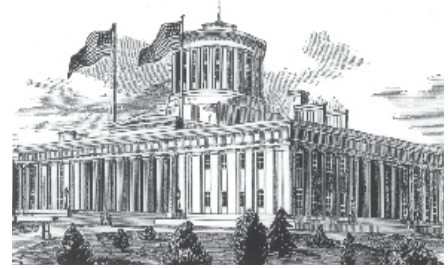

The Ohio Budget Process



Photographed by Kristin Rhee, LSC

Northeast View of Capitol Square

The Ohio Budget Process



State Treasury Revenue and Expenditures

Legislators consider many hundreds of bills during a typical biennial session of the General Assembly, but no legislation is more important to the operation of state government than the bills that compose the state budget. It is through the enactment of these bills that the General Assembly is able to allocate the state's financial resources among the thousands of competing spending priorities.

Involvement in the budget process by the General Assembly is mandated by the Ohio Constitution, primarily by Article II, Section 22, which states:

No money shall be drawn from the state treasury, except in pursuance of a specific appropriation, made by law; and no appropriation shall be made for a longer period than two years.

Since a specific appropriation made by law is required in order to spend state money, the General Assembly, as the law-making branch of government, is an essential participant in spending decisions.

The state budget is normally in effect for a period of two fiscal years, although the Constitution permits appropriations for shorter periods. The state fiscal year begins on July 1 and runs through June 30 of the following year. The new budget must

be adopted before spending authority under the old budget expires.

From the perspective of the legislature, work on the budget occurs primarily in the first six months of the first regular session of the General Assembly. This work entails the introduction, hearings, and enactment, before June 30 of that same year, of:

(1) The main operating appropriations bill, which provides funding for most state agencies. (Usually appropriations for education-related agencies are included in this bill, but on at least one occasion, a separate education appropriations bill has been enacted.)

(2) The transportation appropriations bill for programs funded with motor vehicle fuel taxes and registration fees (primarily in the Departments of Transportation and Public Safety);

(3) Appropriations bills for the Workers' Compensation Council, the Bureau of Workers' Compensation, and the Industrial Commission, which are funded primarily by the state, county, taxing district, and private employers.

In the second regular session of the General Assembly, two other important appropriations bills are generally enacted. One, known as the capital improvements bill, appropriates money for projects for the acquisition, construction, equipment, or renovation of buildings and other facilities of agencies other than the Department of Transportation. (The Department of Transportation's capital appropriations are normally included

in the transportation appropriations bill.) The second, known as the capital reappropriations bill, reappropriates any amounts of the original appropriations for such projects that have not yet been obligated or expended and that are still needed for the projects. This is a common occurrence, since construction projects frequently take longer to complete than the two-year life of an appropriation.

Frequently, the capital improvements bill or capital reappropriations bill also includes supplemental operating appropriations and corrections of provisions enacted in earlier appropriations acts. Additionally, the General Assembly may enact other appropriations bills during any session should there be a need to do so.

During the budget process, the General Assembly focuses on estimated revenues for and proposed appropriations from the General Revenue Fund (GRF). The GRF is the largest state fund from which all major state agencies receive financing. The GRF is available for expenditures for any lawful public purpose specified by the General Assembly in its discretion.

The pie charts on pages 79 and 80 summarize the sources of state government revenue in Ohio and the various purposes for which these revenues are authorized to be spent. The first chart depicts the state-source revenue that was credited to the General Revenue Fund, Local Government Fund, Public Library Fund, and Lottery Profits Education Fund during fiscal year 2010. The second chart depicts the expenditures of state-source revenue that were made from these four funds in that fiscal year.

Balanced Budget Requirements

Although no one statute or section of the Ohio Constitution explicitly states that Ohio must keep its budget in balance, there are several provisions that, when construed together, make such a requirement clear. The directives in Revised Code sections 126.05 and 126.07 along with Article II, Section 22, Article VIII, Sections 1 through 3, and Article XII, Section 4 of the Ohio Constitution ensure that Ohio keeps its budget balanced by:

- limiting the state’s ability to incur debt;
- requiring the General Assembly to provide for raising revenue sufficient to defray state expenses each year;
- permitting money in the state treasury to be spent only pursuant to an appropriation made by law;
- limiting the duration of appropriations to two years;
- requiring the Governor to curtail spending in the event of insufficient revenue.

