



THE ANATOMY OF A MYTH: WHY OHIO'S "\$8 BILLION DEFICIT" IS REALLY \$5 BILLION

Background

In April 2009, then-Auditor of State (now Lt. Governor) Mary Taylor and her Senior Policy Advisor (now OBM Director) Tim Keen called a news conference to grimly warn Ohioans that an historic \$8 billion dollar deficit loomed in the FY2012-13 budget.ⁱ

Thanks to constant repetition in the Capitol Square echo chamber, as well as the reliance placed on this deficit number by some of Ohio's editorial pages, the \$8 billion deficit figure has now, two years later, become conventional wisdom throughout the state.

Even more important, the need to close this alleged \$8 billion deficit was used by newly-inaugurated Governor John Kasich to justify his proposed two-year budget (HB 153) containing unprecedented and draconian cuts to Ohio's schools and local governments.

Likewise, the "\$8 billion deficit" has been repeatedly cited by Gov. Kasich and his legislative allies as a primary rationale behind their all-out assault on the collective bargaining rights of public workers (Senate Bill 5).

Recently, however, grave doubts have begun to crop up over the validity of the \$8 billion figure.

On May 29, the *Cleveland Plain Dealer* suggested that the deficit might, in fact, be closer to \$6 billion.ⁱⁱ On June 2, the *Youngstown Vindicator* called for an independent, non-partisan, and transparent review of the deficit projection.ⁱⁱⁱ If the real figure turns out to be substantially smaller, the *Vindicator* reasoned, perhaps all the "pain and suffering" in the Governor's proposed budget may not be necessary after all. A smaller deficit would certainly also call into question one of the main purported rationales behind Senate Bill 5. On June 5, the *Cincinnati Enquirer* ("How Ohio subtracts by adding") quoted a veteran Republican Senator as saying "What I've seen, heard or been told isn't all that clear. I don't completely comprehend it." Another legislator said "I'm still scratching my head trying to make sense of it. There is no transparency; there's only confusion, a lot of confusion."^{iv}

Despite the doubts and confusion, the “\$8 billion hole” continues to be routinely invoked by the administration and the General Assembly to defend all manner of other policy decisions and proposals. So what is the truth? Is the \$8 billion figure real, or simply a manufactured illusion?

To answer that question, we must begin with another: not including any savings from the Kasich administration’s proposed spending cuts or policy changes, are there resources (revenue and one-time money) available to the state in the FY2012-13 biennium that were not assumed to be available when the \$8 billion hole was calculated in 2009?

The \$8 Billion Hole and Its Three Now Faulty Assumptions

To arrive at their April, 2009 forecast of an \$8 billion hole in the FY 2012-13 budget, Taylor and Keen made three critical assumptions about the resources that would be available in those years.^v

The first was that Ohio would experience revenue growth in FY2012-13 of \$1.756 billion.

The second was that tax revenues in the *current* FY2010-11 budget (the one passed before Kasich took office) would not exceed the anticipated rate.

And the third was that no new “one-time money” would be available to the state in FY2012-13.

If one or all of these assumptions proved to be false, their \$8 billion deficit projection would likewise be untrue and would have to be revised to reflect the resources actually available.

Let’s compare each of these assumptions to what is actually in Gov. Kasich’s proposed budget, as it was initially introduced in March.

\$2.791 billion in Additional Revenue in FY 2012-13 Due to Economic Recovery

The first key assumption in the 2009 Taylor/Keen analysis was that there would be \$ 1.756 billion in revenue growth in FY2012-13 over FY2010-11.

It’s now clear that they underestimated by \$1.035 billion.

Ohio, like most of America, is slowly beginning to recover from the worst recession since the Great Depression. And according to the nonpartisan Legislative Services Commission (LSC), the state will see an increase in revenue of \$2.791 billion in FY2012-13 over FY2010-11 due to economic growth.^{vi}

The Kasich administration does not dispute this figure. In fact, the \$2.791 billion in new revenue is assumed in their as-introduced FY2012-13 budget.

Therefore, when the \$1.035 billion in additional revenue is subtracted from the alleged “\$8 billion hole,” the actual deficit drops to \$6.965 billion.

And even this may prove to be understated. Because despite recent concern over a stall in the nation's economic recovery, it is at least possible that when the LSC and the Office of Budget and Management (OBM) update their FY2012-13 revenue estimates for the upcoming HB 153 budget conference committee, the \$2.791 billion in new revenue could well be revised upward. Should that happen, of course, even more funds would be available to the state and the alleged budget deficit could be reduced by hundreds of millions of dollars more.

\$1 Billion in Revenue Growth in FY2011

The second key assumption in the 2009 Taylor/Keen analysis was that tax revenues in the *current* FY2010-11 budget (the one passed before Kasich took office) would not exceed the anticipated rate.

