



# CENTER ON BUDGET AND POLICY PRIORITIES

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## A STATE OF DECLINE: WHAT A TABOR WOULD MEAN FOR OHIO

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If a constitutional amendment to limit expenditures — similar to Colorado's Taxpayer Bill of Rights (TABOR) — had been in place over the last decade in Ohio, state and local services would have deteriorated substantially. Assuming a TABOR limit, such as the one most recently proposed by Secretary of State Ken Blackwell, had been adopted in 1994, effective for fiscal year 1995, a cumulative total of \$19 billion would have been cut from state expenditures for programs and services over the ensuing 11 years.<sup>1</sup>

State General Revenue Fund expenditures in fiscal year 2005 could be no higher than \$14.9 billion, had the Blackwell TABOR limit begun in 1995.

- The limitation would have held FY 2005 expenditures to approximately *\$3 billion below* actual expenditures this year.
- Expenditures for FY 2005 would have had to be 17 percent lower than they actually are.

This report illustrates the potential magnitude and impact of such a cut. It looks at the degree to which programs and services would have to have been reduced in FY 2003 if a TABOR limit had been effective since FY 1995.<sup>2</sup> (FY 2003 is the latest year for which full data are available.) For sake of discussion, it assumes that total expenditures would be reduced to the permitted level by cutting all areas of state government expenditures proportionally. Thus if K-12 education makes up one-third of the budget, it would receive one-third of the expenditure reductions.

While actual reductions would likely differ from this assumption, proportional reductions provide an indication of the types of reductions that would be required. Lesser cuts in any one area would have to be offset with deeper cuts in another. (See box on page 6.)

### Education

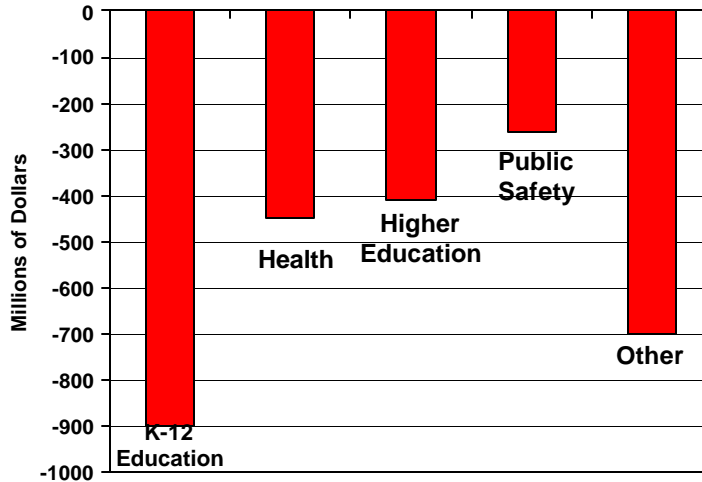
The reductions in state funding for K-12 education spending would have totaled \$900 million in FY 2003. A reduction of this magnitude could have been accomplished in a number of ways.

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#### Acknowledgement

We are grateful for the assistance of David Ellis at the Center for Community Solutions in Ohio.

## \$2.7 Billion in Cuts in FY 2003 If Blackwell TABOR Began in 1995



Assumes categories of expenditures would be cut in proportion to their share of the total GRF budget

- Ohio schools could have employed 15,272 fewer teachers in FY 2003.<sup>3</sup> This would have raised the pupil-teacher ratio from 15.0 children per teacher to 17.2 children per teacher. The increase in the pupil-teacher ratio would move Ohio's national ranking from 24<sup>th</sup> to 41<sup>st</sup> and move it from just above the national average to well below average. Pupil-teacher ratios would continue to rise in subsequent years, as the funding reductions required by the limit grow.
- Ohio could have closed school 12 days early to save the \$900 million in FY 2003.<sup>4</sup> Again, fewer and fewer days of school would be affordable in future years as the limit would continue to pinch funding.

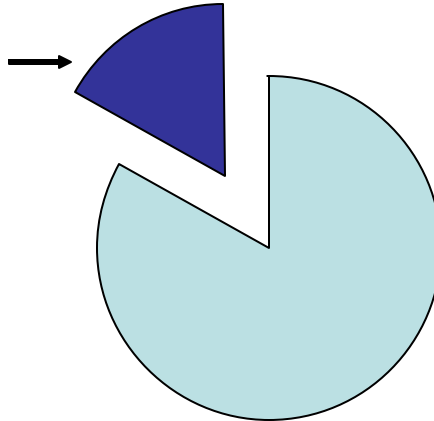
### Health Insurance for Low-Income Households

State funding for Medicaid would have had to be cut by over \$450 million in FY 2003. Expenditures could be cut by reducing the number of people eligible to be covered by Medicaid or by reducing the type of services that are covered under the program. For reductions of this magnitude, both approaches would be necessary.

