

OVERVIEW OF GOVERNOR KASICH'S ENTIRE SPENDING PROPOSAL

JANUARY 31, 2017



CHARLOTTE B. HICKCOX
DIRECTOR OF GOVERNMENT AFFAIRS

Governor John Kasich today released his framework for his last general revenue fund budget as Ohio's Chief Executive. The budget, covering Fiscal Years 2018-2019 (FY 18-19), provides funding for most state agencies and programs, as well as the Governor's proposed tax structure for Ohio's businesses and citizens. While the Governor released his proposal today, it is the Ohio General Assembly that will work to craft a budget from this proposal and send it back to the Governor for approval.

Governor Kasich is proposing a 4.4% spending increase for FY 18 when compared to the current fiscal year (totaling \$71.5 billion) and a 1.8% increase for FY 19 when compared to FY 18 (totaling \$72.8 billion). The bulk of the increased spending falls into Medicaid, health and human services, primary and secondary education, higher education, and school construction. Each of these areas have increases, in some cases more than 6% over FY 17 spending rates.

Taxes

The Governor has proposed many tax changes, including the following:

- Cutting personal income tax rates by 13% over the biennium;
- Shrinking the number of individual income tax brackets from nine to five;
- Increasing the state income tax personal exemption;
- Increasing the sales tax rate by 8.7%;

- Expanding services that would be subject to the sales tax;
- Centralizing the collection and administration of the municipal tax on net profits;
- Increasing the taxes on tobacco, other tobacco products, vapor products, beer, and wine;
- Increasing the severance tax on certain oil and gas extraction;
- Eliminates the exclusion of certain interest income from CAT; and
- Imposes a minimum Ohio percentage for purposes of the CAT's qualified distribution center exclusion.

For a detailed explanation of all the tax items in the Governor's proposed budget, please [click here](#).

Medicaid

Medicaid funding has been an issue looming for many months because the federal government has decried Ohio's current system of taxing healthcare services. The proposed budget replaces the current sales tax on health care services measured by Medicaid premiums with a broad based tax imposed on all Medicaid Managed Care Organizations (MCOs) and all non-Medicaid MCOs (also referred to as health insuring corporations). Local governments will see a decline in sales tax revenue because of the elimination of the current sales tax. To mitigate this impact, local governments will receive a full revenue replacement for the last quarter of 2017 and a formula loss assistance for post-calendar year 2017. However, the amount to be provided does not appear to fully offset the negative revenue impact on local governments.

The Governor proposes several additional reforms to the Medicaid program, including the following:

- Requiring small monthly premiums for childless adults over the poverty line;
- Requiring most to enroll in managed care;
- Controlling prescription drug cost;
- Increasing opportunities for those with developmental disabilities; and
- Reforming the antiquated Intermediate Care Facility reimbursement system.

Additionally, health and human services will seek to tackle some of Ohio's most serious health problems, including reducing infant mortality, fighting drug abuse, improving children's health care, and ensuring access to quality care.

Opioid Addiction

The opioid addiction crisis has hit Ohio especially hard, and Governor Kasich has included items in his proposed budget to continue to fight this crisis, including mandating drug awareness curriculum, expanding accesses to Ohio Automated Rx Reporting System, strengthening pharmacy board investigations, and increasing access to Naloxone to stop overdoses.

Education

Education is always a major part of any Governor's budget and this budget proposal is no different. Governor Kasich is seeking collaborations between the primary education and the business community in the hopes of identifying the educational needs of those that will be seeking to enter the workforce. This will also involve primary and higher education helping to address the skills gap that many students face when entering college.

The proposed budget also increases funding for primary education by nearly \$200 million and guarantees that no district will receive less in formula state aid than it did in the current fiscal year. In addition, the proposal continues the freeze on public college tuition.

Technology

The Governor is hoping to advance the use of technology throughout state government. The budget proposal requires all state agencies, boards, and commissions to share data the agencies already store in 1,600 individual databases. Further, the Governor will be creating a Chief Innovation Officer to coordinate the technological and data resources across state government through the new Ohio Institute of Technology.

Smart Mobility

Governor Kasich is hoping Ohio will embrace forward looking policies to ensure that the state continues to be a leader in smart mobility and other emerging technologies, such as drones, autonomous vehicles, connected vehicle technology, and data analytics, to name a few. The Governor is launching Ohio's Smart Mobility Initiative to collaborate and develop smart mobility and smart city technologies around the state.

Conclusion

While Governor Kasich has just released a framework for the FY 18-19 budget, the actual legislative language is what matters most. It is expected that legislative language will be released in the next week or two, as hearings formally get underway in the Ohio House of Representatives.

If you have any questions about the Governor's budget proposal, please contact Charlotte Hickcox, Steve Austria, or any other ZHF professional listed below.

ZAINO HALL & FARRIN LLC

A T T O R N E Y S A T L A W

WWW.ZHFTAXLAW.COM

614-326-1120

855-770-1120 (toll-free)

STEVE AUSTRIA

(non-attorney professional)

614-349-4820 (Direct)

937-609-8355 (Mobile)

saustria@zhftaxlaw.com

THOMAS R. FAGAN

614-782-1541 (Direct)

330-607-7103 (Mobile)

tfagan@zhftaxlaw.com

STEPHEN K. HALL

614-349-4812 (Direct)

614-284-1253 (Mobile)

shall@zhftaxlaw.com

DEBORA D. MCGRAW

614-349-4813 (Direct)

614-595-5560 (Mobile)

dmcgraw@zhftaxlaw.com

JOHN R. TRIPPIER

(non-attorney professional)

614-349-4815 (Direct)

614-203-4173 (Mobile)

jtrippier@zhftaxlaw.com

RICHARD C. FARRIN

614-349-4811 (Direct)

614-634-3130 (Mobile)

rfarrin@zhftaxlaw.com

ADAM L. GARN

614-349-4814 (Direct)

agarn@zhftaxlaw.com

CHARLOTTE B. HICKCOX

(non-attorney professional)

614-349-4819 (Direct)

614-537-4339 (Mobile)

chickcox@zhftaxlaw.com

BRAD W. TOMLINSON

(non-attorney professional)

614-349-4818 (Direct)

btomlinson@zhftaxlaw.com

THOMAS M. ZAINO

614-349-4810 (Direct)

614-598-1596 (Mobile)

tzaino@zhftaxlaw.com