In fact—and also as a result of our recovering economy—**revenue collections have dramatically improved and are on pace to exceed estimates in the current fiscal year (which ends June 30) by an estimated \$1 billion.**^{vii} When Taylor and Keen calculated the \$8 billion budget hole in 2009, they did not assume any revenue growth over FY2011 estimates.

Indeed, the Kasich Administration's own Office of Budget and Management—headed by the aforementioned Mr. Keen—is so confident that Ohio will see these increased revenue collections that he said publicly that the state will spend approximately \$600 million of that \$1 billion in the *current* biennium to make payments that were going to fall into *next year's* budget.^{viii}

That alone, of course, will reduce the alleged \$8 billion “hole” in the next biennium by another nearly \$600 million. Moreover, the *other* \$400 million in revenue above the estimates made in FY 2011 will be transferred and made available for use in the FY2012-2013 budget.

In short, the Kasich administration not only believes the state will collect an additional \$1 billion in revenue beyond what they were projecting in FY2011, they are already spending it.

This \$1 billion—coupled with the increased revenue for FY2012-13—reduces the alleged \$8 billion hole to \$5.965 billion.

“One-Time” Money Makes An Additional \$783 Million Available To The State

The third critical assumption in the Taylor/Keen \$8 billion deficit projection was that no new “one-time money” would be available to the state in FY2012-13. In fact, this one-time money was held out as the reason the state had the alleged \$8 billion hole in the first place.

This assumption, too, proved to be false.

Above and beyond the enhanced revenue available to the state because of economic growth, **the Kasich Administration (through its OBM) says we also now have an additional \$783 million in new “one-**

time money.” In other words, these are one-time resources that we have available now that were not assumed in April 2009 when the \$8 billion hole was calculated.

The sources of this money are myriad: debt restructuring (\$440 m); debt baseline change (\$40 m); and the granting of a federal waiver on unemployment compensation interest (\$303 m).^{ix}

This one-time money is important to factor in when determining the size of the current budget hole because it was similar one-time money (like federal “stimulus” dollars) that was identified as creating most of the \$8 billion hole in the 2009 Taylor/ Keen’s estimates.

Also of note is that this \$783 million in one-time money does not take into account the hundreds of millions of dollars more that Kasich policy changes like the privatization of liquor revenues or prisons make available to the state over and above FY2010-11. The \$783 million simply reflects the one-time money that in 2009 Keen assumed would not be available in FY2012-13 but is now in fact being used in the administration’s proposed budget.

Once this additional \$783 million in new one-time money is subtracted from the “revised” \$5.96 budget deficit, the total of revisions that must be made to the Keen-Taylor assumptions now totals \$2.818 billion (see Table 1).

Factors Affecting FY12-13 Budget Hole	Keen-Taylor 2009 Assumption (in \$ millions)	Actual (in \$ millions)	Difference (in \$ millions)
Revenue growth in FY12-13 (compared to FY10-11) due to economic growth	\$ 1,756	\$ 2,791	\$ 1,035
Unbudgeted revenue growth in FY10-11 ⁱ	\$ -	\$ 1,000	\$ 1,000
One-time money available for FY12-13	\$ -	\$ 783	\$ 783
Total change in Keen-Taylor assumptions			\$ 2,818

Table 1: Changes since Keen-Taylor forecast of April 2009

To recap, using what is actually assumed in the Kasich administration’s own FY 2012-13 budget in terms of revenue growth and one-time money, the “\$8 billion” budget hole forecasted in 2009 (a figure the Governor continues to repeat when convenient) is now only \$5.182 billion (see Table 2).

Assumed FY12-13 Biennial Shortfall (in \$ millions)	\$ 8,000
Revised Assumption #1: Revenue Growth in FY12-13	- \$ 1,035
Revised Assumption #2: Excess Revenue in FY11	- \$ 1,000
Revised Assumption #3: One-time Sources in FY12-13	- \$ 783
ACTUAL FY12-13 Biennial Shortfall, June 2011	\$ 5,182

Table 2: Effect of 3 revised assumptions on size of biennial shortfall for FY12-13

To repeat: the Kasich administration itself now admits (through the budget it submitted to the General Assembly) that Ohio's actual deficit is dramatically lower than they originally claimed it would be.

Perpetuating the “\$8 Billion Hole” to Maintain Credibility

When the Governor's budget was introduced in March 2011 and OBM Director Keen was pressed on the \$8 billion hole, he did not revise his 2009 underlying assumptions about revenue and expenditures to make them consistent with the assumptions in the Governor's introduced budget.

Instead, to preserve his credibility—and that of the Governor and Lt. Governor—Director Keen attempted to explain how he closed the \$8 billion hole even though, based on his own spreadsheets, it no longer existed.

