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A Longitudinal Look at State Spending

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Please note that Terry M. Thomas' opinions are not necessarily those of The Center for Community Solutions.

Highlights:

- State government growth, explosive in the 1980s, has all but disappeared in the 2000s. On an inflation-adjusted basis, state spending has dropped by almost 20 percent during the last decade.
- Medicaid is Ohio's largest and fastest-growing expenditure program. On an inflation-adjusted basis, it is the only major state program experiencing any growth in the last decade. When only state-source funds are considered, Primary and Secondary Education continues to be the largest spending category.
- Fast-rising Medicaid expenditures are absorbing what little state budgetary growth remains. Ohio's senior population is growing much faster than its population overall, especially those over age 85. By 2020, the number of Ohio seniors will likely exceed the school-age population for the first time, further stressing future Medicaid and state budgets.
- Expenditures for both Human Services Cash Assistance and Higher Education programs have consistently declined as a share of the state budget over time.
- Local Government support rose sharply until 2000, driven by formulas based on a share of tax receipts, but has been decimated by recent action.
- Spending on Other (non-Medicaid) Human Services programs also declined in the last decade in both real and nominal dollars, although not as severely as Local Government support.

Republican Governor John Kasich's FY 2012-2013 biennial budget represented a sharp departure from his predecessors. Facing a mammoth structural deficit, he proposed large cuts in the funding support of local governments, and likely brought a permanent change in the relationship between the state and its myriad of political subdivisions. However, the budget also saw steep increases in state-source health care spending due to the end of enhanced federal reimbursement for Medicaid. It also witnessed many other significant policy and funding changes that were not typical of a biennial budget. Still others were put forward as part of Governor Kasich's Mid-Biennium Review.

All biennial budgets contain at least a few major policy initiatives with far-reaching fiscal consequences, but for most state agencies, each budget generally represents only incremental change. Significant policy

changes are seen only if we take a long-term view. This paper provides a longitudinal view of state spending trends in major categories of spending over the last 30+ years, and how they track against Ohio demographic trends. It examines these spending trends both in nominal dollars, as well as in inflation-adjusted, real dollars. It also looks at future demographics, and assesses how they might affect future program enrollments and spending patterns.

To mirror federal population Census years, the paper tracks spending across four state fiscal years, FY 1980, FY 1990, FY 2000, and FY 2010. A fifth fiscal year, FY 2013, has also been selected for analysis for two reasons.[1] First, it is the current fiscal year that began on July 1, 2012, and the one that will set the base for funding in the next biennial budget. Secondly, as noted, there have been a number of important federal and state policy changes enacted since the FY 2010-2011 budget. Particularly noteworthy was the end of the American Recovery and Reinvestment Act of 2009 (ARRA, or federal stimulus) funds deposited into the General Revenue Fund (GRF), including enhanced federal reimbursement for Medicaid. The infusion of resources from the ARRA creates some major anomalies in FY 2010 state-source spending. Figures from FY 2013 represent appropriations, including those made in recently enacted H.B. 487, the Mid-Biennium Review (MBR), while data for all other fiscal years represent actual expenditures. While the MBR included significant policy initiatives, its inclusion did not fundamentally change the funding picture presented.

In addition to state-source GRF spending, the paper looks at three other major state funds, the Local Government Fund (LGF), the Public Library Fund (PLF), and the Lottery Profits Education Fund (LPEF). The inclusion of these three funds provides a better reflection of certain key categories of state spending, especially education and local government funding.

Data is from the Ohio Legislative Service Commission (LSC), which combines these four state sources in its August, 2011, analysis of "Historical Revenues and Expenditures." Comparing expenditure data across several decades can be problematic given the many accounting changes that occur over time. This paper, therefore, employs a respected and unimpeachable source, LSC, for the data used in the analyses to follow.

The 1980s: Explosive Growth in State Government

Fueled by personal and corporate tax changes initiated by Democrat Governor Richard Celeste in 1983, state government enjoyed tremendous growth during the decade of the 1980s. This followed an era of equally great growth during the 1970s, which saw the enactment of Ohio's first individual and corporate income taxes during the administration of Democrat Governor John Gilligan in 1971. Table 1 shows the growth in raw (nominal) dollar terms by decade since FY 1980 for major areas of state spending. State-source funding grew impressively in the 1980s from $4.4 billion in FY 1980 to $10.7 billion just 10 years later, a robust 143.1 percent increase. Table 2 shows the percentage change for major state spending category since 1980, again in nominal dollars. Every major spending category doubled their expenditure level during the 1980s. By contrast, state spending has increased by 101.8 percent in the 23 years since FY 1990, most of it in the decade of the 1990s. To give some perspective to these 10-year growth rates, it should be noted that a 5 percent increase compounded each year would equate to a 61.4 percent increase over a decade.

Every major category of spending experienced greater growth during the 1980s than in any succeeding decade. In retrospect, the growth in spending for Medicaid (268.1 percent), Corrections (251.1 percent), and, most especially, Local Government (590.4 percent) during the 1980s is particularly startling. Compared to more recent decades, the 1980s was the only period in which Higher Education funding increased by a greater percentage than Primary and Secondary Education (123.5 percent versus 107.0

percent). It was the only period that saw any increase at all in Human Services Cash Assistance programs (110.2 percent).

Table 1*: Total State-Source Expenditures - GRF, LGF, PLF, LPEF

(Nominal Dollars in Millions)

	FY 1980	FY 1990	FY 2000	FY 2010	FY 2013
Primary & Secondary Ed. (i)	$1,855.8	$3,842.4	$6,418.4	$8,254.4	$8,673.6
Higher Education	740.9	1,655.6	2,432.8	2,214.5	2,303.1
Human Services					
Medicaid (ii)	311.8	1,147.8	2,292.2	2,612.2	4,986.7
Cash Assistance (iii)	308.3	647.9	404.1	246.7	263.2
Other Human Services	513.5	1,072.9	1,544.4	1,468.5	1,196.8
Human Services Total	1,133.6	2,868.6	4,240.7	4,327.4	6,446.7
Corrections - DRC & DYS	150.8	529.5	1,511.9	1,606.4	1,709.4
Transportation (iv)	14.2	38.0	41.5	17.5	10.1
Local Govt. Funds - LGF & PLF (v)	102.8	709.7	1,259.9	982.4	693.0
Other	397.1	1,042.1	1,517.1	1,578.4	1,733.0
Total	**$4,395.1**	**$10,685.8**	**$17,422.3**	**$18,980.9**	**$21,568.9**

Source: "Historical Revenues and Expenditures" and H.B. 487 "FY 2012-2013 Appropriation Line Item (ALI) Adjustments," Ohio Legislative Service Commission Website, www.lsc.state.oh.us, 2012.

