



BEWARE THE SHADOW BUDGET

OHIO SPENDS MORE THAN MANY THINK

BY GREG R. LAWSON
JANUARY 27, 2021

Introduction

Ohio's biennial budget process is about to begin—the first budget planned during the COVID-19 pandemic and one that will require sound fiscal strategies to overcome the unique challenges the pandemic presents. Such strategies require a complete and honest assessment of Ohio's government spending, not the opaque, partial picture presented by media headlines.

Too often, newspapers and policymakers present the state budget as one thing when really it is quite another. Most Ohioans likely assume that “Ohio's budget” consists of a two-year general operating budget approved by the General Assembly that pays for everything from kindergartens to nursing home care. And many also likely believe that all of Ohio's state-sponsored services most recently cost taxpayers roughly \$69 billion over the past two years—the widely publicized “Ohio budget.”¹ They would be wrong.

In addition to the commonly cited General Revenue Fund that press reports call the “Ohio budget,” the state spends taxpayer funds through several “shadow budgets” that rarely, if ever, see the public light of day. With Washington sending federal COVID-19 relief to Ohio, the state will spend an estimated \$140.8 billion between 2019 and 2021—over twice the typically cited total in its operating budget.² With Controlling Board spending and several other budgets that fall outside the biennial operating budget process, Ohio's total expenditures will cost taxpayers *more than* \$153 billion.³ Thus, suggesting that “Ohio's budget” was a mere \$69 billion is grossly misleading and makes it difficult for voters and taxpayers to

¹ Cathy Candisky, Darrel Rowland, and Randy Ludlow, **Late arrival on governor's desk leaves Ohio without budget for hours**, *The Columbus Dispatch*, July 18, 2019.

² Approximately, \$4.6 billion in the all-funds biennial budget is set aside for returning overcollections of taxes back to state taxpayers. While this is technically considered an appropriation for budget purposes, the author has removed them from the calculations for the entire biennial operating budget in this paper as these are dollars not spent on government services. For more background see, Legislative Budget Office of the Legislative Service Commission, **Appropriation Spreadsheet House Bill 166—133rd General Assembly Main Operating Budget Bill (FY 2020-FY2021) Adjusted**, October 16, 2020.

³ **Controlling Board—About Us**, Ohio Office of Budget and Management (Last visited January 13, 2021).

accurately assess the size, scope, and cost of their government. And keeping taxpayers in the dark about government spending undermines accountability for state officials and policymakers.

State officials and legislators need to shed more light on Ohio’s “shadow budgets” and how they are used. Several reforms can help:

