



# OBM

TESTIMONY ON THE FY 2006-2007  
BIENNIAL OPERATING BUDGET  
HOUSE FINANCE AND APPROPRIATIONS COMMITTEE

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FEBRUARY 14, 2005

Chairman Calvert, Ranking Member Miller, and members of the House Finance and Appropriations Committee, thank you for the opportunity to testify in support of Governor Taft's FY 2006-2007 biennial operating budget.

The Office of Budget and Management has worked long and hard with cabinet directors and others to put together a balanced, responsible budget for the state of Ohio. The budget you have before you is the lowest GRF growth budget this state has seen in 40 years.

As you know, this is the fourth operating budget the Taft Administration has presented to you. This budget continues to reflect the priorities Governor Taft has emphasized throughout his tenure as Governor. It focuses on advancing comprehensive tax reform, supporting job creation and enabling success for Ohio's children through support for primary and secondary, and higher education. It does all this while significantly restraining the growth of government spending.

In this budget, we continue to manage state government conservatively. Many of you know the unprecedented steps we've taken over the course of the last several years to balance the budget in challenging economic times, but I'd like to take a few minutes to highlight them to underscore their significance. Over the last four years:

- We've cut \$1.4 billion in spending from the operating budget.
- We've closed six state institutions.

- We've reduced the state workforce by more than 3,000 employees.
- We've reduced the state vehicle fleet by 12 percent.
- We negotiated the most conservative contract ever with state employees; and
- We've worked to control the growth of the Medicaid program.

The cost cutting measures we've employed throughout this Administration have been difficult. But agency directors have worked hard and managed through challenging times. As with our current budget, however, the proposal before you offers little relief to these agencies. Governor Taft's budget recommends spending levels at or below current levels for many agencies. Overall GRF spending is held to 1.1% growth in FY 2006 and 2.3% in FY 2007.

### **BOND RATING AGENCIES**

In addition to these historically low spending levels, the Governor's proposal includes other mechanisms to strengthen the state's financial footing. As I shared with you when I testified in support of the capital bill, since the 2001 economic downturn, 14 states have had their credit ratings downgraded by one or more of the rating agencies. Ohio has not had its credit rating downgraded, and this budget proposal continues to address the major issues deemed important by the bond rating agencies.

- It restores structural balance;
- It reflects a balance between on-going revenue and on-going expenditures;
- It contains limited use of one-time revenue; and
- It includes a provision for a deposit into the rainy day fund should circumstances permit.

## **ECONOMIC AND REVENUE ASSUMPTIONS**

Before I highlight Governor Taft's spending recommendations, I must talk about the economic and revenue assumptions upon which these recommendations are based.

### ***The Outlook***

The economy is moving in the right direction, just not fast enough. Ohio and much of the Great Lakes region have lagged the rest of the nation, as business here has responded less vigorously to the fiscal and monetary stimulus that have spurred the national recovery.

The Governor's Council of Economic Advisors met in early November to consider the economic outlook nationally and in Ohio. The consensus was for slow to moderate economic growth into calendar year (CY) 2007.

After reaching 4.4% in 2004, real GDP growth is projected to decrease to 3.4% in both CY 2005 and CY 2006. The reluctance of businesses to invest in people; the war in Iraq; and high oil prices all have raised doubts about our ability to sustain economic growth.

The Council anticipates that Ohio employment will grow 1.1% on average in CY 2005 and 1.4% in CY 2006. The Ohio unemployment rate, which was 6.5% in November 2004, is projected to fall to 5.8% on average in CY 2005 and 5.6% in CY 2006.

Despite solid income growth, consumer spending growth is also expected to slow. U.S. personal income growth is projected to average just over 5.0% annually through CY 2006. Ohio personal income is projected to rise less rapidly than at the national level – by 4.7% in both CY 2005 and CY 2006.

### ***Risks to the Outlook***

Nine of the ten business cycle recessions since World War II have corresponded with large spikes in the price of oil. (The exception was the 1960 recession.) The economy is more

flexible today than in the past, and we use energy more efficiently. But added to the 40% increase in the price of oil during the past three years, any further increases would threaten economic growth.