*Table 1 shows expenditures (or appropriations in the case of FY 2013) in nominal dollars for state sources credited to the General Revenue Fund (GRF), the Local Government Fund (LGF), the Public Library Fund (PLF), and the Lottery Profits Education Fund (LPEF). The GRF figures used in the table exclude federal reimbursements deposited into the GRF for Medicaid and other human services programs. For FY 2010, the GRF figures used in this table also exclude federal stimulus money deposited into the GRF, including enhanced federal reimbursement for Medicaid and other programs and funds provided under the Budget Stabilization Fund.

(i) Primary & Secondary Education includes the Real and Tangible Property Tax Rollback, the School Facilities Commission, the E-Tech Ohio Commission, and the Schools for the Blind & Deaf in addition to Ohio Department of Education funding, less rollbacks. It includes spending from the Lottery Profits Education Fund (LPEF) as well as the GRF.

(ii) Medicaid is state share only.

(iii) Cash Assistance includes ADC, TANF, General Assistance, and Disability Assistance.

(iv) Does not include expenditures from Motor Vehicle Fuel Tax revenues.

(v) Does not include Real and Tangible Property Tax Rollbacks.

Table 2*: Total State-Source 10-Year Nominal Expenditure Growth - GRF, LGF, PLF, LPEF

	FY 1990	FY 2000	FY 2010	FY 2013
Primary & Secondary Ed. (i)	107.0%	67.0%	28.6%	12.6%
Higher Education	123.5	46.9	(9.0)	(4.5)
Human Services				
Medicaid (ii)	268.1	99.7	14.0	48.8
Cash Assistance (iii)	110.2	(37.6)	(39.0)	(30.2)
Other Human Services	108.9	43.9	(4.9)	(16.5)
Human Services Total	153.1	47.8	2.0	24.9
Corrections - DRC & DYS	251.1	185.5	6.3	6.8
Transportation (iv)	167.6	9.2	(57.8)	(68.7)
Local Govt. Funds - LGF & PLF (v)	590.4	77.5	(22.0)	(44.4)
Other	162.4	45.6	4.0	8.5
Total	**143.1%**	**63.0%**	**8.9%**	**9.2%**

Source: "Historical Revenues and Expenditures" and H.B. 487 "FY 2012-2013 Appropriation Line Item (ALI) Adjustments," Ohio Legislative Service Commission Website, www.lsc.state.oh.us, 2012.
*Table 2 shows the 10-year nominal percentage growth in expenditures (or appropriations in the case of FY 2013) for state sources credited to the General Revenue Fund (GRF), the Local Government Fund (LGF), the Public Library Fund (PLF), and the Lottery Profits Education Fund (LPEF). The GRF figures used in the table exclude federal reimbursements deposited into the GRF for Medicaid and other human services programs. For FY 2010, the GRF figures used in this table also exclude federal stimulus money deposited into the GRF, including enhanced federal reimbursement for Medicaid and other programs and funds provided under the Budget Stabilization Fund. The FY 2013 growth represents the change from FY 2003, which is not depicted in Table 1.
(i) Primary & Secondary Education includes the Real and Tangible Property Tax Rollback, the School Facilities Commission, the E-Tech Ohio Commission, and the Schools for the Blind & Deaf in addition to Ohio Department of Education funding, less rollbacks. It includes spending from the Lottery Profits Education Fund (LPEF) as well as the GRF.
(ii) Medicaid is state share only.
(iii) Cash Assistance includes ADC, TANF, General Assistance, and Disability Assistance.
(iv) Does not include expenditures from Motor Vehicle Fuel Tax revenues.
(v) Does not include Real and Tangible Property Tax Rollbacks.

Tables 3 and 4 repeat the analysis provided in Tables 1 and 2, but do so in inflation-adjusted dollars rather than raw or nominal dollars. The data is indexed to 2010, using the U.S. Department of Commerce Bureau of Economic Analysis price index for government consumption and gross investment for state and local government. FY 2013 projections are compared with FY 2003. Inflation projections are from data available from the Congressional Budget Office.

Adjusting the raw data for the effects of inflation serves to smooth down the large increases seen in Tables 1 and 2, but real growth during the 1980s was nevertheless quite impressive and across-the-board. State-source spending on this basis grew by 53.2 percent during the decade, far more than would be the case during the next decade. Substantial increases were the rule for all major spending categories, but growth in Medicaid (132.0 percent), Corrections (121.3 percent), and Local Government (335.1 percent) were particularly noteworthy.

Table 3*: Total State-Source Expenditures - GRF, LGF, PLF, LPEF
(Inflation-adjusted Dollars in Millions, Indexed to 2010)

	FY 1980	FY 1990	FY 2000	FY 2010	FY 2013
Primary & Secondary Ed. (i)	$5,553.4	$7,246.3	$9,314.8	$8,254.4	$8,422.1
Higher Education	2,217.1	3,122.2	3,530.6	2,214.5	2,236.3
Human Services					
Medicaid (ii)	933.0	2,164.6	3,326.6	2,612.2	4,842.1
Cash Assistance (iii)	922.6	1,221.9	586.5	246.7	255.6
Other Human Services	1,536.6	2,023.3	2,241.3	1,468.5	1,162.1
Human Services Total	3,392.2	5,409.8	6,154.4	4,327.4	6,259.8
Corrections - DRC & DYS	451.3	998.6	2,194.2	1,606.4	1,659.8
Transportation (iv)	42.5	71.7	60.2	17.5	9.8
Local Govt. Funds - LGF & PLF (v)	307.6	1,338.4	1,828.5	982.4	672.9
Other	1,188.3	1,965.3	2,201.7	1,578.4	1,682.7
Total	**$13,152.1**	**$20,152.3**	**$25,284.4**	**$18,980.9**	**$20,943.4**