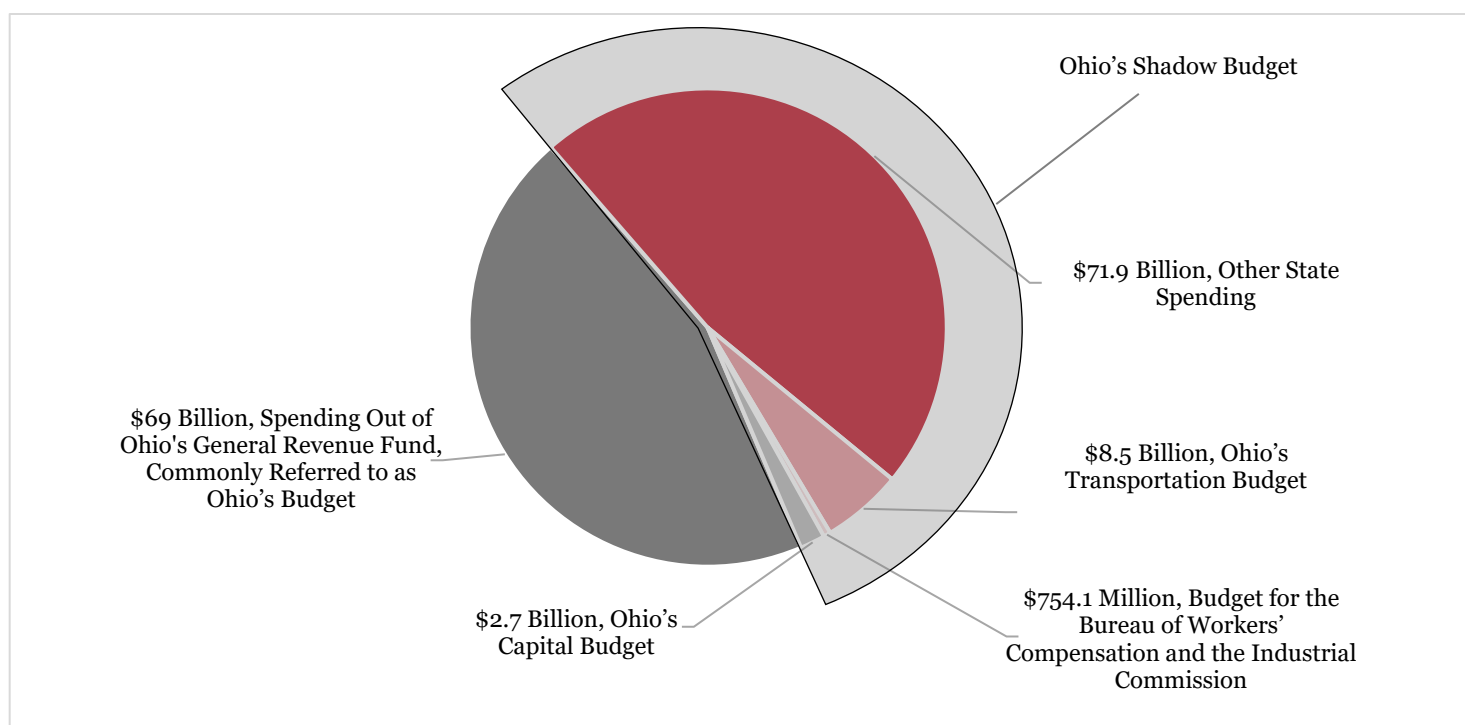
1. Enhance transparency initiatives, such as Ohio Checkbook;
2. Strengthen the Statutory Appropriation Limitation;
3. Tie Ohio’s non-emergency spending growth to state population growth and inflation rates; and
4. Report on *all* of the state’s spending, not just the General Revenue Fund.

The pandemic of 2020 has created unique and difficult challenges for state and local policymakers—challenges that require strategic planning and spending. Without a clear picture of real government revenues and expenses, it is impossible to plan and spend responsibly, or to know which spending programs need to be fixed. Policymakers and the public they serve should not be making or fixing fiscal policies in the dark.

“Ohio’s Budget” vs. Total State Spending

“Ohio’s budget,” as commonly reported, currently spends \$69 billion from the General Revenue Fund to cover the majority of state services such as K-12 education, Medicaid, and the Department of Rehabilitation and Correction. But there is another budget—a “shadow budget”—that spends another \$76.5 billion on a wide range of state programs, another \$8.5 billion on transportation,⁴ and still another \$2.7 billion through two bills that functionally comprise Ohio’s new capital budget.⁵ (See Figure 1.) These “shadow budgets,” comprising more than half of the state’s real spending total, are not included in the more commonly cited “Ohio’s budget” and their economic effects are rarely cited or publicly discussed.

Figure 1. Total State Spending Fiscal Years 2020-2021



The General Revenue Fund collects revenues from most of the state’s major, broad-based taxes, including the personal income tax, state sales tax, public utilities tax, and the commercial activities tax. It also includes many (but not all) federal grants and reimbursements, and \$3.7 billion in state subsidies for local property taxes.⁶ But the General Revenue Fund only accounts

⁴ Legislative Budget Office of the Legislative Service Commission, **Appropriation Spreadsheet House Bill 62 133rd General Assembly Transportation Budget Bill (FY 2020-FY2021) Adjusted**, October 16, 2020.

⁵ Legislative Budget Office of the Legislative Service Commission, **Capital Item Analysis-Capital Appropriations (FY2021-2022)**, December 17, 2020. The debt service on the capital budget items is included in the operating budget.