Moreover, for every dollar that Ohio expends on services in Medicaid, it receives \$1.43 from the federal government. Thus a \$450 million reduction in state expenditures would trigger a total (state and federal) \$1.1 billion reduction in the services provided under the Medicaid program.<sup>5</sup>

## TABOR Will Take a Big Bite Out of Programs and Services

After 8 years of TABOR, state would have to cut \$1 of every \$6 it spends on programs and services



Ohio has less latitude for cutting program eligibility than many other states do. In part, this is due to the fact that eligibility in a number of areas already reflects federal minimum standards. To partially meet the \$450 million reduction, all of the following eligibility reductions would be required.

- Dropping health insurance for *all* children enrolled in Ohio's child health insurance program (Healthy Start) — which would have eliminated coverage for more than 200,000 Ohio children — could have reduced state expenditures by about \$58 million — just a fraction of the required reductions.<sup>6</sup> Children between age 6 and age 19 living in a family of three people, for example, would lose coverage if their family's annual income was between \$15,260 and \$30,520. Many parents in that income range are not offered health insurance by their employers or cannot afford the steep premiums required to cover their children.
- Eliminating coverage for about 60,000 low-income parents — mostly mothers — in the Ohio Healthy Families program could have cut state expenditures by another \$56 million.<sup>7</sup>
- Ending prescription drug coverage for all adult Medicaid beneficiaries who are not also enrolled in Medicare.<sup>8</sup> (Under the new Medicare drug law, all Medicaid beneficiaries who are dually enrolled in Medicare will get prescription drug coverage under Medicare instead of Medicaid by January 2006.) This would end all prescription drug coverage for all classes of medications, including drugs for

## The Slow Squeeze of TABOR

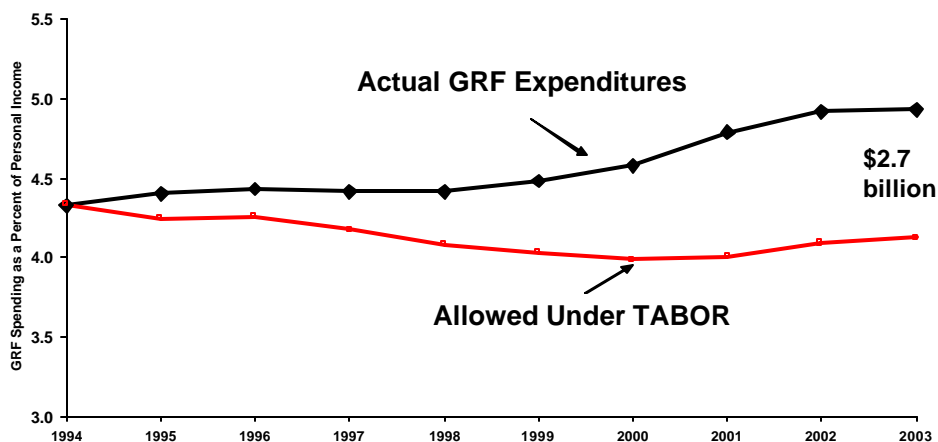
This report shows the impact in FY 2003 of a TABOR that became effective in 1995. It looks over this long time period because the effects of a strict spending limit may take years to be fully felt.

Spending limits typically rise at a rate only slightly lower than the cost of providing services, perhaps a difference of one or two percentage points. Over time, however, the difference grows dramatically. A one- or two-percentage point difference every year can translate into a 13 to 26 percent gap over the course of a dozen years.

States often react to the early years of a limitation by using accounting maneuvers and short-term deferrals. These can become long-term problems. States may push spending into future years, but that deferred spending can exacerbate the even tighter limits that lie ahead. States may defer routine maintenance items, capital improvements, staff training, or other investments in infrastructure or workforce. Such changes may help balance budgets in the short run, but can be costly in the long run.

When public expenditures are investments, it may take many years for the harm from lack of investment to be evident. Much state spending is intended to have long-term impacts. Studies show, for instance, that early childhood spending has great benefits that do not begin to show up for many years. Infrastructure spending is another example. Failure to make expenditures now can have a negative effect on a state's quality of life in future years.

### If Blackwell Version Began in 1995, State GRF would be \$2.7 billion lower by 2003



Source: CBPP analysis of Ohio House of Representatives data.

cancer, heart disease, mental illness, HIV, infections, etc. for almost 700,000 non-elderly adults, including a large number with permanent disabilities. This would have reduced state expenditures by about \$207 million in 2003.