In fact, when members of the media and legislators were having a hard time reconciling the numbers and began asking pointed questions about the \$8 billion hole, Keen responded by calling it “tricky.”^x

The only thing “tricky”, of course, was how Keen was going to deal with the fact that his core assumptions from 2009—when he and the now-Lt. Gov had asserted there would be an \$8 billion hole—had proven to be wrong and had, in fact, changed dramatically.

If Director Keen were to revise those assumptions, he, the Governor and the Lt. Governor would have likely been accused of spending the last two years touting a non-existent “\$8 billion hole” for political purposes. Even worse, Governor Kasich and the Republican majorities in the House and Senate would no longer have an \$8 billion scare tactic with which to frighten Ohioans and justify their extreme policy agenda.

Obviously, it would have been far more ethical for Director Keen to simply admit that Ohio is now facing a \$5 billion hole, not an \$8 billion hole. Instead, he continued to claim an \$8 billion deficit and hoped no one would notice that his 2009 assumptions were no longer accurate.

Indeed, Director Keen—when asked to explain the nature of the \$8 billion hole in the administration's as-introduced budget—appears to have banked on the idea that everyone had bought in to the \$8 billion myth, and simply shifted the conversation to “How We Closed the Gap.” That allowed him to show \$7.7 billion in savings, new revenue and one-time money, without requiring him to show how an actual \$8 billion hole was closed in the administration's as-introduced budget.

The most charitable interpretation one can make of all this is that perhaps an \$8 billion hole could have been projected in April, 2009, albeit using assumptions that turned out not to be true. But the “second” \$8 billion hole—the one Director Keen continued to pretend existed in March of 2011—was never true; it was a manufactured and perpetuated to preserve the credibility of Director Keen, Gov.

Kasich and Lt. Gov. Taylor. And preserving the fiction was also necessary to justify an extremist policy agenda that includes taking away collective bargaining rights for public employees, as well as devastating budget cuts for schools and local governments.

Conclusion

According to OBM and LSC budget documents, the assumptions used by then-Auditor (now Lt. Governor) Mary Taylor and her Senior Policy Advisor (now OBM Director) Tim Keen in 2009 to project an \$8 billion hole in the FY2012-13 budget have proven to be untrue. If these assumptions are revised to reflect what is actually in the Kasich administration's proposed budget, the alleged \$8 billion hole is now \$5.182 billion.

At the very least, Gov. Kasich and his legislative allies should stop evoking an imaginary \$8 billion deficit figure they now know to be inaccurate.

They should stop saying that an \$8 billion deficit is what makes their proposed and unprecedented budget cuts necessary.

And they should certainly stop insisting that we must gut the collective bargaining rights of public sector workers in order to close an \$8 billion hole they know does not exist.

It's time for the people of Ohio to know the truth.

ⁱ Joe Hallet, Catherine Candisky, and Mark Niquette, "Auditor predicts \$8 billion Ohio budget hole," *Columbus Dispatch*, April 16, 2009, http://www.dispatch.com/live/content/local_news/stories/2009/04/16/abudget.html.

ⁱⁱ Aaron Marshall, "Ohio's \$8 billion budget hole: Was it really that big?," *Cleveland Plain Dealer*, May 29, 2011, http://www.cleveland.com/open/index.ssf/2011/05/ohios_8_billion_budget_hole_wa.html.

ⁱⁱⁱ *Youngstown Vindicator*, "New budget deficit projection requires independent review," June 2, 2011, <http://www.vindy.com/news/2011/jun/02/new-budget-deficit-projection-requires-i/?newswatch>.

^{iv} Barry M. Horstman, "How Ohio subtracts by adding," *Cincinnati Enquirer*, June 6, 2011, <http://news.cincinnati.com/article/20110605/NEWS0108/106050349/How-Ohio-subtracts-by-adding>.

^v Mary Taylor and Tim Keen, "FY 2012 and FY 2013 GRF Projection Methodology," Ohio Auditor's Office, April 16, 2009, http://www.dispatch.com/wwwexportcontent/sites/dispatch/local_news/stories/2009/04/16/auditor_analysis.pdf.

^{vi} Jean Botomogno, Legislative Services Commission, "GRF revenue growth in the executive budget," Memorandum to Representative Sykes, April 12, 2011 <http://innovationohio.org/wp-content/uploads/2011/06/LSC-Revenues.pdf>.

^{vii} Aaron Marshall, *Cleveland Plain Dealer*, May 29, 2011.

^{viii} Tim Keen, Office of Budget and Management, "Structural Imbalance and Closing the Gap," Presentation to reporters, March, 2011, page 6. <http://innovationohio.org/wp-content/uploads/2011/06/How-we-Closed-the-Gap.pdf>

^{ix} Tim Keen, "Structural Imbalance and Closing the Gap."

^x Jim Siegel, "Budget uses accounting maneuvers," *Columbus Dispatch*, March 17, 2011, http://www.dispatchpolitics.com/live/content/local_news/stories/2011/03/17/copy/budget-uses-accounting-maneuvers.html