A second risk is a sharp depreciation in the U.S. dollar or an unexpected rise in inflation that would prompt an abrupt rise in interest rates. The Federal Reserve has so far raised short-term interest rates in small steps, and widespread confidence in the Fed has kept long-term rates down. A loss of confidence in the dollar or the Fed could result in higher interest rates and a downturn in housing construction, motor vehicle production and capital spending – three areas of the economy that have been critical to growth since the 2001 recession.

The consensus forecast of sustained but slower economic growth translates into moderate revenue growth for the state's General Revenue Fund for FYs 2006-2007.

## **TAX REFORM**

The revenue estimates included in this budget are also based upon a comprehensive tax reform package – a package that encourages job creation and capital investment; has business and individuals pay their fair share of taxes; and creates a structure where our revenue growth keeps pace with the economy.

The Governor's reform package addresses three problem areas in our system – the Personal Income Tax, Corporate Franchise Tax and the Tangible Personal Property Tax. This package:

- Largely phases out the tangible personal property tax that discourages investment.
- It phases out the corporate franchise tax – where rates are too high - but because corporations have aggressively looked for loopholes, our collections are low.

- It replaces these two tax sources with a broad-based commercial activity tax based upon sales; and
- It reduces the personal income tax by 21% over 5 years.

While the package eliminates or reduces some taxes and raises others, overall the state will collect \$800 million less over the next two years than we would under the current structure.

This package, the details of which Commissioner Wilkins will be sharing with you later today, is critical not only to this budget but also to the economic future of our state.

### **LOCAL GOVERNMENT FUNDS**

The Executive Budget also proposes to limit growth of distributions from the three local government funds. It continues the current freeze on local government funds, and beginning in January 2006, proposes to decrease the monthly distributions by varied percentages. The reductions are as follows:

- Counties and cities – 20%
- Townships and villages – 10%; and
- Libraries – 5%

These reductions are based upon a local government's reliance on state aid relative to its general and special revenue funding.

- Based upon 2002 data, in Butler County, where the LGF represents 7.8% of the county General Fund, a 20% reduction translates to an overall reduction of 1.6% to the county General Fund.
- In Columbus, where the LGF represents approximately 9.0% of the General Fund, a 20% reduction translates to an overall reduction to the city General Fund of only 1.9%.

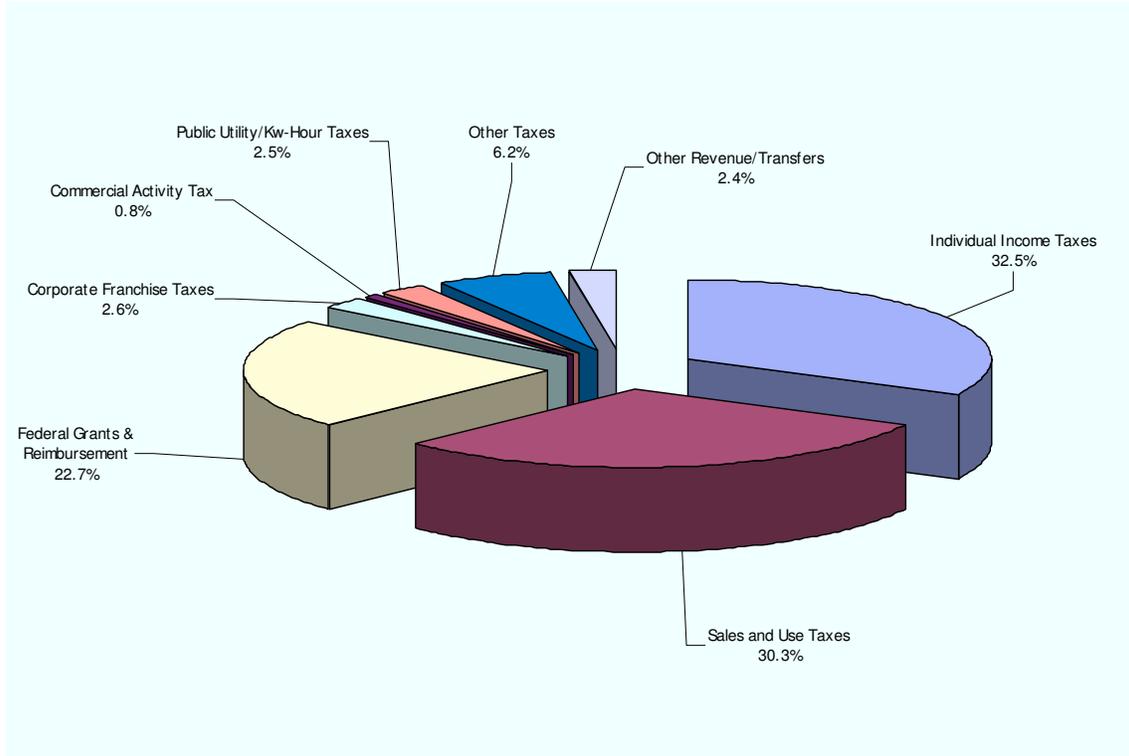
Given that the fiscal year of local governments runs with the calendar year, the additional reductions are delayed until January 2006 to protect current fiscal year budgets. It is important to note that even with the reductions I've just outlined, the state will distribute more than \$1 billion per year to local governments.