⁶ The county auditor is required to reduce all qualifying levies against real property taxes by a 10 percent “non-business credit” and an additional 2.5 percent on those properties that are owner occupied. Owner occupants who are either older than the age of 65 or are permanently disabled may qualify for additional property tax relief under the homestead exemption. School districts are reimbursed this foregone local revenue directly by the Ohio Department of Education

for 47 percent of Ohio’s overall spending. The other 53 percent of state spending flows from other revenue streams, including additional federal dollars, industry-specific taxes, fees, and fiduciary funds collected by the state but passed through to other entities like local governments.

The Ohio Environmental Protection Agency, for example, receives \$24.3 million from Ohio’s General Revenue Fund, but its full budget, after COVID-19 budget reductions, remains over \$408 million.⁷ The “shadow budget” pays the \$384.2 million difference. Similarly, after COVID-19 budget reductions, the Ohio Department of Natural Resources receives \$258.7 million from the General Revenue Fund, but its real budget is \$808 million⁸—with \$549 million funded by line items outside the General Revenue Fund budget. The two most expensive state programs, Medicaid and K-12 education, are primarily funded by the General Revenue Fund, but each also receives significant funds from other sources—slightly more than 40 percent for Medicaid and 33 percent for K-12 education.⁹

Unfortunately, when policymakers and media outlets discuss “Ohio’s \$69.8 billion budget,” they refer only to spending from the General Revenue Fund and not Ohio’s total operating budget, which exceeds \$140.8 billion after including COVID-19 spending. By separating the other spending from the General Revenue Fund spending, the Ohio taxpayer never sees a comprehensive picture of the total cost of state government. Some spending is clear, while other expenses remain obscured and out of focus. Such fiscal slight-of-hand keeps taxpayers guessing about what their government really costs and how policymakers really spend hard-earned tax dollars.

A Misleading Picture of Ohio’s Budget

Focusing exclusively on General Revenue Fund spending paints a misleading fiscal picture. General revenue spending as a percentage of total spending fluctuates for various reasons, including macroeconomic conditions, specific public policy choices, external funding sources, and accounting gimmicks. Thus, general revenue spending does not tell the whole story and can give taxpayers a misperception of “Ohio’s budget”—a misperception likely to be exacerbated as significant federal sums of COVID-19 relief flow into state coffers.

Since 1997, the general revenue portion of Ohio’s total operating budget has ranged from a high of 56 percent in Fiscal Years 1997 and 1998 to a low of 46 percent in Fiscal Year 2010.¹⁰ Falling within that range, the General Revenue Fund currently makes up 49 percent of the total budget

while other local governments are reimbursed directly by the Ohio Tax **Distributions-Real Property Tax Rollbacks**, Commissioner. See, tax.ohio.gov (Last visited January 13, 2021).

⁷ Legislative Budget Office of the Legislative Service Commission, **Appropriation Spreadsheet House Bill 166—133rd General Assembly Main Operating Budget Bill (FY 2020-FY2021) Adjusted**, October 16, 2020.