Source: "Historical Revenues and Expenditures" and H.B. 487 "FY 2012-2013 Appropriation Line Item (ALI) Adjustments," Ohio Legislative Service Commission Website, www.lsc.state.oh.us, 2012.
*Table 3 shows expenditures (or appropriations in the case of FY 2013) in inflation-adjusted dollars for state sources credited to the General Revenue Fund (GRF), the Local Government Fund (LGF), the Public Library Fund (PLF), and the Lottery Profits Education Fund (LPEF). The GRF figures used in the table exclude federal reimbursements deposited into the GRF for Medicaid and other human services programs. For FY 2010, the GRF figures used in this table also exclude federal stimulus money deposited into the

GRF, including enhanced federal reimbursement for Medicaid and other programs and funds provided under the Budget Stabilization Fund. The figures are indexed to 2010 using the U.S. Department of Commerce Bureau of Economic Analysis Price Indexes for Government Consumption Expenditures and Gross Investment, State and Local. Data for FY 2013 is adjusted using the Congressional Budget Office index for core inflation.
(i) Primary & Secondary Education includes the Real and Tangible Property Tax Rollback, the School Facilities Commission, the E-Tech Ohio Commission, and the Schools for the Blind & Deaf in addition to Ohio Department of Education funding, less rollbacks. It includes spending from the Lottery Profits Education Fund (LPEF) as well as the GRF.
(ii) Medicaid is state share only.
(iii) Cash Assistance includes ADC, TANF, General Assistance, and Disability Assistance.
(iv) Does not include expenditures from Motor Vehicle Fuel Tax revenues.
(v) Does not include Real and Tangible Property Tax Rollbacks.

Table 4*: Total State-Source 10-Year Inflation-adjusted Expenditure Growth - GRF, LGF, PLF, LPEF

	FY 1990	FY 2000	FY 2010	FY 2013
Primary & Secondary Ed. (i)	30.5%	28.5%	(11.1)%	(17.4)%
Higher Education	40.8	13.1	(37.3)	(29.9)
Human Services				
Medicaid (ii)	132.0	53.7	(21.5)	9.2
Cash Assistance (iii)	32.0	(52.0)	(57.9)	(48.8)
Other Human Services	31.7	10.8	(34.5)	(38.8)
Human Services Total	59.5	13.8	(29.7)	(8.4)
Corrections - DRC & DYS	121.3	119.7	(26.8)	(21.7)
Transportation (iv)	68.7	(16.0)	(70.9)	(77.1)
Local Govt. Funds - LGF & PLF (v)	335.1	36.6	(46.3)	(59.2)
Other	65.4	12.0	(28.3)	(20.4)
Total	**53.2%**	**25.5%**	**(24.9)%**	**(19.9)%**

Source: "Historical Revenues and Expenditures" and H.B. 487 "FY 2012-2013 Appropriation Line Item (ALI) Adjustments," Ohio Legislative Service Commission Website, www.lsc.state.oh.us, 2012.
*Table 4 shows the 10-year percentage growth in expenditures (or appropriations in the case of FY 2013) in inflation-adjusted dollars for state sources credited to the General Revenue Fund (GRF), the Local Government Fund (LGF), the Public Library Fund (PLF), and the Lottery Profits Education Fund (LPEF). The GRF figures used in the table exclude federal reimbursements deposited into the GRF for Medicaid and other human services programs. For FY 2010, the GRF figures used in this table also exclude federal stimulus money deposited into the GRF, including enhanced federal reimbursement for Medicaid and other programs and funds provided under the Budget Stabilization Fund. The FY 2013 growth represents the change from FY 2003, which is not depicted in Table 1. The figures are indexed to 2010 using the U.S. Department of Commerce Bureau of Economic Analysis Price Indexes for Government Consumption Expenditures and Gross Investment, State and Local. Data for FY 2013 is adjusted using the Congressional Budget Office index for core inflation.
(i) Primary & Secondary Education includes the Real and Tangible Property Tax Rollback, the School Facilities Commission, the E-Tech Ohio Commission, and the Schools for the Blind & Deaf in addition to Ohio Department of Education funding, less rollbacks. It includes spending from the Lottery Profits Education Fund (LPEF) as well as the GRF.
(ii) Medicaid is state share only.
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(v) Does not include Real and Tangible Property Tax Rollbacks.

The 1990s: State Government Growth Slows

State government growth slowed noticeably between FY 1990 and FY 2000, although it still saw a rise of 63.0 percent in nominal dollars. Corrections was the only major state spending category to more than double in funding (185.5 percent) during the 1990s, although Medicaid expenditures effectively did so (99.7 percent). This was a time when law and order was a particularly important state issue, especially in

Ohio which witnessed the 1993 Southern Ohio Correctional Facility riot in Lucasville. Primary and Secondary Education (67.0 percent), Higher Education (46.9 percent), and Local Government (77.5 percent) all experienced significant growth during the decade, even if considerably less robust than the prior decade. Human Services Cash Assistance programs were the only major state spending category to see a decrease in funding during the decade (-37.6 percent), largely due to the abolishment of the General Assistance program. It is a rarity for a major state program to be eliminated. However, in 1995, Republican Governor George Voinovich was successful in dismantling this program for able-bodied public assistance recipients.

On an inflation-adjusted basis, spending during the 1990s grew by 25.5 percent, less than the 1980s certainly but robust by comparison to what would follow. Growth in Corrections (119.7 percent) and Primary and Secondary Education (28.5 percent) was similar to what was experienced in the previous decade. Higher Education (13.1 percent), Medicaid (53.7 percent), and Local Government (36.6 percent) all grew during the decade, but at rates substantially below that experienced during the 1980s. Human Services Cash Assistance funding plummeted by 52.0 percent during the 1990s due to the elimination of General Assistance. It would continue to decline at a similar rate during the following decade.