### **GRF REVENUE ESTIMATES**

The budget is based upon estimates of total GRF receipts of \$25.5 billion in FY 2006 (a 1.8% increase over FY 2005) and \$25.9 billion in FY 2007 (a 1.6% increase over FY 2006). The chart on the next page shows revenue projections for each of the state's major tax sources.

# Total GRF Estimated Revenues By Major Tax Source

## FY 2006-2007 Operating Budget Total General Revenue Fund Estimated Revenues Biennium Total \$51,330.7 million



(Dollars in Millions)

Revenue Source	Estimated Revenue				
	FY 2005	FY 2006	% Change	FY 2007	% Change
Individual Income Taxes	\$ 8,153.2	\$ 8,291.0	1.7 %	\$ 8,400.4	1.3 %
Sales and Use Taxes	\$ 7,880.0	\$ 7,604.3	-3.5 %	\$ 7,957.9	4.7 %
Federal Grants & Reimbursement	\$ 5,773.6	\$ 5,760.5	-0.2 %	\$ 5,878.1	2.0 %
Corporate Franchise Taxes	\$ 820.0	\$ 734.0	-10.5 %	\$ 604.9	-17.6 %
Commercial Activity Tax	\$ -	\$ 220.0		\$ 205.0	-6.8 %
Public Utility/Kw-Hour Taxes	\$ 451.0	\$ 628.0	39.2 %	\$ 640.9	2.1 %
Other Taxes	\$ 1,140.5	\$ 1,612.0	41.3 %	\$ 1,564.5	-2.9 %
Other Revenue/Transfers In	\$ 796.8	\$ 607.7	-23.7 %	\$ 621.4	2.3 %
<b>Total</b>	<b>\$ 25,015.1</b>	<b>\$ 25,457.5</b>	<b>1.8 %</b>	<b>\$ 25,873.1</b>	<b>1.6 %</b>

Numbers may not add to total due to rounding

Source: Ohio Office of Budget and Management, February 2005

## BUDGET OVERVIEW

While I can assure you this budget was crafted through a number of very difficult choices, I believe it is based upon principles the General Assembly and taxpayers can support. As I stated earlier in my testimony, we demonstrate good stewardship of tax dollars by restraining government spending and putting the state on solid financial footing; we invest in priorities and support the government services the citizens of Ohio expect us to provide.