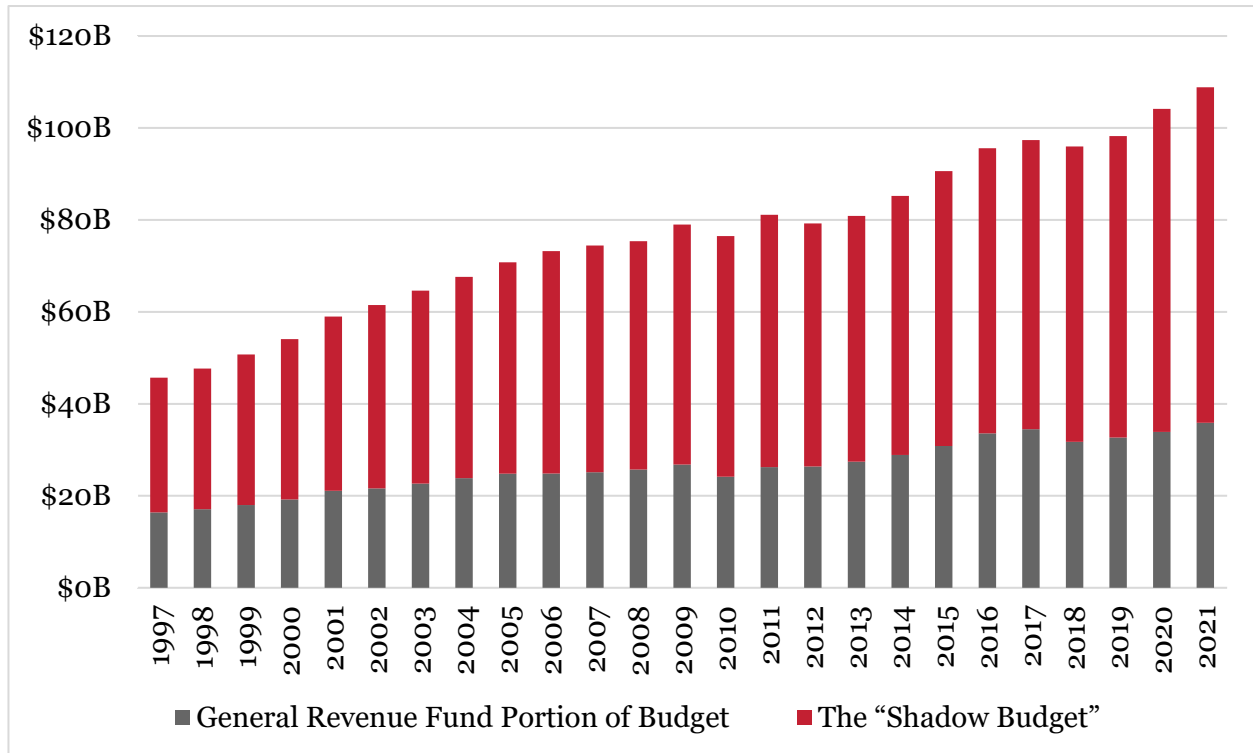
⁸ *Ibid.*

⁹ Calculations based on: Legislative Budget Office of the Legislative Service Commission, **Appropriation Spreadsheet House Bill 166—133rd General Assembly Main Operating Budget Bill (FY 2020-FY2021) Adjusted**, October 16, 2020.

¹⁰ See **Archived Material-Prior Budgets**, lsc.ohio.gov (Last visited January 13, 2021). LSC online budget documents only go back to 1997.

in Fiscal Year 2021. During this same span, the General Revenue Fund remained relatively stable, increasing from \$16.4 billion in 1997 to a projected \$35.9 billion in 2021—a 119 percent increase over 24 years. By contrast, Ohio’s “shadow budget” grew from \$12.9 billion to a projected \$40.8 billion—a 216 percent increase over the same 24 years. (See Figure 2.) The relatively unknown “shadow budget” rarely mentioned by politicians and news anchors dramatically outpaced Ohio’s so-called “budget” from 1997-2021.

**Figure 2. General Revenue Fund Spending vs. Total Spending
Fiscal Years 1997-2021¹¹**



Other factors further complicate the lay taxpayer’s understanding of state spending. For starters, special line items are often created during the budget process not counted in the General Revenue Fund. The Department of Education’s budget, for example, recently included \$675 million for a Student Wellness and Success program¹² that was not appropriated out of general revenues. Sometimes such line items further sound policy objectives and sometimes they may be due to federal funding requirements attached to specific programs. Unfortunately, however, they can also circumvent the Statutory Appropriation Limitation, or “SAL,” designed to control state

¹¹ Legislative Budget Office of the Legislative Service Commission, **Appropriation Spreadsheet House Bill 166—133rd General Assembly Main Operating Budget Bill (FY 2020-FY2021) Adjusted**, October 16, 2020. Spending in years 1997-2019 reflect actual total spending by the state including both state and federal resources. Years 2020 and 2021 are total appropriations for the state, including both state and federal resources, passed in the latest budget. LSC online budget documents only go back to 1997.

