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The Buckeye Budget Lesson

Ohio cuts spending and taxes—and still balances the books.

The reform-minded GOP Governors across the upper Midwest have sustained a lot of political damage lately, but at least they're delivering on their campaign promises and will be judged on the results. The latest is Ohio's John Kasich, who signed an ambitious budget late last week that will help the Buckeye State's economy and finances.

Mr. Kasich took office this year facing the largest deficit in Ohio history, close to $7.7 billion. His predecessor, Democrat Ted Strickland, had avoided any serious reform in advance of the 2010 election, despite a shrinking economy and tax base, and had concealed fiscal holes with federal stimulus dollars that have now run out. To close the gap with revenue alone, the Ohio tax department estimated that income rates for the average family would need to rise 56%.

Mr. Kasich's budget is bringing Ohio's finances into balance by cutting spending while also cutting taxes, which ought to be a lesson for Washington. The $55.8 billion two-year budget pares from nearly every state program and agency, and it privatizes some of them, including some prisons and maybe even the Ohio Turnpike, if the legislature approves. It restores a scheduled cut in the top income tax rate to 5.9% from 6.2%—part of a larger across-the-board cut over five years that Mr. Strickland deferred. And it eliminates Ohio's estate tax and cuts property taxes by $1.7 billion.

A particular achievement is reforming Medicaid, which covers one of seven Ohioans and makes up nearly a third of state spending. The stimulus and ObamaCare imposed severe "maintenance of effort" mandates on states that make the program far less flexible, but Mr. Kasich's plan will slow the program's projected 8% spending growth to 4%, well below the national average. Major savings come from redirecting subsidies to community-based care from the nursing home industry, which is politically powerful in Columbus.

Over the last decade only Michigan and California have lost more jobs than Ohio, party because of manufacturing decline but also because of a tax code that promotes capital (and investor) flight. The budget includes a tax credit equal to 10% of long-term investments in Ohio-based small businesses, those below $50 million in assets or $10 million in sales. Mr. Kasich's budget director Tim Keen describes this "Invest Ohio" fillip as an interim measure to end a capital strike amid a larger effort to reduce business costs and government drag on the economy.

Reductions in the overall tax burden would be cleaner and more efficient, and one challenge for Mr. Kasich will be bringing down Ohio's top marginal, corporate and local rates, which still add up to a much higher tax burden than surrounding states like Indiana, Kentucky and even Michigan. Still, it wouldn't be the worst thing if regional governors like the Wolverine State's Rick Snyder and Wisconsin's Scott Walker got into a jobs race akin to this year's collective bargaining reforms.

Mr. Kasich's approval ratings have fallen sharply as he's pursued budget and labor change, though challenging the status quo is always disruptive. On the other hand, voters didn't reward Mr. Strickland for making the problem worse by doing nothing.

The Columbus Dispatch
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Editorial: Historic achievement
New state budget closes Ohio's fiscal chasm and launches overdue reform

Ohio lawmakers have approved a budget that should set the state on a far better course for the future.

It's a two-year spending plan that erases an $8 billion deficit left by the Strickland administration, doing so without raising taxes, a campaign pledge by Gov. John Kasich that many doubted was possible. But it also is a transformational budget containing fundamental policy changes.

Kasich is expected to sign the bill this afternoon. When he does, his administration will be equipped to tackle and resolve tough issues that past governors and lawmakers have allowed to fester.

While the funding cuts to local government, primary and secondary schools and higher education will be painful, the new economic realities faced by the state and nation make them unavoidable. Most important, the budget provides ways for all public entities to serve the public more efficiently, with less reliance on ever-escalating taxes.

It will reset government spending to a baseline that taxpayers can afford.

Senate President Tom Niehaus, R-New Richmond, summed it up well: "We cannot continue doing business the same old way." Under this budget, Ohio won't.

Local governments will have to adjust to $630 million in direct funding cuts over the two-year budget period, but they'll do so with new tools at their disposal, including a $50 million fund that will give grants to support local governments' efforts to save money through cooperation and consolidation.

School districts will see $700million cut from the funding of kindergarten-through-12th grade education, and colleges and universities will receive $250 million less over two years.

Chief among the beneficial policy changes is an end, at last, to a ridiculous set of rules for public construction that have added hundreds of millions of dollars to the cost of building schools, university facilities, municipal buildings and the like.

The change means public builders no longer will be required to contract separately with four major contractors for plumbing, heating and cooling, general construction and electrical work.

It was an archaic practice, long abandoned by every state but Ohio, which inflated the cost of projects by 5 percent to 15 percent because four contractors working independently produce delays, errors and conflicts that sometimes ended up in court.

