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Contact: Amanda Wurst
614 644-0957/614 832-7512
Amanda.Wurst@governor.ohio.gov

Governor Proposes Balanced Budget Framework

Columbus, Ohio – Governor Ted Strickland today is sharing with the House and Senate a proposal to balance the state's fiscal years 2010-2011 operating budget without a tax increase and lay the groundwork for jobs and economic growth.

The Ohio legislature is currently considering how to address a \$3.2 billion gap by June 30 in a legislative conference committee.

Attached to this e-mail is a document highlighting some of the impacts of this framework on state agencies.

Balanced Budget Framework

We Must Resize State Government.

The governor's framework considerably resizes state government in line with the shrinking economy, while minimizing the impact on our most vulnerable, especially children, the elderly and disabled. The framework reduces state government spending and makes other reductions of \$2.43 billion.

We Must Prioritize Education for Economic Growth.

The governor's framework prioritizes education for economic growth. It calls for continued investments in a reformed system of education, does not cut the state share of elementary and secondary foundation funding, and continues a tuition freeze at all University System of Ohio campuses for a third year.

We Must Avoid Tax Increases.

To achieve a balanced budget without raising taxes, this framework allows video lottery terminals at Ohio's seven racetracks. This, along with other non-tax revenue changes, will provide a net \$765 million in new revenue to the state without raising taxes.

The governor's full statement is below:

I read a story on the front page of yesterday's New Philadelphia Times-Reporter about the Belden Brick Company in Sugarcreek that I'd like to share with you. It reads:

“Fifty employees of Belden Brick Co. will be laid off at the end of June until business conditions improve.

Shipping volume is down 30 percent from the last four year average, and new orders are down 23 percent, according to the CEO, who said:

“We haven’t witnessed a downturn this severe since the early 1980s. From last December, we have reduced total production to 50 percent of capacity, as well as many employees’ hours by 20 percent, in an effort to weather this downturn.”

I think this story sums up well the extraordinary challenges facing Ohioans these days. Ohio businesses – small, medium and large – are confronted with unprecedented limitations. Access to credit has diminished, as has demand for products and services. Even businesses that have avoided workforce or benefit reductions find the recession is stifling their ability to grow and expand. For families across the state, the national recession has caused unemployment and health care costs to rise as retirement accounts and home values fall.

And just as Ohio families and businesses are making gut-wrenching decisions about where to cut and how to make it through the economic turmoil, state government is similarly faced with hard choices. Quite frankly, Ohio has not confronted such difficult circumstances for 80 years.

As governor, I will have fewer dollars to operate state government than Ohio’s governor had eight years ago.

But before I outline a framework for a balanced-budget, I’d like to recall the actions we have already taken to deal with a recession that, through Wall Street greed, has infected Main Streets throughout Ohio.

To deal with these economic realities, I have already reduced state government spending by nearly \$2 billion dollars. In January 2008, we anticipated a recession well before most people thought it was likely. Some questioned the idea at the time, but I went ahead and reduced spending by \$733 million dollars. In September, the fall of Wall Street’s Lehman Brothers sparked the most sudden economic decline the nation has seen in more than 80 years. In response to worsening conditions, I reduced spending by another \$540 million. Again in December, on the day economists declared that the nation had been in a recession for a full year, I proposed a plan to cut spending by even \$640 million more.

To be clear, these cuts were painful. But never, not once, did my cabinet hesitate to join me in making hard choices. We met each challenge head on and we are prepared to do the same again. Ohioans are a proud people and to shrink in the face of challenges would betray our better nature – our spirit of innovation, creativity and determination.

So to achieve \$2 billion dollars in savings, I scaled down the size of our state workforce to the level it was during the Reagan Administration. I have reluctantly closed mental health facilities and other state institutions. And though most state agency budgets absorbed cuts to reach that \$2 billion dollar figure, I required that state agencies reduce administrative expenses even more.

Put simply, we have already resized state government while doing our best to protect the most vulnerable Ohioans.

Others have been willing to share in the sacrifice. State bargaining union employees have agreed to no pay increases for the next two years and all state employees will take 10 cost-savings days – days without pay – in each of the next two years. So, state employees across the board will take pay cuts in each of the next two years.

Both the Ohio House and the Ohio Senate have put forward budget proposals that would reduce their operations by 10 percent. I want every state employee to know how much we honor the work they do every day and appreciate how difficult this will be for each of them.

As governor, I have tried to lead by example. I have refused to accept pay increases and will dock my own pay in line with the pay reductions that state employee unions have agreed to. I continue to pay for my health care out of pocket as I have been. I don't say this to sound sanctimonious. I simply believe that public leaders have a common-sense responsibility to the people they have been elected to represent.

But even after we have taken all of these fiscally-responsible steps, an additional budget gap of \$3.2 billion or more in the next budget must be addressed during the next 11 days through the legislative conference committee that is currently underway.

I'd like to put that figure in perspective for Ohioans to better understand what a shortfall of that size means, especially after we have already reduced the current state budget by nearly \$2 billion and plan to make use of the state's rainy day fund to fill an additional budget gap by the end of the month.