¹² *Ibid.*

spending, but which only applies to the General Revenue Fund.¹³ And then there is state spending that occurs outside of the budget process entirely, such as when the Ohio Controlling Board adjusts spending and allocates newly available federal funds outside of the traditional and transparent budget process without a vote by the General Assembly.¹⁴

Three More “Shadow Budgets”

In addition to the “Ohio budget,” the General Assembly passes two to three other spending bills every two years that roughly add another \$12 billion to the “shadow budget”:

1. The Transportation Budget (\$8.5 billion).¹⁵
2. The Capital Budget (\$2.7 billion).¹⁶
3. The Bureau of Workers’ Compensation and Industrial Commission Budget (\$754 million).¹⁷

Although the General Assembly enacts each of these budgets in the daylight of regular legislative processes, the unfortunate fact remains that few observers rarely add these totals to the state operating budget. Thus, the Ohio taxpayer is routinely told that state spending is less than it really is.

The Transportation Budget funds primarily road maintenance and construction and is by far the largest of the three “shadow budgets.” The so-called “ODOT budget” lies outside the operating budget and has an earlier passage deadline than the state budget largely because the majority of its funding comes from motor fuel and diesel taxes that cannot be spent on non-road uses under the Ohio Constitution.¹⁸ It also includes the bulk of funding for the Highway Patrol, primarily funded through license and vehicle registration fees.¹⁹ The most recent ODOT budget, which includes 10.5 cent and 19 cent increases in the motor fuel and diesel taxes respectively,²⁰ accounts for more than \$8.5 billion in “shadow budget” spending.²¹

¹³ By statute, the governor must include a Statutory Appropriation Limitation that cannot be exceeded when all General Revenue Fund spending is added together in each fiscal year of operating budget. See, Legislative Service Commission, *A Guidebook for Ohio Legislators*, Chapter 8: The Ohio Budget Process, 15th Edition 2017-2018.

¹⁴ **Controlling Board-About Us**, obm.ohio.gov (Last visited January 13, 2021).

¹⁵ Legislative Budget Office of the Legislative Service Commission, **Appropriation Spreadsheet House Bill 62 133rd General Assembly Transportation Budget Bill (FY 2020-FY2021) Adjusted**, October 16, 2020.

¹⁶ Legislative Budget Office of the Legislative Service Commission, **Capital Item Analysis-Capital Appropriations (FY2021-2022)**, December 17, 2020.

¹⁷ Legislative Budget Office of the Legislative Service Commission, **Appropriation Spreadsheet House Bill 79 & 80–133rd General Assembly Budget Bills for the Bureau of Workers’ Compensation and Ohio Industrial Commission (FY 2020-FY 2021)**, July 22, 2019; Depending on the choices made by the General Assembly, the Bureau of Workers’ Compensation and Industrial Commission budgets are sometimes passed in separate pieces of legislation but are also sometimes consolidated into a single bill.

¹⁸ **Ohio Constitution XII.05a (1948)**.

¹⁹ Legislative Budget Office of the Legislative Service Commission, **LBO Analysis of Enacted Transportation Budget- Part II: Department of Public Safety**, August, 2019.

²⁰ Jessie Balmert, **Gov. DeWine Signs 10.5 Cent Gas Tax Hike, Eliminates Front License Plate Requirement**, *The Cincinnati Enquirer*, April 2, 2019.

²¹ Legislative Budget Office of the Legislative Service Commission, October 16, 2020.

The capital budget largely funds the acquisition, construction, or renovation of buildings and other facilities.²² It typically also includes appropriations for local community projects. Most capital budget dollars come from bond proceeds, with the principal and interest on the bonds included in the General Revenue Fund and paid back over the life of the debt.²³ The combined capital budget spending passed at the end of the last General Assembly is about \$2.68 billion.²⁴

Although delayed due to COVID-19, the public process for the most recent capital budget was highly truncated and run through a conference committee during a lame duck session, making public input and comment more difficult. The more than \$186 million set aside for community projects, such as \$16 million for a soccer stadium in Cincinnati,²⁵ for example, was barely mentioned during the public testimony by the director of the Office of Budget and Management.²⁶ Nor were supplementary lists of such projects included in that testimony. The Legislative Service Commission's bill analysis was not made available until December 17, the same day the House of Representatives passed the conference committee report and the day before the Senate took similar action. In fact, most of the capital budget appropriations were amended into other legislation that initially distributed federal dollars to local governments. The relative lack of transparency and public comment raises the specter of insider deals and erodes the public's confidence in honest state spending.