## RECOMMENDED APPROPRIATIONS

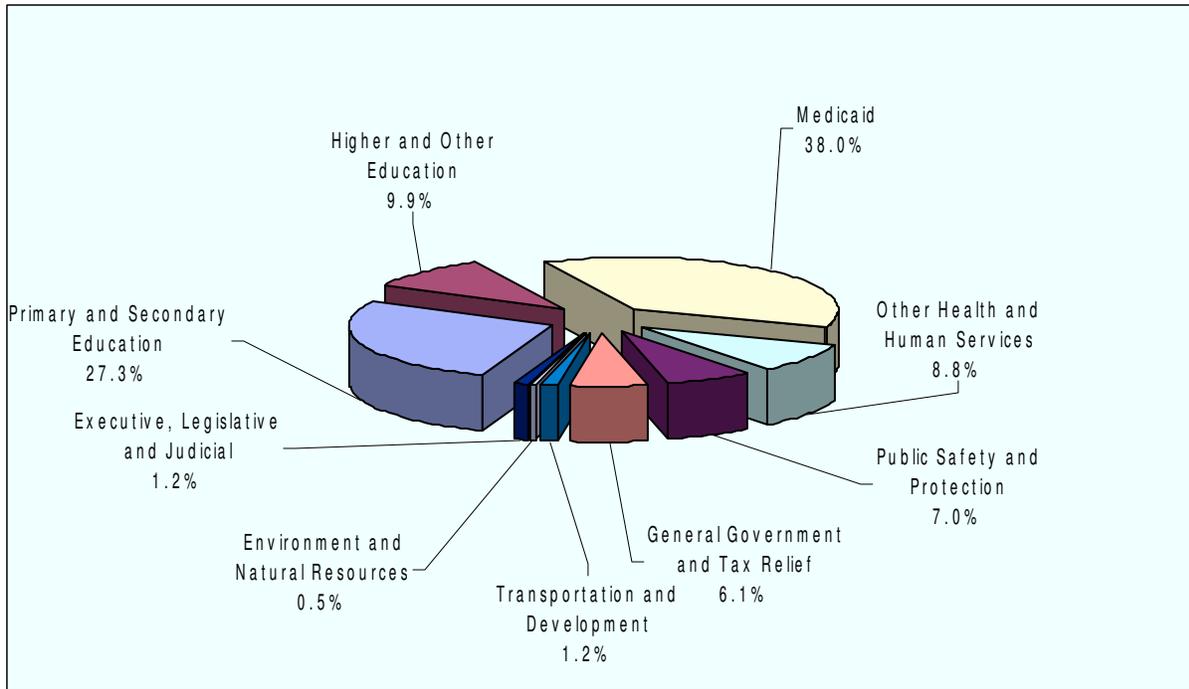
Recommended GRF appropriations in FY 2006 are \$25.4 billion, a 1.1% increase over FY 2005 and \$26.0 billion in FY 2007, a 2.3% increase over FY 2006.

Recommended appropriations for all funds total \$53.1 billion in FY 2006 and \$54.6 billion in FY 2007.

	<b>FY 2006</b>	<b>% Change</b>	<b>FY 2007</b>	<b>% Change</b>
GRF	\$25.4 billion	1.1%	\$26.0 billion	2.3%
All Funds	\$53.1 billion	3.3%	\$54.6 billion	2.7%

The chart on the next page summarizes GRF recommendations, by major spending category, included in the Executive Budget.

**FY 2006-2007 Operating Budget**  
**Total General Revenue Fund Recommended Appropriations**  
 Biennium Total \$51,319.8 million



(Dollars in Millions)

Spending Category	FY2005 Estimate	FY 2006	% Change	FY 2007	% Change
Primary and Secondary Education	\$ 6,765.8	\$ 6,906.3	2.1%	\$ 7,096.3	2.7%
Higher and Other Education	\$ 2,493.7	\$ 2,503.7	0.4%	\$ 2,552.5	1.9%
Medicaid	\$ 9,574.9	\$ 9,575.9	0.0%	\$ 9,923.7	3.6%
Other Health and Human Services	\$ 2,080.7	\$ 2,238.4	7.6%	\$ 2,264.6	1.2%
Public Safety and Protection	\$ 1,743.6	\$ 1,784.6	2.4%	\$ 1,818.3	1.9%
General Government and Tax Relief	\$ 1,653.5	\$ 1,602.2	-3.1%	\$ 1,526.8	-4.7%
Transportation and Development	\$ 305.3	\$ 311.6	2.1%	\$ 329.8	5.8%
Environment and Natural Resources	\$ 154.6	\$ 135.4	-12.4%	\$ 133.1	-1.7%
Executive, Legislative and Judicial	\$ 307.6	\$ 305.5	-0.7%	\$ 311.1	1.8%
<b>Total</b>	<b>\$ 25,079.5</b>	<b>\$ 25,363.6</b>	<b>1.1%</b>	<b>\$ 25,956.2</b>	<b>2.3%</b>

