

POLICY MEMO

FISCAL FLEXIBILITY MUST BE
PRIORITY IN CAPITAL BUDGET
MARCH 19, 2026

The Buckeye Institute's Recommendation

The General Assembly's top priority in crafting the next capital budget should be preserving fiscal flexibility. As long-term obligations mount and federal cost-shifting for social welfare programs like Supplemental Nutrition Assistance Program (SNAP) and Medicaid accelerates, Ohio's capital budget should:

1. Fund only projects directly tied to essential state responsibilities.
2. Resist expanding into areas better handled by local governments or private actors.
3. Maintain sufficient fiscal headroom to enact more pro-growth reforms in the next operating budget.

Background

Although Ohio's capital budget funds **critical state needs**, it also traditionally spends several hundred million dollars on local projects and initiatives beyond the state government's **core** responsibilities. Over the **last five capital budgets**, more than \$830 million has been directed to local or community-specific projects. As The Buckeye Institute has previously **recommended**, state spending should be limited and lawmakers should prioritize constitutionally and economically essential functions—especially as the federal government shifts the financial burden of social welfare programs like SNAP and Medicaid onto the states.

Ohio maintains a relatively **strong fiscal position**, but significant near- and medium-term **uncertainties** counsel caution. To pursue more pro-growth tax reform in the 2027 biennial operating budget will require fiscal flexibility. Capital spending decisions made today will directly affect future debt service obligations and cash reserves tomorrow, so this year's capital budget will materially shape the state's ability to deliver tax relief in the next biennium.

Solid **state revenues** remain subject to national economic volatility and persistent **inflation levels**. An uncertain economic backdrop and several major spending issues—including federal cost-sharing changes for SNAP, stricter **federal scrutiny** of welfare spending and fraud, and rising long-term care and Medicaid obligations—could squeeze those revenues simultaneously.

Historically, the federal government paid the overwhelming share of SNAP benefits. But programmatic changes in the One Big, Beautiful Bill now tie specific cost responsibilities to **state administrative performance**. States with higher payment error rates face increased financial exposure. Ohio's SNAP error rate—like that of many states—has fluctuated in recent years due to eligibility complexity, pandemic-era waivers, and shifting federal rules. If error rates remain too high, the federal government will reduce its share of SNAP's administrative costs, potentially costing Ohio **\$300 million** in cost-sharing penalties and administrative obligations. Even the risk of such significant cost transfers warrants caution.

Meanwhile, Medicaid, the **Pac-Man of the state budget**, remains the most significant single driver of Ohio's overall spending. Within Medicaid, long-term care services, particularly nursing facilities, represent a substantial and growing expense as Ohio's population ages and continues to increase care expenses. Payment rates, quality incentives, and federal matching formulas interact in complex ways, exposing the state to financial risk. Unfortunately, the state's unresolved obligation regarding nursing facility quality payment—estimated to cost **approximately \$1 billion**—only compounds the uncertainty and would be in addition to significant long-term care spending projected to increase.

Finally, a significant **grassroots effort to abolish Ohio property taxes** could require even more unexpected state spending. The practical and political feasibility of that campaign remains fluid, but if voters passed the ballot initiative, the state could face immense pressure to backfill at least some of the **\$24 billion** in lost local revenue for schools and other services.

Conclusion

Ohio stands at a crossroads. The state has made progress in fiscal stewardship and tax reform, positioning itself for long-term economic growth. But complacency, overexpansion, and looming economic constraints can erode that progress quickly. Fiscal prudence is a strategic imperative to retain the state's fiscal flexibility. Capital budget decisions made this year will affect plans for future tax reforms and shape tomorrow's operating obligations, so policymakers should proceed accordingly.