BUCKEYE POLICY BRIEF

Building a Responsible, Pro-Growth Budget

By Greg R. Lawson
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Introduction

As federal spending dissipates and Ohio's general revenues stabilize,[1] the state's spending spree in the wake of COVID-19 is almost over[2] and its budget should return to historical norms.[3] This will require policymakers to better allocate funding and exercise sound fiscal discipline. Competing legislative preferences will include various tax reforms, Medicaid expenses, school funding, affordable housing, and childcare. A tighter state budget will require strategically prioritizing these objectives and resisting inevitable temptations to overspend.

The 136th General Assembly should maintain a fiscal framework that embraces spending restraint, pursues pro-growth tax policies, makes necessary local government reforms, and fulfills the promises of a better education. Lawmakers should adopt forward-looking policies that can begin improving Ohio's tomorrow today.

Embrace Fiscal Discipline

As The Buckeye Institute has recommended, Ohio should tie any spending increases to dynamic inflation and population growth.[4] Currently, the state applies a statutory implied growth rate—or state appropriation limit (SAL)—to the general reserve fund (GRF), which limits GRF year-to-year growth to 3.5 percent or the sum of inflation plus population change, whichever is less.[5] But too many spending items can be removed from the GRF budget and thus exempt from the SAL. The solution is to expand the SAL to all funds, with just a few exceptions.[6] Applying the SAL to all funds

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[1] **Appropriation Spreadsheet: House Bill 33, 135th General Assembly**, LSC.Ohio.Gov, October 1, 2024.

[2] Liz Farmer, **The End of Federal COVID Money Means Shortfalls for States and Schools**, Governing.com, February 2, 2024.

[3] **State of Ohio Monthly Financial Report**, Archives.OBM.Ohio.Gov, January 10, 2025

[4] Rea S. Hederman, Jr., Andrew J. Kidd, PhD., Tyler Shankel, and James Woodward, PhD., ***Sustaining Economic Growth: Tax and Budget Principles for Ohio***, The Buckeye Institute, February 21, 2019.

[5] **The Ohio Budget Process**, LSC.Ohio.Gov (Last visited January 16, 2024).

[6] Exceptions to the SAL should include the BWC budget, gas tax receipts in the Ohio Department of Transportation budget, and tax refunds and revenue distribution funds in the operating budget. Numerous other smaller funds, from fines, etc., could also be excluded because they are not the result of specific taxes or federal funds. Each falls outside the

would have saved roughly $9 billion in the current budget[7]—an unusually large, one-time savings driven by the unique post-COVID environment and federal largesse. But even during normal economic times, subjecting virtually all funding to the SAL would make it harder to use accounting gimmicks to increase state spending. To exceed the SAL should require supermajority votes by both General Assembly chambers. And an even more aggressive budget reform would lower the SAL to three percent or less, making the rate closer to long-term inflation trends before the COVID-19 pandemic.

The General Assembly must maintain spending discipline. To spend more on education and Medicaid, for example, should require commensurate spending reductions elsewhere to off-set prioritized increases. SAL reforms will help enforce such discipline and keep Ohio's budget from dramatically exceeding inflation and population growth. Failure to take these steps risks fiscal crises, budget shortfalls, and tax increases.

Pursue Pro-Growth Tax Policies

Pro-growth tax and investment policies should be the cornerstone of Ohio's economic revival. The Buckeye Institute continues to recommend a comprehensive overhaul of Ohio's tax structure to make it more competitive. Previous general assemblies dramatically reduced personal income tax rates and brackets, but more can be done with strategic, responsible reforms. Other states, for example, have successfully adopted revenue triggers[8] to ensure that tax rate reductions only happen after hitting specific revenue targets. Such triggers act as circuit breakers for tax cuts during fiscal stress and can help prevent the nightmare budget scenarios that Kansas encountered when it failed to adjust its budget while cutting taxes.[9]

The General Assembly should also index personal income tax rates against inflation to avoid tax increases due to "bracket creep." The current budget temporarily suspends inflation indexing[10] and there will likely be significant pressure to continue its suspension to spend more or offset short-term revenue losses due to additional tax reform. The General Assembly must resist that temptation.

Reform Outdated Local Government Systems

Homeowners across Ohio have been hit with large, unexpected property tax bills. The state's byzantine local government structure shares in the blame and should be reformed. With 924 cities and villages, 1,308 townships, more than 600 school districts, and 88 counties, along with

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regular operating budget or, as in the cases of tax refunds and revenue distributions, are not actual expenditures for state government purposes.