Even with these deep cuts, which would eliminate all health insurance coverage for more than one-quarter of a million low-income children and parents and end prescription drug coverage for almost 700,000 beneficiaries, the state would have saved only \$321 million in 2003 — just over two-thirds of the budget reductions necessary if Medicaid bore a proportionate share of the cuts. To make up some of the additional cuts required to reduce state Medicaid expenditures by \$450 million, policymakers could cut certain Medicaid services for the elderly, such as in-home health services offered under Ohio's PASSPORT program, or could restrict Medicaid reimbursement for nursing homes, which could reduce the quality of nursing home care.

## **Public Safety**

State funding for public safety and protection would have been \$260 million less in fiscal year 2003. Cutting \$260 million from the public safety budget could be achieved in different ways.

- Ohio could have incarcerated 11,000 fewer inmates — fully one-fourth of the average inmate population in 2003.<sup>9</sup> Ohio's inmate population increased 19 percent from 1993 to 2003 and is projected to increase by 14 percent in the next decade.<sup>10</sup> TABOR could severely limit the state's ability to follow current incarceration policies.
- Ohio could have cut 4,560 security employees in the Department of Rehabilitation and Corrections.<sup>11</sup> This reduction would constitute a 57 percent cut in the security workforce. A reduction of this magnitude in security staff would have to be accompanied by the release of a substantial number of prisoners to avoid endangering the safety of the correction personnel and the inmates.
- Ohio could close several of its correctional facilities. Ohio could achieve \$260 million in savings by closing the Belmont, Chillicothe, Madison, North Central, Pickaway, Richland, and Ross correctional facilities.<sup>12</sup>

## **Higher Education**

The Ohio system of higher education would likely shoulder a heavy share of TABOR-induced spending cuts, just as the system of higher education has under TABOR in Colorado.<sup>13</sup> Higher education's proportional share of spending cuts in 2003 would have been \$408 million.

### Different Ways to Make TABOR Cuts in Ohio

The body of this report shows what would have happened if the cuts required by TABOR had been distributed proportionally across all areas of state government expenditures. For example, K-12 education makes up one-third of the budget, thus it would receive one-third of the required \$2.7 billion in expenditure reductions. Every area of the budget would be cut by 16 percent.

Alternatively, Ohio policymakers may choose to protect funding for certain parts of the budget. In that case, other areas of the budget would be cut much more deeply. The table below shows the proportional cuts and two other scenarios. In the first alternative scenario, policymakers protect full funding for K-12 education, causing other areas to experience cuts of 22 percent.

In the second alternative, policymakers protect funding for K-12 education, the Healthy Start program, and corrections. In that case, all other areas would have to be cut by 26 percent.

#### \$2.7 Billion Cut in FY 2003

	Proportional Cuts FY 2003	Proportional Cuts FY 2003	Proportional Cuts FY 2003
	All Programs	K-12 Excluded	K-12, Healthy Start, Public Safety Excluded
K-12	\$900	\$0	\$0
Higher Education	408	613	722
Medicaid	450	680	802
Other Health & Human Services	304	457	538
Public Safety	260	397	0
General Government	237	357	420
Transportation	57	85	100
Environment	25	38	45
Executive, Legislative, Judicial	49	74	87

- To cut higher education spending by \$408 million, Ohio could have reduced its subsidy for each in-state student, causing in-state tuition to rise by \$1,200. That would represent a 36 percent increase in tuition.
- Alternatively, subsidies could be eliminated for 90,000 students — one-quarter of all in-state students.
- Or, the TABOR-driven shortfall of \$408 million in higher education could be made up by cutting the *entire* state subsidy for all of the following institutions combined: *all* 23 branch campuses in the state university system, *all* 15 community colleges, *all* nine technical colleges, and Youngstown State University.<sup>14</sup> In effect, these institutions (or others) would have to charge the full rate to students, rather than the in-state rate, to remain viable.

## Other

All of the service cuts detailed above would have comprised approximately \$2.0 billion of the \$2.7 billion in reductions that would have been required in FY 2003 if a TABOR had been effective since 1995. The other \$700 million in cuts would have to come from other areas of the budget, including environmental, public health, mental retardation and developmental disabilities, judicial, and youth service spending. To cut an additional \$700 million from the budget, Ohio legislators could cut *all* of the following.

- *All* funding for community and hospital mental health (\$360 million)
- *All* Residential and support services for mental retardation (\$140 million)
- *All* Residential facilities operations for developmentally disabled Ohioans (\$100 million).
- *All* state funding for RECLAIM Ohio, a program that seeks to develop alternatives for incarceration for at-risk youth (\$155 million).

## Endnotes

<sup>1</sup> The base used in this analysis — General Revenue Fund expenditures — is the same as that used in a recent analysis by Scott Borgemenke, House Chief of Staff. The Borgemenke analysis is based on House Joint Resolution/Senate Joint Resolution 4 sponsored by Representative Reidelbach and Senator Jordan, which is slightly more restrictive than the proposed Blackwell Amendment. The Borgemenke analysis found that a cumulative total of \$25 billion would have been cut since 1995, and 2005 expenditures would fall short of actual expenditures by \$4.1 billion or 23 percent.