The smallest of the three “shadow budgets,” accounting for \$754 million, pays for work-injury claims filed with the Bureau of Workers' Compensation and for the Industrial Commission that adjudicates those claims. The revenues for these entities come primarily from dedicated taxes paid by employers.²⁷

Adding these three budgets to the General Revenue Fund and “other spending” budgets pushes Ohio's total two-year spending past \$153 billion—or more than double the commonly reported “\$69.8 billion budget.”

Shadows Hide the Truth

Using “shadow budgets” to conceal what Ohio's government really costs and what policymakers really spend distorts good government and weakens the democratic process.

²² Ohio Legislative Service Commission, *A Guidebook for Ohio Legislators*, Chapter 8: The Ohio Budget Process, 15th Edition 2017-2018.

²³ The use of debt to fund major capital expenditures facilitates the understating of the full cost of Ohio's shadow budget since up front money paid by investors is paid back through general revenues over a long period of time.

²⁴ Legislative Budget Office of the Legislative Service Commission, *Capital Item Analysis-Capital Appropriations (FY2021-2022)*, December 17, 2020.

²⁵ *Ibid.*

²⁶ Kimberly Murnieks, Director of the Office of Budget and Management, State of Ohio before the Ohio House Finance Committee, “*Governor DeWine's Capital Improvements Budget*,” December 9, 2020.

²⁷ Ohio Legislative Service Commission, *A Guidebook for Ohio Legislators*, Chapter 8: The Ohio Budget Process, 15th Edition 2017-2018.

First, “shadow budgets” empower a select few government bureaucrats, budget experts, and special interests over the common taxpayer. Only a select few know what the government really spends and where the money really goes, and that unfair knowledge allows for an unfair advantage, tipping the scales against the very people who pay the taxes and the fees that fund the budgets. Good government does not favor the special interests of the few over the just interests of the many.

Second, the practice of shifting funding in and out of the General Revenue Fund undermines one of Ohio’s only fiscal restraints—the SAL, which caps General Revenue Fund spending by law.²⁸ Although the SAL spending cap is relatively weak (because it does not apply to federal funds or appropriations for property tax relief), it at least provides—in theory—a limited cap for state spending. Unfortunately, in practice, policymakers employ various accounting gimmicks to effectively increase the SAL, such as including previously non-general revenue spending in the General Revenue Fund so that the SAL can be increased by that amount.²⁹ Moreover, wholesale spending outside of the General Revenue Fund through “other spending” and side budgets that pay for quintessential government services—like roads—circumvents the intended statutory check on spending that Ohioans have been told is in place.

Finally, “shadow budgets” that hide the true cost of government spending and waste make a dire problem appear less dire. That false impression soothes the voting taxpayer, assuaging fears of government largesse and potential financial crisis. Convincing the taxpayer that the government spends a mere \$69 billion when in fact it spends more than \$150 billion goes a long way toward calming taxpayer concern and quieting the voices of those who might object to rampant spending. By focusing on just the General Revenue Fund spending, for example, Ohioans may assume that Ohio currently spends \$31 billion on Medicaid, when in reality the state spends \$52.5 billion—and if the federal Medicaid formula were to change, Ohio could be responsible for paying even more.³⁰ But those costs and concerns are hidden in the shadows of bureaucracy and fiscal gamesmanship. And thus, democracy is weakened, keeping Ohio’s voting taxpayer in the proverbial dark and unable to hold public officials fully accountable.

Bring Ohio’s Budget Out of the Shadows

Because much of the state’s total spending goes un- or under-reported, policymakers paint an opaque picture of Ohio’s fiscal landscape. That picture can and should be made clearer. Several simple reforms will help illuminate the darker corners of state spending and restore the public’s confidence that government spending really is controlled by a discernible budget.

