil Rights Commission	4,725,784	4,725,784	0.0%	4,725,784	0.0%
Ethics Commission	1,409,751	1,409,751	0.0%	1,381,556	-2.0%
Inspector General, Office of	1,125,598	1,650,598	46.6% [f]	1,525,598	-7.6%
Public Defender Commission	6,674,425	14,430,966	116.2%	14,566,485	0.9%
Public Safety, Department of	0	10,500,000	0.0% [f]	10,500,000	0.0%
Rehabilitation and Correction, Department of	1,480,691,448	1,487,839,928	0.5%	1,479,794,707	-0.5%
Youth Services, Department of	228,733,563	231,048,263	1.0%	232,823,163	0.8%
Total Justice and Public Protection	1,732,720,217	1,760,200,173	1.6%	1,753,912,176	-0.4%
General Government/Tax Relief					
Administrative Services, Department of	148,005,736	158,052,951	6.8% [f]	163,247,551	3.3%
Budget and Management, Office of	3,402,418	4,741,675	39.4% [f]	4,601,054	-3.0%
Capital Square Review and Advisory Commission	1,801,408	3,578,565	98.7%	3,578,565	0.0%
Controlling Board	475,000	475,000	0.0%	475,000	0.0%
Cultural Facilities Commission	28,563,636	0	-100.0% [b]	0	0.0%
Elections Commission	333,117	333,117	0.0%	333,117	0.0%
State Employment Relations Board	3,761,457	3,761,457	0.0%	3,761,457	0.0%
Tax Appeals, Board of	1,700,000	1,700,000	0.0%	1,700,000	0.0%
Tax Relief Programs	1,736,000,000	1,805,440,000	4.0%	1,877,657,600	4.0%
Taxation, Department of	74,202,146	71,246,530	-4.0% [f]	68,146,532	-4.4%
Total General Government /Tax Relief	1,998,244,918	2,049,329,295	2.6%	2,123,500,876	3.6%

Attachment 6
Estimated Expenditures and Recommendations by Agency
General Revenue Fund, FYs 2013, 2014, 2015

State Agency	FY 2013 Estimate	FY 2014 Recommendations	%	FY 2015 Recommendations	%
			Change		Change
Executive, Legislative, and Judicial Branches					
Attorney General	44,203,589	45,703,589	3.4%	45,703,589	0.0%
Auditor of State	28,234,452	28,234,452	0.0%	28,234,452	0.0%
Court of Claims	2,501,052	2,501,052	0.0%	2,501,052	0.0%
Governor, Office of the	2,851,552	2,851,552	0.0%	2,851,552	0.0%
House of Representatives	21,031,091	21,031,091	0.0%	21,031,091	0.0%
Joint Committee on Agency Rule Review	435,168	455,858	4.8%	456,376	0.1%
Joint Legislative Ethics Committee	550,000	550,000	0.0%	550,000	0.0%
Judicial Conference	801,700	824,900	2.9%	847,200	2.7%
Judiciary/Supreme Court	136,308,695	141,602,706	3.9%	143,818,909	1.6%
Legislative Service Commission	21,350,530	21,500,530	0.7%	21,500,530	0.0%
Secretary of State	2,378,226	2,378,226	0.0%	2,378,226	0.0%
Senate	11,947,822	11,947,822	0.0%	11,947,822	0.0%
Treasurer of State	29,318,459	29,206,559	-0.4%	29,206,559	0.0%
Total Executive Legislative and Judicial Branches	301,912,336	308,788,337	2.3%	311,027,358	0.7%
Transportation and Development					
Agriculture, Department of	14,554,231	15,254,231	4.8%	15,054,231	-1.3%
Development Services Agency	117,789,745	114,060,145	-3.2%	135,126,145	18.5%
Expositions Commission	1,250,000	250,000	-80.0% [g]	250,000	0.0%
Public Works Commission	237,868,400	261,186,900	9.8%	263,396,600	0.8%
Transportation, Department of	10,050,000	10,050,000	0.0%	10,050,000	0.0%
Total Transportation and Development	381,512,376	400,801,276	5.1%	423,876,976	5.8%
Environment and Natural Resources					
Environmental Protection Agency	0	10,923,093	0.0% [f]	10,923,093	0.0%
Environmental Review Appeals	545,530	545,530	0.0%	545,530	0.0%
Natural Resources, Department of	97,384,351	105,180,489	8.0%	108,618,536	3.3%
Total Environment and Natural Resources	97,929,881	116,649,112	19.1%	120,087,159	2.9%
Grand Total	27,655,646,324	30,572,211,400	10.5%	32,661,980,058	6.8%
State Total	20,019,847,106	21,110,697,331	5.4%	21,633,775,087	2.5%
Federal Total	7,635,799,218	9,461,514,069	23.9%	11,028,204,971	16.6%