The 2000s: The Era of No Growth State Budgets

Since 2000, state government growth, at least in the aggregate, has virtually disappeared, even when looked at in nominal dollars. State-source spending grew by less than 1 percent per year, a paltry 8.9 percent, between FY 2000 and FY 2010. Growth between FY 2003 and FY 2013 was a quite similar 9.2 percent. After two decades of rapid growth, Corrections funding increased only negligibly, by 6.3 percent between FY 2000 and FY 2010, and 6.8 percent between FY 2003 and FY 2013. Primary and Secondary Education experienced one of the larger growth rates during the period, with an increase of 28.6 percent in FY 2010 over FY 2000. However, the growth in spending for Primary and Secondary Education was only 12.6 percent, when comparing FY 2003 to FY 2013. Because of the enhanced federal share for Medicaid in FY 2010, state-source spending in this category was artificially limited to 14.0 percent over the decade. However, without the impact of a significantly enhanced federal share, Medicaid spending in FY 2013 was significantly higher than it was in FY 2003. Medicaid funding grew by 48.8 percent during this period. This represents a much more accurate reflection of the impact of health care on the budget.

Several major state spending categories have actually seen a decrease in funding since 2000. Higher Education decreased by 9.0 percent in FY 2010 when compared to FY 2000, and by 4.5 percent in FY 2013 versus 2003. The decrease in Human Services Cash Assistance programs continued, as they dropped by 39.0 percent in FY 2010, when compared to FY 2000 and 30.2 percent in FY 2013 versus FY 2003. Support for Local Government decreased by 22.0 percent in FY 2010 when compared to FY 2000. However, the decrease doubled (-44.4 percent), when the comparison is made between FY 2003 and FY 2013. This reflects the Draconian cuts to Local Government made in the FY 2012-2013 budget.

On an inflation-adjusted basis, the picture is more one of near uniform declines. Total state-source spending decreased 24.9 percent during the first decade of the 2000s. It declined by a quite similar 19.9 percent between FY 2003 and FY 2013. Every single major spending category decreased from FY 2000 to FY 2010, most substantially so. The decline in Medicaid, however, was somewhat artificial due to the enhanced federal Medicaid rates in effect during FY 2010. Medicaid was the only major category of state spending to experience growth between FY 2003 and FY 2013. The increase, however, was a quite modest 9.2 percent.

It is indeed ironic that the General Assembly first adopted a State Appropriation Limit in 2006 during this era of "no growth" budgets. Its adoption was to address a national movement of the times emanating from Colorado as opposed to being in response to the existing state budgetary environment.

Changing Priorities

Table 5 shows the relative share that each major category of spending represented of total state spending through the period. The information is presented in Figures 1-3 in pie chart format to depict major changes at key intervals. The relative budget shares remain the same whether one is looking at nominal or inflation-adjusted dollars. Primary and Secondary Education was the largest state-source expenditure area throughout the period. It remained a fairly consistent priority, never lower than 36.8 percent or higher than 43.5 percent of the total state budget. However, if federal General Revenue Fund moneys were also included, Medicaid would hold this distinction. Primary and Secondary Education will represent 40.2 percent of the budget in FY 2013, just two percentage points below where it was in FY 1980 (42.2 percent). Still, two percent of the state budget is not an insignificant amount.

Table 5*: Budget Share of State-Source Expenditures - GRF, LGF, PLF, LPEF

	FY 1980	FY 1990	FY 2000	FY 2010	FY 2013
Primary & Secondary Ed. (i)	42.2%	36.0%	36.8%	43.5%	40.2%
Higher Education	16.9	15.5	14.0	11.7	10.7
Human Services					
Medicaid (ii)	7.1	10.7	13.2	13.8	23.1
Cash Assistance (iii)	7.0	6.1	2.3	1.3	1.2
Other Human Services	11.7	10.0	8.9	7.7	5.5
Human Services Total	25.8	26.8	24.3	22.8	29.9
Corrections - DRC & DYS	3.4	5.0	8.7	8.5	7.9
Transportation (iv)	0.3	0.4	0.2	0.1	0.0
Local Govt. Funds - LGF & PLF (v)	2.3	6.6	7.2	5.2	3.2
Other	9.0	9.8	8.7	8.3	8.0
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Source: "Historical Revenues and Expenditures" and H.B. 487 "FY 2012-2013 Appropriation Line Item (ALI) Adjustments," Ohio Legislative Service Commission Website, www.lsc.state.oh.us, 2012.

*This table shows the relative share of expenditures (or appropriations in the case of FY 2013) of state sources credited to the General Revenue Fund (GRF), the Local Government Fund (LGF), the Public Library Fund (PLF), and the Lottery Profits Education Fund (LPEF). The GRF figures used in the table exclude federal reimbursements deposited into the GRF for Medicaid and other human services programs. For FY 2010, the GRF figures used in this table also exclude federal stimulus money deposited into the GRF, including enhanced federal reimbursement for Medicaid and other programs and funds provided under the Budget Stabilization Fund.

(i) Primary & Secondary Education includes the Real and Tangible Property Tax Rollback, the School Facilities Commission, the E-Tech Ohio Commission, and the Schools for the Blind & Deaf in addition to Ohio Department of Education funding, less rollbacks. It includes spending from the Lottery Profits Education Fund (LPEF) as well as the GRF.