First, Ohio legislators can make the total budget and spending processes more transparent. The relatively recent merger of the state treasurer’s OhioCheckbook.com and the Office of Budget and Management’s interactive budget into one source takes a step in the right direction by making it

²⁸ *Ibid.*

²⁹ *Ibid.*

³⁰ Legislative Budget Office of the Legislative Service Commission, **Appropriation Spreadsheet House Bill 166—133rd General Assembly Main Operating Budget Bill (FY 2020-FY2021) Adjusted**, October 16, 2020.

easier for taxpayers to monitor state spending with real-time spending updates available through the Office of Budget and Management.³¹ As these two resources are combined, it is important that the website remains easy to use so that taxpayers can understand the state’s spending. Meanwhile, the more complex, yet still critical, components of OBM’s interactive budget should still be easily available. Finally, this effort should be codified into law so that the resource is maintained and not arbitrarily revoked by a future administration. Unfortunately, despite wide support, the General Assembly recently failed to passage such legislation—a failure that must be addressed.³²

Second, the General Assembly should adopt a more rigorous spending cap that is more difficult to increase or circumvent. The revised cap should apply to state funding that has not been included in the General Revenue Fund to prevent accounting gimmickry. Any emergency spending, such as for COVID-19 relief, should be exempt, but should require a super-majority vote in the General Assembly or unanimous approval by the Controlling Board. Such a rule would provide flexible access to requisite resources during a crisis, while preventing political gamesmanship from circumventing spending limits.

Third, Ohio’s budget would be much easier to understand and anticipate if policymakers adopted The Buckeye Institute’s recommendations in *Sustaining Economic Growth: Tax and Budget Principles for Ohio*. All non-emergency state spending growth³³ should be tied to Ohio’s population growth and inflation rates, rather than the 3.5 percent floor currently allowed.³⁴ Critically, true emergency spending subject to super-majority approval should not be added to the non-emergency spending baseline. Such a restriction will prevent using emergency spending to establish higher “normal” spending thresholds over time.

Finally, the press can play a greater role in educating the Ohio taxpayer by reporting on *all* of the state’s spending, not just spending from the General Revenue Fund. Highlighting the topline appropriations of the entire budget will alert taxpayers to the real cost of Ohio’s government and make that government more accountable.

Conclusion

All Ohioans—voters and policymakers—should understand the full scope of state spending. Such an understanding is the only way to hold decisionmakers accountable for their decisions. Focusing almost exclusively on Ohio’s General Revenue Fund takes a myopic view of the state’s spending and paints an incomplete, opaque picture for taxpayers. A more complete perspective that accounts for Ohio’s “shadow budgets” and how they function will help correct the public’s misperception. Such a perspective is more important than ever as Ohio policymakers prepare the

³¹ **Lt. Governor Husted and Ohio Treasurer Sprague Announce a New Ohio Checkbook Partnership**, Ohio Office of Budget and Management press release, November 20, 2019.

³² See, **House Bill 46 of 133rd General Assembly**, legislature.ohio.gov (Last visited January 13, 2021).

³³ There could be limited exceptions—such as declared state emergencies, court settlement payouts, or when the state receives new federal funds that do not supplant existing state spending—when state spending could exceed the population and inflation growth rates.

³⁴ Rea S. Hederman Jr.; Andrew J. Kidd, Ph.D.; Tyler Shankel; and James Woodward, Ph.D., ***Sustaining Economic Growth: Tax and Budget Principles for Ohio***, The Buckeye Institute, February 21, 2019.

state's biennial budget confronted with COVID-19 and its economic ramifications. The state's "shadow budgets" must be brought to light, the public must understand the full measure of government spending and revenue sources, and prudent guardrails must be adopted to manage emergencies while preventing rationalized spending sprees.

About the Author

Greg R. Lawson is the research fellow at The Buckeye Institute and serves as Buckeye's liaison to officials in the legislative and executive branches, and educates policymakers on free-market solutions to Ohio's challenges. Lawson has nearly 20 years of experience, working closely on eight state budgets, and has a deep knowledge of state and local taxes, and Medicaid, education and transportation funding. He is the author of the *Piglet Book*,³⁵ The Buckeye Institute's biennial publication outlining areas of government waste, and develops Buckeye's Top 10 Worst Capital Budget Requests list. He began his career in state policy as a Legislative Service Commission fellow with the Ohio General Assembly.

³⁵ *Piglet Book*® is a registered trademark of Citizens Against Government Waste and is used with permission.



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