Note: Numbers may not add to total due to rounding  
 Source: Ohio Office of Budget and Management, February 2005

## **JOBS AND ECONOMIC DEVELOPMENT**

The Governor's number one priority in this budget is tax reform – tax reform that creates jobs and grows our tax base into the future. In addition to the tax reform package, the Governor's proposal contains a number of other job creation and economic development initiatives. Specifically, this budget continues the:

- Worker Guarantee Program – The Executive Budget provides \$3 million per year for this program that provides state match funding to assess, screen, and train employees for companies creating 100 or more new jobs.
- Ohio Investment in Training Program – Through an investment of \$17.2 million per year, this budget supports customized training to new and expanding businesses.
- The Third Frontier Initiative – This budget supports core programs for the Governor's Third Frontier Initiative – currently \$1.1 billion, ten-year program of investment in new research, product and process innovation, and job creation. To further this commitment, in November, we'll be asking Ohio voters to approve a special bond issue to advance the goals of the Third Frontier.

## **PRIMARY AND SECONDARY EDUCATION**

Education continues to be a priority for Governor Taft. This is certainly clear in the Governor's support for primary and secondary education. Funding has increased by more than 56% during his Administration.

We have made great progress with our K-12 system by implementing recommendations of the Governor's commissions on teaching and student success. We've established an educational system based upon clear expectations and assessments of progress, and we've

recognized the importance of teachers by investing in recruitment, preparation and professional development. It was clear to the Governor, however, that we needed to take additional steps to ensure that funding to school districts is provided in a way that allows districts to implement practices that foster student achievement.

The Governor's Blue Ribbon Task Force on Financing Student Success was appointed in July 2003 and was charged with recommending a system that promotes higher levels of student achievement and provides funding for school districts that is stable and grows appropriately, and is predictable and affordable within the context of the state's economy.

The FY 2006-2007 budget begins implementation of the funding recommendations made by the Task Force, most of which required changes to the Foundation Program, the formula by which most funding to school districts is provided. The Executive Budget proposes funding for Foundation Program line items totaling \$6.15 billion in FY 2006 (2.5% above FY 2005) and \$6.29 billion in FY 2007 (2.3% above FY 2006). Highlights of the Task Force recommendations in the Executive Budget include:

***Base Cost Funding***

- Base Cost Per Pupil - The proposed operating budget supports the recommendation of the Task Force and increases the FY 2005 base cost per-pupil amount. The base cost per-pupil equals \$5,328 in FY 2006 (3.1% above FY 2005) and \$5,489 in FY 2007 (3.0% above FY 2006).
- Additional Base Inputs - An additional \$48.4 million in FY 2006 and \$63.6 million in million in FY 2007 is added to the base for professional development, intervention and to move districts toward the use of data in decisions.

- Cost of Doing Business Factor - The Executive Budget proposes that the cost of doing business factor be eliminated, because it does not target resources to school districts in the most appropriate way.
- Average Daily Membership -The Executive Budget also supports returning to a method for calculating basic aid that permits districts to count either current year students or a three-year average - whichever is greater. This allows districts with declining enrollment more time to adjust to decreases in funding.

### ***Poverty-based Assistance***

A guiding principle behind the work of the Task Force was the belief that state resources should be distributed to districts and students who are most in need. The Executive Budget includes funding for a number of initiatives aimed at supporting those districts facing the challenges associated with poverty. Proposed funding for poverty-based assistance totals \$434.1 million in FY 2006 (27.6% above FY 2005) and \$481.0 million in FY 2007 (10.8% above FY 2006).