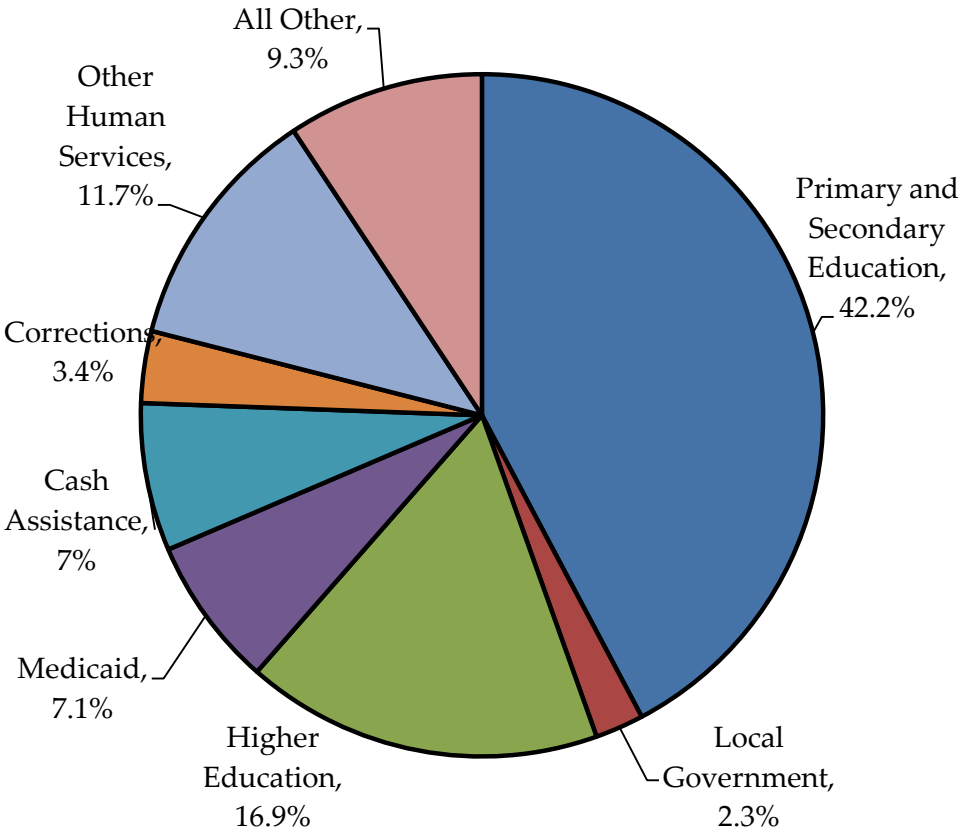
(ii) Medicaid is state share only.

(iii) Cash Assistance includes ADC, TANF, General Assistance, and Disability Assistance.

(iv) Does not include expenditures from Motor Vehicle Fuel Tax revenues.

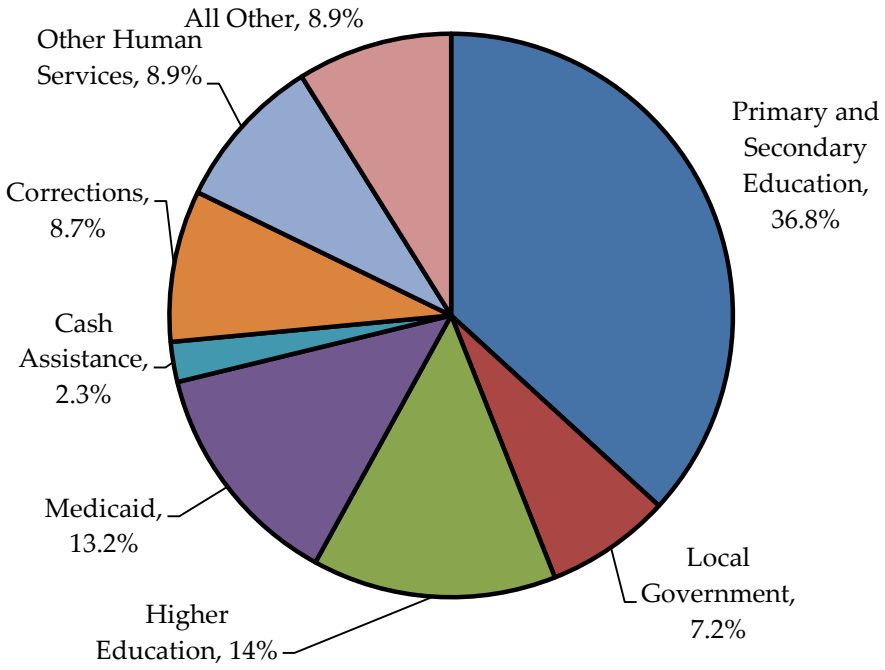
(v) Does not include Real and Tangible Property Tax Rollbacks.

Figure 1: GRF Budget Share of State-Source Expenditure
FY 1980



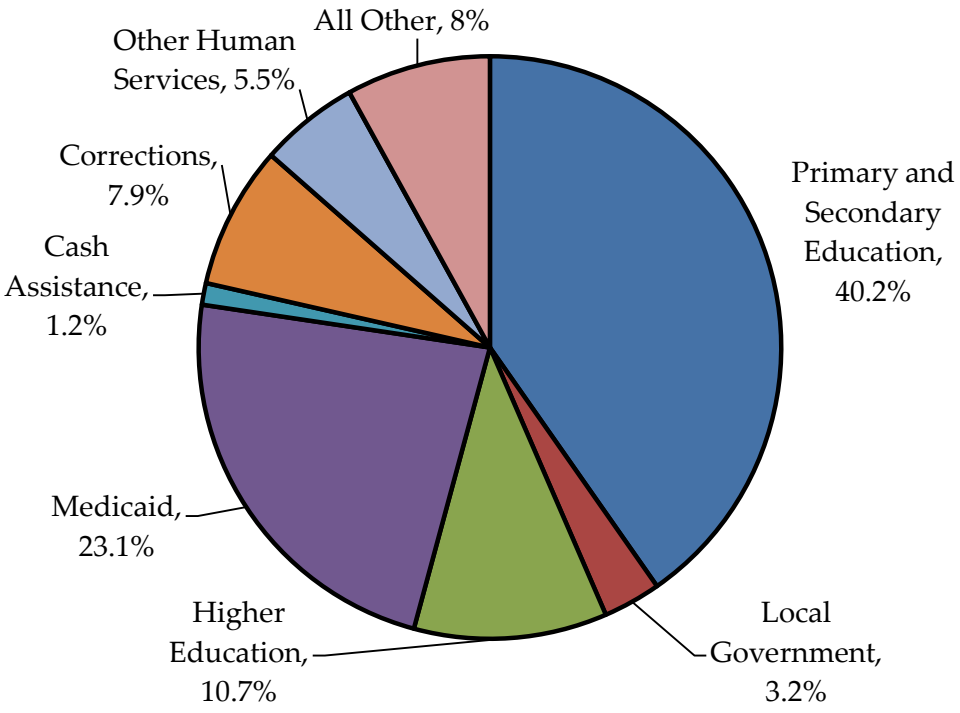
Source: Author's analysis of LSC data.