The old "multiple-prime" system was favored by major contractors who benefitted from it; several previous attempts at construction reform were rebuffed by governors and legislators who ignored the clear public interest in it.

Also on the long-overdue list is a significant adjustment in taxpayer support for nursing homes.

A powerful nursing-home lobby managed over the years to win some of the highest reimbursement rates in the nation. As a result, Ohio has spent too much of its Medicaid-funded long-term-care budget on nursing homes as opposed to in-home care, which is far less expensive and preferred by many seniors.

Even after being held essentially flat for several years, the average daily reimbursement rate of $177.53 per day is $4.75 above the national average. The budget cuts that rate to $167.25, a reduction of 5.8 percent.

Overall, nursing-home funding could decline by $340 million to $370 million over two years. State Medicaid officials expect fewer Ohioans to go into nursing homes, and the extent of that decline will affect the total savings.

On the important question of evaluating and compensating teachers, the budget provides a good start toward the merit-based pay system that would encourage the most-talented teachers to enter and stay in education.

Although the budget doesn't require teacher pay to be based on merit, it does start schools down that path by requiring them to adopt by July 1, 2013, a teacher-evaluation method to be developed by the Ohio Department of Education.

Under that system, for which the department must have a framework at the end of this year, at least half of the evaluation must be based on improvement in student performance - the bottom line in education. Evaluations also must include at least two 30-minute classroom observations of each teacher and must be yearly.

Even without mandatory merit pay, the new evaluation system will have a huge impact, as schools must use it to determine whether teachers are fired, kept on or promoted. When promotions are considered or school-district budgets require teachers to be laid off, using merit-based evaluations to make the decisions will serve students far better than relying primarily on seniority, as is now the case. Those districts participating in the federal Race to the Top grant have pledged to establish merit-pay systems; the budget-mandated evaluations will complement that effort.

Lawmakers and the governor also rejected an effort by two for-profit charter-school companies to rewrite charter-school law in ways that would have drastically reduced public oversight and accountability.

Kasich and this legislature came into office in January facing a disaster: an $8 billion deficit left by former Gov. Ted Strickland and lawmakers who failed to put the state on a sustainable fiscal basis by matching spending with revenue. Instead, they kicked the problem down the road, using federal stimulus money to paper over the problem.

Putting the state back on a sound fiscal foundation, with the tools to keep it that way for the foreseeable future, is an extraordinary accomplishment.

Success in budgeting

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Making changes in the Medicaid program always is a delicate juggling act involving costs and the widely different needs of beneficiary groups and providers of health-care services. Reformers face the test that they not create new problems while trying to fix existing ones.

It is a big credit to Gov. John Kasich, his Office of Health Transformation and the Republican-controlled legislature that the new state budget launches reforms that promise to improve the structure and services of Ohio Medicaid. On the whole, the budget legislation moves the health-care program for poor families, the disabled and the elderly poor a long way toward greater efficiency in finances and services. Not least, the reformers avoided the typical reflex at the first sign of budget trouble: slashing optional but critical benefits such as dental and eye care for the poor.

It has long been recognized that in structure and operation, Ohio Medicaid, which spent more than $18 billion in total this past fiscal year, is fragmented, the quality of care uneven and spending skewed heavily to high-cost institutional care for a small percentage of disabled and elderly clients.

Kasich set the right priority to realign the program, with the aim to coordinate better the care of the 2.2 million Ohioans the program serves, thereby lowering costs and raising the bar for quality. The budget, for instance, provides funding to establish a pediatric accountable care system that would enable the state to contract with managed-care insurers to provide comprehensive care for disabled children with special needs. To that end, the budget also paves the way for Ohio’s children’s hospitals to become accountable care organizations, able to contract for the specialized care of children with fragile health.

Similarly, various measures in the budget legislation advance integrated care of seniors and adults with disabilities and multiple chronic illnesses. Funding to implement concepts such as health homes and an Integrated Care Delivery System promises patients easier access in a single setting to services for their physical and behavioral health care as well as other social needs.

The budget also significantly expands options in long-term care. It thus goes some distance to address the longstanding problem of seniors defaulting to nursing homes because of the limited availability of slots for home and community-based programs. The legislation creates a unified budget for long-term care. It combines five popular waivers for home and community based services, increasing funding for these options by $532 million and opening up space over the next two years for an additional 12,890 Ohioans to receive long-term care, cheaper, in the settings they prefer.

To be sure, much gnashing of teeth accompanied the legislative process. In the end, it achieved better care for poor families, seniors and disabled.