- Intervention - A new formula for intervention provides districts more funding as their concentration of poverty increases. Funding of \$78.3 million in FY 2006 and \$121.2 million in FY 2007 is provided to begin phasing in the new subsidy.
- Large Urban Districts - An additional \$14.6 million in FY 2006 and \$22.6 million in FY 2007 is provided to begin phasing in support for drop-out prevention and attendance officers for large urban districts.
- Other Poverty-based Assistance - Significant increases are included for other initiatives aimed at districts with higher levels of economically disadvantaged students. This includes funding for professional development, class size reduction, and all-day kindergarten.

### ***Parity Aid***

The Executive Budget provides funding of \$455.1 million in FY 2006 and \$514.6 million in FY 2007 for parity aid. This increases the phase-in percentage to 80% in FY 2006 and 85% in FY 2007 for Ohio's poorest school districts.

### ***Transitional Aid***

In addition, because of the number of significant changes to the Foundation formula, Transitional Aid is provided to guarantee that districts receive 100% of prior year total funding in FY 2006 and 98% in FY 2007.

### ***Phasing out Tangible Personal Property Tax***

As I mentioned earlier, this budget proposes phasing out school district reliance on the tangible personal property tax - a tax on machinery, equipment, and inventory. Districts will be held harmless from revenue losses until FY 2011 through a combination of increased Foundation Program funding and direct payments from a newly imposed Commercial Activity Tax.

### *Other Education Initiatives*

- Student Success Commission - The Governor's budget recommendations include funding to continue our progress in academic content standards, curriculum models, and local accountability. This budget contains \$198.4 million over the biennium for Student Success Initiatives.
- Ohio Choice Scholarships - This budget creates Ohio Choice Scholarships in FY 2007, providing \$3,500 scholarships for students who attend persistently failing schools, enabling them to choose a more successful chartered, nonpublic school. These scholarships not only offer another route for student success, but also impel the administration and teaching staff of a failing school to improve upon their students' academic performance.
- Teaching Success Commission - The FY 2006-2007 budget also continues to advance the goals of the Commission for Teaching Success by providing \$95.8 million over the biennium for teacher preparation, recruitment, retention, and professional development.
- Ohio School Facilities Commission – This budget supports the work spearheaded by the Ohio School Facilities Commission by providing financial assistance to school districts to help them maintain their new facilities. The budget includes a provision to equalize a school district's one-half mill maintenance set aside to the statewide per pupil average of \$59,025 per pupil.

## HIGHER EDUCATION

The Governor's FY06-07 Executive Budget funds implementation of key recommendations made by the Commission on Higher Education and the Economy to improve alignment of student preparation in the primary and secondary years with the pursuit of higher education. This budget expands college access and readiness programs for pre-college students throughout the state, and addresses financial barriers to higher education. The Governor's proposal supports:

- Continuation of Tuition Caps: The Governor recommends improving access to higher education by limiting tuition growth at Ohio's public colleges and universities to 6% per year. An additional 3% growth is permitted only for the purpose of providing students with need-based financial aid.
- Ohio College Opportunity Grant: A new program, the Ohio College Opportunity Grant, will be phased in over four years to align the state's needs-based college grant program with federal Pell Grant standards and expand eligibility to an additional 11,000 students. This budget expands access to higher education for more families by eliminating the tuition tax deduction and reinvesting those dollars in the Ohio College Opportunity Grant. Additionally, the new program increases the maximum grant award for students attending public institutions from \$2,190 under the current Ohio Instructional Grant to \$2,496, an increase of 14%.
- Ohio's Partnership for Continued Education: Funding of \$300,000 is provided in each fiscal year to support a P16 council that will work to create a single comprehensive education system – from early childhood through adulthood.

- College Readiness & Access: The Ohio College Access Network (OCAN) will receive \$600,000 in FY 2006 and \$700,000 in FY 2007 in new funding to expand upon current programming and reach into counties that are currently underserved but have significant need for college access and readiness programs.
- Early College High School Pilot Programs: The Executive budget provides \$1.6 million in FY 2006 and \$2.8 million in FY 2007 to support partnerships between high schools and higher education so that high school students from urban settings have an opportunity to earn college credit toward an associate or bachelor's degree while still in high school.