[a] Etech Ohio Commission is merged into Education, Board of Regents and Opportunities for Ohioans with Disabilities.

[b] Cultural Facilities Commission merged with Facilities Construction Commission.

[c] Alcohol and Addiction Services and Mental Health merge to become Mental Health and Addiction Services.

[d] Medicaid programs currently in JFS are transferred to the new Department of Medicaid.

[e] LRS converted to a nonprofit organization in FY13.

[f] GRF appropriation increases in part as a result of non-GRF items shift.

[g] FY13 contains a one-time facility planning item.

Source: Ohio Office of Budget and Management, February 2013

Attachment 7
Estimated Expenditures and Appropriations by Agency
All Funds, FYs 2013, 2014, 2015

State Agency	FY 2013 Estimate	FY 2014 Recommendations	% Change	FY 2015 Recommendations	% Change
Education					
Arts Council	11,099,704	11,093,204	-0.1%	11,093,204	0.0%
Education, Department of	9,891,200,844	10,489,555,983	6.0% [a]	10,773,761,418	2.7%
Etech Ohio Commission	14,682,506	0	-100.0% [a]	0	0.0%
Higher Education Facilities Commission	12,500	12,500	0.0%	12,500	0.0%
Historical Society	8,054,591	8,121,521	0.8%	8,621,521	6.2%
Library Board	21,602,746	21,273,052	-1.5%	21,378,736	0.5%
Ohioana Library Association	120,000	135,000	12.5%	140,000	3.7%
Career Colleges and Schools, Board of	579,328	579,328	0.0%	579,328	0.0%
Regents, Board of	2,374,444,407	2,374,605,244	0.0% [a]	2,421,827,850	2.0%
Facilities Construction/School Facilities Comm	350,533,434	405,621,593	15.7% [b]	427,678,293	5.4%
State School for The Blind	10,786,356	10,994,204	1.9%	10,994,204	0.0%
State School for The Deaf	10,989,402	11,080,902	0.8%	11,080,902	0.0%
Total Education	12,694,105,818	13,333,072,531	5.0%	13,687,167,956	2.7%
Health and Human Services					
Aging, Department of	92,049,185	93,149,185	1.2%	93,149,185	0.0%
Alcohol and Drug Addition Services, Dept. of	134,919,009	0	-100.0% [c]	0	0.0%
Commission of Service and Volunteerism	7,665,112	7,763,661	1.3%	7,771,072	0.1%
Health, Department of	643,441,244	648,717,859	0.8%	651,871,702	0.5%
Hispanic-Latino Affairs, Commission on	349,480	349,480	0.0%	349,480	0.0%
Industrial Commission	54,494,459	55,642,436	2.1%	54,428,168	-2.2%
Job and Family Services, Department of	21,890,450,429	3,567,474,992	-83.7% [d]	3,531,087,449	-1.0%
Legal Rights Service	1,798,034	0	-100.0% [e]	0	0.0%
Medicaid, Department of	0	21,463,401,538	0.0% [d]	23,644,612,707	10.2%
Mental Health and Addiction Services, Department of	676,772,861	644,936,996	-4.7% [c]	637,186,360	-1.2%
Developmental Disabilities, Department of	2,380,883,041	2,522,954,582	6.0%	2,682,428,711	6.3%
Minority Health, Commission on	1,819,740	1,745,637	-4.1%	1,745,637	0.0%
Opportunities for Ohioans with Disabilities Agency	256,614,645	251,624,133	-1.9% [a]	249,197,597	-1.0%
Veterans' Services, Department of	103,918,190	92,808,985	-10.7%	91,011,025	-1.9%
Veterans' Organizations	1,887,986	1,887,986	0.0%	1,887,986	0.0%
Workers' Compensation, Bureau of	286,760,404	283,610,000	-1.1%	267,083,900	-5.8%
Total Health and Human Services	26,533,823,819	29,636,067,470	11.7%	31,913,810,979	7.7%
Justice and Public Protection					
Adjutant General	51,813,528	45,495,633	-12.2%	45,495,633	0.0%
Civil Rights Commission	7,491,284	7,550,454	0.8%	7,677,767	1.7%
Ethics Commission	2,022,111	2,046,139	1.2%	2,022,556	-1.2%
Inspector General, Office of	2,672,133	2,500,598	-6.4%	2,350,598	-6.0%
Public Defender Commission	73,348,798	84,812,056	15.6%	86,273,882	1.7%
Public Safety, Department of	678,452,188	680,263,888	0.3%	682,707,792	0.4%
Rehabilitation and Correction, Department of	1,571,944,481	1,572,403,588	0.0%	1,559,868,556	-0.8%
Youth Services, Department of	250,395,314	249,413,470	-0.4%	247,505,930	-0.8%
Total Justice and Public Protection	2,638,139,837	2,644,485,826	0.2%	2,633,902,714	-0.4%
General Government/Tax Relief					
Employee Benefits Funds	1,479,842,591	1,582,267,026	6.9%	1,692,851,989	7.0%
Administrative Services, Department of	482,891,954	497,667,012	3.1%	487,057,678	-2.1%
Budget and Management, Office of	27,181,059	28,118,191	3.4%	28,455,693	1.2%
Capital Square Review and Advisory Commission	5,689,689	7,253,596	27.5%	7,195,596	-0.8%
Casino Control Commission	10,527,983	13,121,283	24.6%	13,542,674	3.2%
Commerce, Department of	783,827,833	175,786,086	-77.6%	175,632,191	-0.1%
Consumers' Counsel, Office of	5,641,093	5,641,093	0.0%	5,641,093	0.0%
Controlling Board	10,475,000	10,475,000	0.0%	10,475,000	0.0%
Deposit, Board of	1,876,000	1,876,000	0.0%	1,876,000	0.0%
Medical Transportation Board	9,172,062	9,172,062	0.0%	9,172,062	0.0%
Cultural Facilities Commission	29,424,527	0	-100.0% [b]	0	0.0%