<sup>2</sup> Our analysis shows that spending would have had to have been \$2.7 billion below actual for FY 2003, a reduction of 16.3 percent. FY 2003 is used in this analysis rather than FY 2005 because current information on government program activities is not fully available through FY 2005.

<sup>3</sup> Estimated teacher cuts were calculated as the total K-12 expenditure shortfall divided by the average annual Ohio teacher salary plus compensation. Source: American Federation of Teachers, Teacher Salary Survey, 2004. Available at <http://www.aft.org/salary/index.htm> Fringe benefits were estimated as 30 percent of salary.

<sup>4</sup> Estimated number of school days lost was computed by dividing the total yearly expenditure on Ohio public K-12 schools by the number of school days per year (182). The result was an average cost per day of operating all Ohio public K-12 schools. Source: National Center for Education Statistics.

<sup>5</sup> The estimate of \$1.1 billion in reduced Medicaid services is derived from adding \$452 million in state expenditure reductions to the product of \$452 million times the Federal Medical Assistance Percentage (FMAP) for Medicaid. The FMAP, which is based on a state's per capita income, determines the federal dollar match for each dollar of state expenditure. In Federal fiscal years 2002 and 2003, the FMAP for Ohio was 58.78 and 58.83, respectively. Due to the federal fiscal relief, FMAPs were temporarily increased from April 1, 2003 to June 30, 2004, which means states reducing Medicaid expenditure during this time period would have lost more federal funding than normal. However, for the purposes of this estimate, Ohio's normal FMAP was used. Therefore, the estimate of \$1.1 billion in reduced Medicaid services is a conservative calculation since Ohio would have lost additional federal Medicaid funding had the legislature actually reduced state Medicaid expenditure during this time.

<sup>6</sup> The SCHIP program covers children from 0 to 5 years of age with family incomes between 133 percent and 200 percent of the poverty line and children 6 to 19 years of age with incomes between 100 and 200 percent of the poverty line.

<sup>7</sup> The Healthy Families expansion covers parents with incomes between about 80 and 100 percent of the poverty line. Most of these parents would get transitional Medicaid coverage for up to 12 months, but they would eventually lose Medicaid coverage. The savings estimate assumes they completely lost coverage by 2003.

<sup>8</sup> We assume that all children are entitled to prescription drugs under Early Periodic Screening Diagnosis and Treatment requirements in Medicaid.

<sup>9</sup> Figure derived by dividing the total public safety shortfall by the average annual cost per inmate in 2003 (\$23,349). Source: Ohio Department of Rehabilitation and Corrections, *Annual Report*.

<sup>10</sup> Ohio Department of Rehabilitation and Correction, *Population Projections*, December 2003. Available at [http://www.drc.state.oh.us/web/Reports/proj\\_dec2003.pdf](http://www.drc.state.oh.us/web/Reports/proj_dec2003.pdf)

<sup>11</sup> Figure derived by dividing total public safety shortfall by average compensation (salary and benefits) for security employees in the Department of Rehabilitation and Correction. Figure is based on fiscal year 2004 spending and employment. Source: Ohio Department of Rehabilitation and Correction, *Fiscal Year 2004 Annual Report*. Available at <http://www.drc.state.oh.us/web/reports/Annual/Annual%20Report%202004.pdf>



<sup>12</sup> The total net budgets of these seven facilities was approximately \$260 million in fiscal year 2004. Source: Ohio Department of Rehabilitation and Correction, <http://www.drc.state.oh.us/web/Reports/costperinmate/July%202004.pdf>

<sup>13</sup> Presumably, spending cuts would be made to Ohio's largest source of state support for public institutions of higher education — the State Share of Instruction (SSI). The SSI provides general operating support to Ohio's 62 state-assisted colleges and universities and helps students and parents by reducing the amount they would otherwise have to pay in tuition and fees. In fiscal year 2003, the state gave more than \$1.5 billion in assistance through SSI. SSI per student comes from Ohio's fiscal year 2003 State Share of Instruction total (budget line item GRF 235-501) divided by the total number of eligible Full-Time Equivalent (FTE) students. Source: *State of Ohio Executive Budget, Fiscal Years 2006 and 2007*, <http://www.obm.ohio.gov/budget/executive/0607/bb0607.pdf> and *Ohio Legislative Service Commission*, <http://www.lbo.state.oh.us/fiscal/publications/biennial/ohiofacts/DEC2004/OhiosCollegesandUniversities.pdf>

<sup>14</sup> SSI funding for individual campuses available from Ohio Board of Regents, 2004: *Ohio's Colleges and Universities: Profile of Student Outcomes, Experiences, and Campus Measures*, Table 20b.