Figure 2: GRF Budget Share of State-Source Expenditures FY 2000



Source: Author's analysis of LSC data.

Figure 3: Budget Share of State-Source Expenditures FY 2013



Source: Author's analysis of LSC data.

Advocates for Higher Education see a disturbing trend when looking at long-term funding trends. Higher Education and Human Services Cash Assistance are the only two categories of spending that decrease as a priority throughout the period. The drop has been not only continuous, but fairly consistent across time. Higher Education represented 16.9 percent of the state budget in FY 1980, but only 10.7 percent in FY 2013. This is a major diminution as a state priority for an area so critical to Ohio's economic future.

As noted, Human Services Cash Assistance programs decreased during the period, and dramatically so. The funding share decreased from 7.1 percent of the state budget in FY 1980 to a mere 1.2 percent by FY 2013. By far the largest loss in state share occurred between FY 1990 (6.1 percent) and FY 2000 (2.3 percent) due to the elimination of General Assistance, federal welfare reform, and a growing economy.

Medicaid, on the other hand, has more than tripled its share of state funding during the period, rising from a 7.1 percent share in FY 1980 to 23.1 percent in FY 2013. The increase in state share has been particularly dramatic since FY 2000, as it has increased from 13.2 percent to 23.1 percent in FY 2013. As a large budget item, this shift in state share represents an important new commitment of resources. Total expenditures for Medicaid have increased by almost $2.7 billion since FY 2000. It has eaten up what limited growth there has been, given that the total state spending increase in dollar terms over the last 13 years has amounted to less than $4.2 billion. The aging of Ohio's population will only increase the stresses on Ohio's budget due to Medicaid growth.

The changes to Other Human Services spending partially balanced out the increase resulting from a rising Medicaid budget, although Total Human Services funding still increased as a share of the budget from 25.8 percent in FY 1980 to 29.9 percent in FY 2013. Total Human Services funding only amounted to 22.8 percent in FY 2010, due to the increased federal share of Medicaid and other federal Recovery Act support for human services programs. This allowed Democrat Governor Ted Strickland to balance the state budget in FY 2010-2011 with the only significant GRF revenue enhancement being a one-year delay in the last installment of the five-year phased reduction in the personal income tax that had been initiated by his predecessor, Republican Governor Bob Taft, in 2005. Also key to balancing the budget were the imposition of franchise fees on hospitals and nursing homes that allowed for a significant drawdown of non-GRF Medicaid resources.

Both Corrections and Local Government funding increased dramatically as a share of the budget through FY 2000, and then decreased. The Local Government fund drop in priority, however, was much more precipitous. Corrections funding surged from 3.4 percent of the state budget in FY 1980 to 8.7 percent in FY 2000. It subsequently dropped slightly to 7.9 percent by FY 2013.

Local Government funding rose from only 2.3 percent of the state budget in FY 1980 to 6.6 percent in FY 1990, and to 7.2 percent in FY 2000. It plummeted all the way to 3.2 percent by FY 2013, mostly due to cuts in the FY 2012-2013 budget, although not entirely so. Funding for Local Government also suffered in the budgets of governors Taft and Strickland, albeit to a much lesser degree.

Ohio Population Trends

In regard to demographic data, we look at the federal Census of population for Ohio from 1980, 1990, 2000, and 2010. We also look at 2020 population projections for Ohio to obtain a handle on future trends. Unfortunately, the projections were made in 2005. Updated projections based on the 2010 Census and current surveys are expected to be released in 2013. To match up with key state spending programs, Tables 4 through 6 examine these key age groups: five to 17 (school age), 18 to 24 (college age), 25 to 64 (working age), and 65+ (aged).

Table 6 indicates the relative stability of Ohio's total population. Ohio's population has inched up steadily from 10.8 million in 1980 to 11.5 million in 2010. Projections indicate that such additional growth is expected in the future, representing one of the slowest growth rates in the nation.

Table 6: Ohio Population by Age Group

Age Group	1980	1990	2000	2010	2020
0-4	789,432	803,446	754,930	720,856	743,614
5-17	2,301,558	2,051,382	2,133,409	2,009,895	1,959,902
Total Under 18	3,090,990	2,854,828	2,888,339	2,730,751	2,703,516
18-24	1,405,722	1,135,895	1,056,544	1,099,491	991,176
25-44	2,938,312	3,477,834	3,325,210	2,919,790	3,013,834
45-64	2,192,204	2,117,016	2,575,290	3,164,457	2,957,068
Total 25-64	5,130,516	5,594,850	5,900,500	6,084,247	5,970,902
65-84	1,066,530	1,244,206	1,330,961	1,391,586	1,705,897
85+	109,793	138,161	176,796	230,429	272,567
Total 65+	1,176,323	1,382,367	1,507,757	1,622,015	1,978,464
Total	**10,803,551**	**10,967,940**	**11,353,140**	**11,536,504**	**11,644,058**

Sources: Census 2010 Summary File 1 and U.S. Census Bureau, Population Division, Interim State Population Projections, 2005 and Ohio Department of Development, Office of Policy Research and Strategic Planning, 2012.

Ohio's school-age population, the five to 17 age group, has decreased significantly over time. In 1980, Ohio had 2.3 million school-age children, but this number had dropped to 2.0 million by 2010. It is expected to drop below 2.0 million by 2020. There was a modest increase in this population in the 1990s, but otherwise it has decreased throughout the period. Since most students are in public school for 13 years, a baby "boom" or "bust" in one era will have an effect on the number of school students over a like period of time.