Attachment 7
Estimated Expenditures and Appropriations by Agency
All Funds, FYs 2013, 2014, 2015

State Agency	FY 2014			FY 2015	
	FY 2013 Estimate	Recommendations	% Change	Recommendations	% Change
State Agency					
Elections Commission	558,117	558,117	0.0%	558,117	0.0%
Insurance, Department of	36,880,720	39,205,223	6.3%	36,545,157	-6.8%
Liquor Control Commission	754,146	784,376	4.0%	796,368	1.5%
Lottery Commission	346,488,853	335,475,593	-3.2%	333,578,528	-0.6%
Petrol. Undergd Storage Tank Release Comp. Bd.	1,214,014	1,233,249	1.6%	1,252,202	1.5%
Professional Licensing Boards	33,220,592	33,807,354	1.8%	33,481,161	-1.0%
Public Utilities Commission	92,713,767	71,646,302	-22.7%	53,254,528	-25.7%
Racing Commission	24,929,086	28,429,086	14.0%	28,429,086	0.0%
Revenue Distribution Funds	4,726,718,096	4,824,132,626	2.1%	4,929,808,268	2.2%
Sinking Fund, Commissioners of	1,059,351,800	1,083,646,500	2.3%	1,159,347,600	7.0%
State Employment Relations Board	3,848,532	3,846,457	-0.1%	3,846,457	0.0%
Tax Appeals, Board of	1,700,000	1,700,000	0.0%	1,700,000	0.0%
Tax Relief Programs	1,736,000,000	1,805,440,000	4.0%	1,877,657,600	4.0%
Taxation, Department of	1,704,183,487	1,708,926,790	0.3%	1,706,526,792	-0.1%
Total General Government/Tax Relief	12,615,111,001	12,270,209,022	-2.7%	12,598,681,840	2.7%
Executive, Legislative, and Judicial Branches					
Attorney General	250,790,204	244,180,008	-2.6%	246,176,836	0.8%
Auditor of State	74,843,701	72,430,518	-3.2%	72,453,464	0.0%
Court of Claims	3,514,808	2,916,608	-17.0%	2,917,005	0.0%
Governor, Office of the	3,216,701	3,216,701	0.0%	3,216,701	0.0%
House of Representatives	22,502,604	22,502,604	0.0%	22,502,604	0.0%
Joint Committee on Agency Rule Review	435,168	455,858	4.8%	456,376	0.1%
Joint Legislative Ethics Committee	650,000	700,000	7.7%	700,000	0.0%
Judicial Conference	1,186,700	1,209,900	2.0%	1,232,200	1.8%
Judiciary/Supreme Court	143,810,758	148,452,850	3.2%	150,694,818	1.5%
Legislative Service Commission	21,590,530	21,740,530	0.7%	21,740,530	0.0%
Secretary of State	24,774,688	19,499,826	-21.3%	19,499,826	0.0%
Senate	12,834,320	12,834,320	0.0%	12,834,320	0.0%
Treasurer of State	41,002,957	40,826,616	-0.4%	40,826,616	0.0%
Total Executive, Legislative, and Judicial Branche	601,153,139	590,966,339	-1.7%	595,251,296	0.7%
Transportation and Development					
Agriculture, Department of	61,955,410	52,376,557	-15.5%	52,207,617	-0.3%
Development Services Agency	1,205,097,799	1,292,205,091	7.2%	1,245,420,935	-3.6%