### **SUPPORTING SENIORS AND FAMILIES**

Governor Taft's commitment to the seniors and families of this state is evident through a number of initiatives. Examples include:

- PASSPORT - GRF funding of \$112 million in FY 2006 (8.0% above FY 2005) and \$121 million in FY 2007 (8.0% above FY 2006) is provided to help fund the state's PASSPORT waiver.
- Assisted Living – The Governor's proposal creates an assisted living waiver in FY 2007 to offer another, less costly option to nursing home care. The waiver will be available statewide to eligible Medicaid recipients who would be moving from a nursing home, PASSPORT or Choices waiver, or the Home Care waiver. The waiver will serve up to 1,800 people.

- TANF -Ohio's TANF spending plan totals \$2.7 billion for the FY 2006-2007 biennium. Through these funds the state provides public assistance focused on employment, personal responsibility, and sustained self-sufficiency. In our plan, additional funding is provided to:
  - Increase the Ohio Works First cash benefit by 10%;
  - Expand eligibility for subsidized child care from 150% to 185% of the federal poverty level;
  - Fund a limited number of state and county demonstration projects to test promising prevention and intervention strategies for high-risk, hard-to-serve populations; and
  - Fund an Early Learning Initiative for low-income 3 and 4 year olds.
- Behavioral Health Services for Children – The Governor's budget also contains language and funding to support an area of grave concern to us all – providing appropriate services and supports to children and families with serious behavioral health problems. Through a variety of funding sources, this budget commits more than \$25 million each fiscal year to begin to improve access and quality.

## **MEDICAID**

In a moment, I will share with you information regarding the plan this Administration is moving forward to restrain the growth of the Medicaid program. But first, I want to share a few details about how our Medicaid program supports Ohio's children and families.

Medicaid provides health care coverage to one in every eight Ohioans, including low-income working parents and their children, elders, and people with disabilities. One in four children and one in four seniors over the age of 85 receive services funded through the Medicaid program. The program pays for 33% of all births in the state and covers 70% of all nursing

home care. The Medicaid eligible population continues to grow; in fiscal year 1999 there were just over one million recipients. This number will grow to approximately 1.8 million by fiscal year 2007.

Medicaid is the largest single program in the state, accounting for nearly 40 percent of the state’s general revenue fund (GRF) spending. Over the past five years, most state agencies have seen reductions in GRF appropriations, yet since fiscal year 2000, Medicaid GRF expenditures have increased more than 73%. Medicaid GRF expenditures in FY 2006 will be about the same size as the state’s entire GRF budget in 1986.

In order to support some of the key services that I have just discussed, such as primary and secondary education and higher education, Medicaid spending must be restrained. The table below includes estimates for baseline program growth without any cost management initiatives.

	<b>FY 05</b>	<b>FY 06</b>	<b>Change</b>	<b>FY 07</b>	<b>Change</b>
Total ODJFS Medicaid Services	\$10.6 billion	\$11.9 billion	12.-8%	\$13.0 billion	9.3%
GRF (both federal and state shares)	\$9.6 billion	\$10.7 billion	11.4%	\$11.7 billion	10.0%

Clearly, the state cannot afford growth rates of nearly 10% per year.

The Administration is implementing several strategies to limit the growth of Medicaid spending. Many of these steps are consistent with recommendations of the Ohio Commission to Reform Medicaid. Specifically, this budget:

- Expands managed care statewide for covered families and children;
- Reduces and freezes provider rates, and
- Reduces optional services and eligibility.

In addition, this budget reduces nursing facility rates by 3.0% in FY 2006 and freezes them in FY 2007. It also removes the automatic rate increases for these providers from statute to ensure we are investing our resources in a way that reflects consumer demand and offers greater choices for Ohio families.

Combined, these cost management initiatives reduce projected GRF spending (both federal and state shares) by \$813 million in fiscal year 2006 and \$1.5 billion in fiscal year 2007.

Even with aggressive cost containment, the state will spend \$10.9 billion in FY 2006 and \$11.1 billion in FY 2007 to maintain a health care safety net for 1.8 million Ohioans. Governor Taft's recommendations for the Medicaid program protect services for children.