The drop in college-age population has been even more dramatic. Ohio's population in the 18 to 24 age group dropped from 1.4 million in 1980 to a little under 1.1 million in FY 2010. It is expected to drop below 1.0 million by 2020. It increased slightly in the first decade of the 2000s, but otherwise decreased throughout the period. Virtually all colleges and universities will find it necessary to ramp up their outreach efforts to older students, individuals in their late 20s and even 30s and beyond, to maintain their enrollment levels. There has been growth in this segment of the student population in recent years, but not at a sufficient rate to maintain equilibrium in overall enrollments moving forward.

Table 7, which shows population growth by age group, indicates that Ohio's prime working-age population, age 25 to 64, decreased for the first time in 2010. The working-age population had been increasing, but at an ever-diminishing rate in recent decades. Since this is the population whose taxes support most state services, this trend over time has had an adverse impact on state revenues. The aggregate numbers mask some important differences in this large grouping. From 1990 to 2010, the age 45 to 64 population grew by more than 1.0 million, while the younger 25 to 44 group decreased by more than 550,000. These trends should begin to reverse by 2020.

Table 7: Ohio Population Growth by Age Group

Age Group	1980-1990	1990-2000	2000-2010	2010-2020	2000-2020
0-4	1.8%	(6.0)%	(4.5)%	3.2%	(1.5)%
5-17	(10.9)	4.0	(5.8)	(2.5)	(8.1)
Total Under 18	(7.6)	1.2	(5.5)	(1.0)	(6.4)
18-24	(19.2)	(7.0)	4.1	(9.9)	(6.2)
25-44	18.4	(4.4)	(12.5)	3.2	(9.4)
45-64	(3.4)	21.7	22.9	(6.6)	14.8
Total 25-64	9.1	5.5	3.1	(1.9)	1.2
65-84	16.7	7.0	4.6	22.6	28.2
85+	25.8	28.0	30.3	18.3	54.2
Total 65+	17.5	9.1	7.6	22.0	30.4
Total	**1.5%**	**3.5%**	**1.6%**	**0.9%**	**2.6%**

Sources: Census 2010 Summary File 1 and U.S. Census Bureau, Population Division, Interim State Population Projections, 2005.

Ohio's senior population, the 65+ age group, is growing significantly faster than the rest of the state's population. While this group totaled less than 1.2 million in 1980, it should reach nearly 2.0 million by 2020 with the number of seniors exceeding the number of school-age children for the first time in Ohio's history. Table 8, which shows the percentage share that each age group represents of the total population, demonstrates the explosive growth in the 65+ age group, especially in the 85+ age group. Ohio's total senior population more than doubled between 1980 and 2010 with further rapid growth anticipated. This is due to both the aging of the large and still mostly healthy "Baby Boomer" group, the oldest of which turned age 65 just last year, and longer life expectancies due to advances in medicine. It portends future stresses on Ohio's Medicaid budget, since end of life expenses are a major driver of health care costs. According to the Scripps Gerontology Center at Miami University, an expected 3 percent annual inflation rate, combined with an expected 13 percent increase in the number of severely disabled older Ohioans, should translate to a projected 66 percent nominal increase in state Medicaid long-term care costs by 2020.

Table 8: Ohio Population Share by Age Group

Age Group	1980	1990	2000	2010	2020
0-4	7.3%	7.3%	6.6%	6.2%	6.4%
5-17	21.3	18.7	18.8	17.4	16.8
Total Under 18	28.6	26.0	25.4	23.7	23.2
18-24	13.0	10.4	9.3	9.5	8.5
25-44	27.2	31.7	29.3	25.3	25.9
45-64	20.3	19.3	22.7	27.4	25.4
Total 25-64	47.5	51.0	52.0	52.7	51.3
65-84	9.9	11.3	11.7	12.1	14.7
85+	1.0	1.3	1.6	2.0	2.3
Total 65+	10.9	12.6	13.3	14.1	17.0
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Sources: Census 2010 Summary File 1 and U.S. Census Bureau, Population Division, Interim State Population Projections, 2005 and Ohio Department of Development, Office of Policy Research and Strategic Planning, 2012.

Matching Resources to State Needs

To look at the impact of demographic changes on public schools, it is important to note the change over two decades, given that children are in school for an extended period of time. Although Ohio's school-age population declined by 5.8 percent between FY 2000 and FY 2010, public school enrollments actually increased over the decade by 3.3 percent due to the growth in this population during the previous decade.[2] Ohio's five to 17 age group is expected to decline by an additional 2.5 percent by 2020. The population decrease identified in 2010, together with the continued decline this decade, will have a significant, if delayed, impact on public school enrollments during the decade to come. A closer examination of the pipeline of students in FY 2010 reveals that reduced enrollments will indeed be the case in the future. Ohio public school enrollments in Grade 9 in FY 2010 totaled 165,617, while not a single grade level less than Grade 9 had enrollments over 139,000. Indeed, a decline in total enrollments, albeit a very small one, occurred the very next year in FY 2011 (-0.5 percent). A much larger decline can be expected in public school enrollments by 2020, given both diminished early grade-level enrollment levels and continuing low birth rates.

Since Primary and Secondary Education has remained a fairly stable state funding priority over time, our public schools are likely to be reasonably well funded, at least on a per pupil basis moving forward. Certainly, there are implications, however, for school district building needs as well as for the need for future teachers. However, given an anticipated large number of teacher retirements in the coming years, the impact on the teaching corps may be less than the data would appear to suggest.