Expositions Commission	14,348,000	13,379,000	-6.8% [g]	13,379,000	0.0%
Housing Finance Agency	12,405,084	12,156,982	-2.0%	12,156,982	0.0%
Public Works Commission	239,363,935	314,670,985	31.5%	316,891,800	0.7%
Southern Ohio Agriculture Redevelopment	426,800	426,800	0.0%	426,800	0.0%
Transportation, Department of	2,858,564,193	3,005,212,922	5.1%	3,142,249,998	4.6%
Total Transportation and Development	4,392,161,221	4,690,428,337	6.8%	4,782,733,132	2.0%
Environment and Natural Resources					
Air Quality Development Authority	867,893	1,752,893	102.0%	1,977,893	12.8%
Environmental Protection Agency	222,642,539	202,652,509	-9.0%	205,756,723	1.5%
Environmental Review Appeals Commission	545,530	545,530	0.0%	545,530	0.0%
Lake Erie Commission	745,893	523,942	-29.8%	539,637	3.0%
Natural Resources, Department of	325,482,818	329,641,676	1.3%	334,297,664	1.4%
Total Environment and Natural Resources	550,284,673	535,116,550	-2.8%	543,117,447	1.5%
Grand Total	60,024,779,508	63,700,346,075	6.1%	66,754,665,364	4.8%

[a] Etech Ohio Commission is merged into Education, Board of Regents and Opportunities for Ohioans with Disabilities.

[b] Cultural Facilities Commission merged with Facilities Construction Commission.

[c] Alcohol and Addiction Services and Mental Health merge to become Mental Health and Addiction Services.

[d] Medicaid programs currently in JFS are transferred to the new Department of Medicaid.

[e] LRS converted to a nonprofit organization in FY13.

[g] FY13 contains a one-time facility planning item.

Source: Ohio Office of Budget and Management, February 2013

Note: Does Not Include Capital Spending or Capital Appropriations

Attachment 8
Estimated General Revenue Fund Balances
For Fiscal Years 2014 and 2015
(Dollars in Millions)

FY 2014

Estimated FY 2014 Beginning Balance	146.1
Plus Estimated FY 2014 Revenues and Transfers to the GRF	30,677.9
Total Sources Available for Expenditure and Transfer	30,824.0
Less Recommended FY 2014 Appropriations	30,572.2
Less GRF Transfers Out	91.4
Total Uses	30,663.6
Estimated FY 2014 Ending Balance	160.4

FY 2015

Estimated FY 2015 Beginning Balance	160.4
Plus Estimated FY 2015 Revenues and Transfers to the GRF	32,823.8
Total Sources Available for Expenditure and Transfer	32,984.2
Less Recommended FY 2015 Appropriations	32,662.0
Less GRF Transfers Out	130.9
Total Uses	32,792.8
Net Estimated Unreserved, Undesignated FY 2015 Ending Balance	191.3

Source: Ohio Office of Budget and Management, February 2013