[7] These approximated savings are calculated by applying the 3.5 percent limit to the All Funds appropriation, with revenue distribution and tax refunds removed, found in **Appropriation Spreadsheet: House Bill 33, 135th General Assembly**, LSC.Ohio.Gov, October 1, 2024.

[8] Jared Walczak, ***Designing Tax Triggers: Lessons from the States***, Tax Foundation, September 7, 2016.

[9] Jared Walczak, ***Two Dozen States Show Why the Kansas Critique of Income Tax Cuts is Mistaken***, Tax Foundation, May 24, 2022.

[10] **Final Analysis of House Bill 33 of the 135th General Assembly**, LSC.Ohio.Gov, January 26, 2024.

hundreds of other special taxing districts,[11] Ohio's oversupply of local government reflects its 19th-century roots, when basic government functions needed to be nearby. But times and technologies have changed. Governing bodies tasked with maintaining safety, collecting trash, filling potholes, and managing water supplies need only to perform those functions, not live next door.

The budget should include incentives for streamlining local governments and their services. It should require county commissioner approval before putting levies on ballots, expand on **House Bill 331** to efficiently dissolve underperforming villages, and limit local property tax breaks for developers and special interests so that they, too, share in the cost of local services.

Fulfill the School Choice Promise

Ohio promised to put students first by making school choice universally available. But more must be done to fulfill this promise. The Columbus school district, for example, will not bus students to the school of their choice; and other school districts have refused to sell unused buildings to other education providers. Such impediments must be overcome in order to keep the promise Ohio has made. As The Buckeye Institute has recommended,[12] the forthcoming budget should:

- Include disadvantaged pupil aid in EdChoice scholarship allocations to make EdChoice funding similar to public district and charter school funding;
- Regionalize school transportation systems so that school districts cannot refuse to bus public charter and private school students;
- Improve charter school access to unused district school buildings by tightening when education providers can bid on buildings, and by revising arbitrary zoning restrictions that prevent alternative education providers from purchasing unused buildings;
- Create financing capacity for non-district schools to use for classroom expansion; and
- Improve state report cards that grade public schools by returning to a letter grade system, including raw academic scores, and itemizing the total costs of education in each district.

Align Higher Education with the 21st Century

Higher education should align with the demands of the modern economy. As The Buckeye Institute has suggested,[13] Ohio should cap administrative costs at universities and redirect funds toward programs that directly contribute to graduate employment readiness and manageable debt levels. Universities should be incentivized through funding models that reward institutions for producing graduates who enter high-demand, high-salary fields. Ohio taxpayers deserve a better return on their investments in education. To help relieve the exponential costs of a college education and unsustainable student debt, the state budget can and should:

- Allocate state funds to reward student outcomes by modifying the state share of instruction subsidy to account for graduate income and student debt levels;
- Expand the Ohio College Opportunity Grant program to include community colleges; and

[11] **Local Government**, Ohio.Gov (Last visited January 16, 2025).
[12] Greg R. Lawson, ***Fulfilling the Promise of Putting Students First***, The Buckeye Institute, January 8, 2025.
[13] Greg R. Lawson and Logan Kolas, ***Transforming Higher Education in Ohio: Reforms Needed Today to Prepare for Tomorrow***, The Buckeye Institute, January 14, 2025.

- Cap administrative spending.

Conclusion

Ohio's more constrained fiscal environment emerging from the pandemic requires a budget that manages current resources effectively and lays the foundation for sustainable, long-term prosperity. The Buckeye Institute recommends taking strategic, responsible steps to restrain public spending, promote economic growth, and reform failed government and education systems. Taking these steps today will improve Ohio tomorrow by better aligning fiscal, tax, and education policies with the foreseeable economic realities of the 21st century.

About the Author

Greg R. Lawson is a research fellow at The Buckeye Institute with expertise on Ohio's budget, local government, state and local taxes, education and education funding, transportation funding, and occupational licensing. With nearly 20 years of experience working on 10 state budgets, Lawson is a recognized expert on Ohio's budget and is the co-author of numerous papers and reports on Ohio's budget and education reform. He has a deep knowledge of state and local taxes and how Ohio funds Medicaid, education, and transportation. He is the author of the ***Piglet Book***,[14] The Buckeye Institute's biennial publication outlining areas of government waste.

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