Although not declining in population share as fast as budget share, the decrease in college-age population is nonetheless steep. The college-age population will drop to an estimated 8.5 percent of total population in FY 2020. In 1980, this group accounted for 13.0 percent of Ohio's population. Unless tuition levels are frozen or strictly controlled as they were in the 2000s by Governor Strickland or college and university outreach efforts are more successful than they have been, enrollments will likely decline significantly by 2020. Already these trends are beginning to become evident. After system wide enrollment growth of 16.7 percent between 2007 and 2010, when tuition levels were either frozen or severely controlled, Ohio public college and university enrollments slipped by one percent (-0.8 percent) in 2011.[3] Even community colleges, which grew by an astounding 24.6 percent between 2007 and 2010, saw a decline in 2011 (-3.0 percent). One trend that holds at least some promise for Higher Education is the increasingly widespread use of online education as a vehicle for cost control. *New York Times* syndicated columnist Thomas L. Friedman recently took notice of this pending college-education revolution, stating "Big breakthroughs happen when what is suddenly possible meets what is desperately necessary."[4]

Unlike the recent drop in enrollments, the trend toward reduced funding for Higher Education is historic and enduring. As long as Higher Education continues to be viewed as a discretionary budget item by state leaders, total funding, as well as funding on a per student basis, should be expected to further decline by 2020, putting more pressure on the need for an educated workforce.

Ohio's Aged, Blind, and Disabled (ABD) enrollees in Medicaid total only 20.1 percent of all Medicaid enrollments yet account for 67.5 percent of all Medicaid expenditures.[5] (Covered families and children represent the converse, accounting for fully 79.9 percent of all Medicaid enrollees but only 32.5 percent of program expenses.) Declines in the number of mandatory covered families due to the impact of federal welfare reform in the 1990s had some impact on utilization over the last 15 years, although insufficient to keep expenditures from growing rapidly since this population is not a big cost driver. Not many more savings can be expected along this line, as we have already seen the impact of federal welfare reform.

Savings that did exist are being erased by an increase in the number of healthy families and children that have lost employer health care insurance.

Medicaid program enrollments in Ohio grew by 12.3 percent from 2006 to 2010.[6] Total enrollments in 2010 totaled 2,427,052, fully 21.0 percent of Ohio's population. Total Medicaid costs (federal and state) grew by 28.5 percent over the period. With discretionary state spending (and that considered to be discretionary whether it is or not such as Higher Education) already being cut back over the last decade, it is difficult to see how much more can be absorbed without the system breaking. Perhaps, the only hopeful sign is that in 2010, for the first time, the number of individuals served in long-term facility-based care (65,439) was less than that served in more cost-effective home- and community-based settings (66,264). As recently as 2006, facility-based care enrollees exceeded those served in home- and community-based care settings by 35.4 percent.

Certainly, no relief can be found in trends in Ohio's working age population that supports both the young and old. The age 25 to 64 population that generates the majority of tax revenue to sustain state services is expected to decline (-1.9 percent) for the first time between 2010 and 2020. According to the Ohio Department of Development, the state's dependency ratio in 2010, the age-related measurement of economic pressure on the productive population, is .605, already slightly greater than the national average of .589. The ratio is calculated by dividing nonworking-age population by the working-age population.

Compounding this problem is an Ohio revenue structure that has shifted away from taxing business profits and personal income, and a state economy where personal income growth lags the national average.[7] Fewer people earning comparatively less and paying comparatively less in taxes will be working to support the health care costs of an ever growing number of older Ohioans. A compensating trend is the growth in the labor force among seniors. The projected national change in the labor force among those 65 and over is 84 percent, according to the U.S. Bureau of Labor Statistics.[8]

The decrease in the number of both young people and young adults should have the beneficial impact of reducing Corrections population and spending, however. Ohio's prison population grew dramatically from 31,862 in 1990 to 49,029 in 1998, a 53.9 percent increase.[9] Since then, however, Ohio's prison population has leveled off. According to a May 31, 2012, article in *The Columbus Dispatch*, the prison population was 49,846 in 2011, only 1.7 percent above the 1998 level. Major factors likely having a further downward impact on future Corrections populations will be sentencing reform and prison privatization. However, rising health care costs will be expected to exhibit a countervailing force on Corrections expenditures. Between 2009 and 2010, total Corrections spending decreased by 6.5 percent, while inmate medical services increased by a whopping 14.4 percent.

Summary

Every 10 years since 1970, Ohio managed its structural spending problems through revenue increases, generally early in the decade when difficult economic times have occurred. Later on in the same decade, adjustments were usually made downward in taxation levels as state coffers filled with the onset of an improved economy. The FY 2012-2013 biennium broke that trend, as a large structural deficit was balanced through cuts and one-time revenue enhancements rather than through tax increases. As a result, we have seen fairly radical notions entertained in the last several biennial budgets, such as debt restructuring, not to fund new initiatives, but for the sole purpose of avoiding even greater cuts to the state budget. It seems like a trend that will continue and indeed accelerate moving forward. However, budget gimmickry alone will not get Ohio past the inevitable crush of demographic forces it now faces.

Ohio's future budgetary stresses will come from its growing senior population and the concomitant need for increased health care. With a decreased number of Ohioans of working age and a growing unwillingness of elected officials to tax their way out of a budgetary jam, discretionary spending will be sorely jeopardized. Indeed, the inclination of legislators has been to enact a continuing stream of tax breaks after the already significant downward revision of business and individual taxes that occurred in the reform effort of 2005. This will have grievous consequences for not only general government administration and services, but also for Higher Education in particular which does not enjoy the status of either an entitlement program like Medicaid or a high priority area, like Primary and Secondary Education.

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[1] FY 2013 expenditures are based on H.B. 153 appropriations, and are not adjusted for changes made in the mid-biennium review process.
[2] Ohio Department of Education Website, 2012.
[3] Ohio Board of Regents Website, 2012.
[4] Thomas L. Friedman, "Higher Education's Future is Online," *The Columbus Dispatch*, May 17, 2012.
[5] Health Policy Institute of Ohio, "Ohio Medicaid Basics 2011," Columbus, Ohio, 2011.
[6] Medicaid,gov Website, U.S. Department of Health and Human Services, 2012.
[6] Ohio Legislative Service Commission, "Ohio Facts 2010," Columbus, Ohio, 2011.
[7] U.S. Bureau of Labor Statistics, "Older Workers: Are There More Older People in the Workplace?," Spotlight on Statistics, July, 2008.
[8] "Ohio, Kentucky Personal Income Grew in 2011," Business Courier, Cincinnati, Ohio, March 28, 2012.

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Please note that Terry M. Thomas' opinions are not necessarily those of The Center for Community Solutions.

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