While \$3.2 billion dollars is a portion of the \$54 billion dollar state budget, it is a significant portion when compared to what I'll call the "uncommitted balance". This "uncommitted balance" is everything left after you account for nearly 81 percent of the state budget, which provides for the state's share of education, Medicaid, prisons and youth services, as well as paying interest on the state's limited debt. In certain cases, Ohio is legally-bound to provide certain levels of funding for prisons, youth services, and Medicaid, either because of federal law or as a result of court-orders. Similarly, certain expenditures would lose federal money if the state share is not maintained at a certain spending level from year to year.

After accounting for this portion of spending, the Ohio legislature and I have a much smaller pool of resources to direct toward other worthy programs that will move our state

forward. A cut of \$3.2 billion dollars from that more limited pool of \$10.4 billion is approximately 31 percent of our “uncommitted balance”. And remember, this is after we have already reduced state spending by nearly \$2 billion dollars.

These are the circumstances facing the state legislature, which is responsible for sending me a balanced state budget before June 30, just eleven days away.

We must recognize the unprecedented nature of this challenge and, together with the joint House-Senate conference committee, take unprecedented action in response. That’s why I have chosen to break with tradition to put forward a balanced-budget framework during the conference committee process. Based on the new revenue projections, this framework is fiscally responsible and sustainable. It significantly resizes state government in line with the shrinking economy. It prioritizes extremely limited resources toward critical health and safety services to provide for the greatest number of vulnerable Ohioans during this difficult time.

And, perhaps most important, this framework positions Ohio for the job creation needed for near-term recovery *and* for long-term economic growth after the recovery. We have a shared responsibility to make the decisions necessary to maintain a balanced budget without crippling the state’s growth and economic progress. So my balanced budget framework calls for continued investments in a reformed system of education, which is the key to Ohio’s economic revival.

Our schools must provide a world-class education for every child and teach the critical thinking and problem-solving skills that businesses tell us they look for in the people they hire. Our system of education does not do this now, and delaying this is not an option.

Balanced Budget Framework

We Must Resize State Government

First, my framework suggests state government spending cuts and other reductions of more than \$2.43 billion dollars.

These will be painful cuts. They represent a majority of the \$3.2 billion dollar budget gap. I will not sugarcoat what this will mean in real terms. We will see additional staff reductions, further shrinking the state government workforce. Worthwhile and critical programs and services will be reduced or suspended to reprioritize limited resources to help the maximum number of Ohioans.

I do not believe that we can, in good conscience, make cuts that would eliminate the essential safety net services that Ohioans need now more than ever. So, in order to balance the budget we must reduce services that Ohioans have needed and received in the past but the state can no longer continue to provide. But in reducing these services, we must minimize the impact on our most vulnerable, especially children, the elderly and disabled.

We Must Prioritize Education for Economic Growth

Second, we must continue to prioritize education for economic growth. The jobs of the future will go where world-class schools produce highly-trained, highly-skilled workers. Postponing education reform will only hold Ohio back.

Though \$2 billion dollars has been reduced from the state budget over the past two years, we have worked to protect both elementary and secondary school funding and higher education support. And we have been successful. Ohio is one of a very few states that have not already reduced direct foundation support for our schools and we have maintained a 2-year tuition freeze in the midst of this recession.

While today's circumstances require that administrative lines in education absorb cuts in line with other state agencies and worthy programs, my framework does not cut the state share of elementary and secondary foundation funding. In addition, we will continue a tuition freeze at all University System of Ohio campuses for a third year and take the first critical steps toward the establishment of a modern K-12 education system that will better prepare Ohio students for the jobs of the future.

We Must Avoid Tax Increases

And finally, to achieve a balanced budget without raising taxes, this framework proposes to permit video lottery terminals at Ohio's seven racetracks. Video lottery terminals, including licensing and expected revenue, will provide approximately \$933 million dollars over the biennium. After the effects of that increase in general revenue fund resources is netted out against other revenue changes, the total new revenue to the state will be approximately \$765 million dollars.

This has been a difficult choice for me but I believe a necessary one. It is contrary to what I ever thought I would have to do. Still, after looking at an array of choices before me and the state legislature, I have concluded this is the best course of action to meet our balanced budget obligations.

Permitting video lottery terminals at racetracks could be accomplished in two ways. In order for this to be a workable strategy, I believe that legislative approval, rather than a ballot initiative, is necessary to receive the new revenue in a timely way to balance the budget without a tax increase.

While this balanced budget framework represents difficult choices, it provides for a balanced budget that does not raise taxes, undermine our commitment to education or eliminate the safety net for Ohio's most vulnerable citizens. It is realistic; it would shrink the size of government while positioning our state for near and long-term job growth. And, this proposal would ensure that we continue to strengthen Ohio's business environment by fully implementing the tax reforms that will make Ohio's business taxes the lowest in the Midwest and eliminate the tax on corporate profits.

Out of respect for my colleagues in the legislature and the conference committee, this framework is intended to serve as a starting point for consideration, not an ending point. Balancing the budget will require hard choices of all of us, but that is our shared responsibility. I know that the right decisions will enable us to preserve what we must and lay the groundwork for a stronger, more competitive Ohio.