### ***Medicare Part D***

Before I leave the topic of Medicaid, I'd like to say a few words about, Medicare Part D, a federal program that will impact Medicaid spending in the upcoming biennium. Enacted in 2003, Medicare Part D changes how prescription drugs are funded for dual-eligible individuals, those who qualify for both Medicare and Medicaid. Currently, the state pays for these drugs, and we are reimbursed by the federal government - just as we are for other Medicaid services. Beginning in January 2006, however, this will change. Under Medicare Part D, the federal government will pay for these drugs directly and charge the state a premium for our "fair share" of the costs. I wanted to bring this to your attention, because inclusion of Medicare Part D in the Medicaid appropriation distorts overall growth rates. In order to get an "apples to apples" comparison, you must remove Medicare Part D from the equation. When you do this, GRF appropriations for Medicaid grow by 2.9% in FY 2006 and 4.3% in FY 2007.

## **MANAGING LIMITED RESOURCES**

The FY 2006-2007 Executive Budget reduces or flat funds the majority of the state's GRF funded agencies, consolidates functions or activities of several state agencies, and holds down the costs of one of the fastest growing programs in state government—Medicaid. Of the state's 68 GRF funded agencies, 36 will either remain at FY 2005 GRF levels or decrease their reliance on GRF funding.

The FY 2006-2007 Executive Budget was developed through careful scrutiny of state programs and activities. Funding increases reflect investments in key priorities and support for essential state services.

## **INSTITUTIONAL AGENCIES**

Approximately, 10% of our overall GRF spending is dedicated to supporting the state's institutional agencies. As in every other area of government, the recommendations included in the Governor's proposal for the departments of Rehabilitation and Correction, Youth Services, Mental Health and Mental Retardation and Developmental Disabilities are tight. They are conservative but adequate to support the services we're expected to provide.

- Department of Rehabilitation and Corrections

GRF funding for the Department of Rehabilitation and Correction is \$1.48 billion in FY 2006 (2.6% above FY 2005) and \$1.50 billion in FY 2007 (1.7% above FY 2006). Executive Budget recommendations fund 32 institutions including inmate medical and mental health services, as well as parole operations and community correction programs. Currently no institutional closures are planned.

- Department of Youth Services

GRF funding for the Department of Youth Services is \$244.5 million in FY 2006 (4.0% above FY 2005) and \$252.3 million in FY 2007 (3.2% above FY 2006). Increases in funding are targeted to address issues with the female and sex offender populations.

- Department of Mental Health

GRF funding for the Department of Mental Health increases by approximately 3.0% in each year of the biennium to maintain inpatient capacity, essential community services and improve children's services.

- Department of Mental Retardation and Developmental Disabilities

GRF funding for the Department of Mental Retardation is relatively flat over the biennium reflecting the closing of two institutions and a transition community-based care.

### **MORE EFFICIENT GOVERNMENT**

In addition to significantly restraining agency spending, this budget consolidates functions of several state agencies to realize cost savings, improve accountability and better align activities with agency missions. I'd like to share a few examples. Specifically, the Governor's proposal:

- Merges the functions of the Office of Criminal Justice Services into a division of the Department of Public Safety;
- Advances accountability and operational efficiencies by consolidating the administrative functions of 27 professional regulatory boards under the umbrella agencies of Commerce, Health and Public Safety;

- Transfers two worker safety programs from the Department of Commerce to the Bureau of Workers' Compensation; and
- Consolidates the School Net and the Ohio Educational Telecommunications Network Commissions.

## CONCLUSION

Continuing the tradition we started last biennium, we have not produced the traditional Blue Book and have made all the Executive Budget materials available through our web site at [www.obm.ohio.gov](http://www.obm.ohio.gov). We have made some changes to the presentation of our materials and are providing a much greater level of detail about the investments Governor Taft is proposing. I hope you find this information useful as you begin your deliberations.

The proposal you have before you is forward looking. It updates our tax structure to reflect our current economy making Ohio a more attractive place for companies to invest. It puts the state on solid financial ground by balancing spending with on-going revenues. It conservatively provides for essential state services while investing in priorities that leverage progress for our future.

Mr. Chairman, members of the committee, I would be happy to answer any questions you may have.