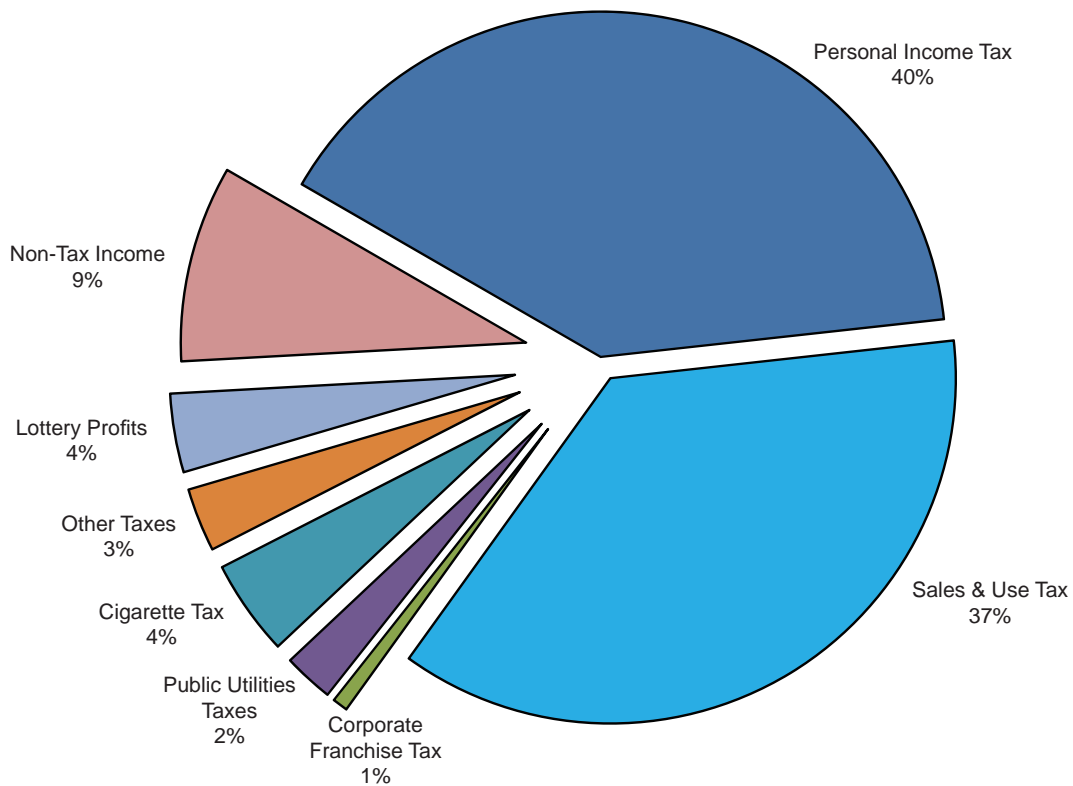
If appropriations bills that set forth a balanced budget cannot be enacted and approved by the Governor in time to become effective on or shortly after July 1 of the new fiscal biennium, an “interim” appropriations bill is necessary to provide for continued funding on an emergency basis. Usually, “interim” appropriations bills provide funding for a month, but on occasion they have been enacted for shorter or longer periods.

State Appropriation Limitation

As part of the executive budget submitted at the beginning of each new General Assembly, the Governor must include a state appropriation limitation that the General Assembly may not exceed when making aggregate GRF appropriations for each fiscal year of the biennium covered by that budget. (For the purposes of this requirement, aggregate GRF appropriations do not include appropriations of federal funds or of monetary gifts to the state, or appropriations made for tax relief or for refunds of taxes and other overpayments.) The spending the Governor proposes in the executive budget also cannot exceed each year’s limitation. In fiscal year 2008, the Governor was required to set the limitation as the sum of the aggregate GRF appropriations for fiscal year 2007, increased by a growth factor that is the greater of either 3.5 % or the sum of the rate of inflation plus the rate of population change (as those rates are published by the federal government with reference to the most recently available Midwest regional Consumer Price Index and Ohio census data, respectively). For each fiscal year after 2008, the growth factor generally is applied to the previous year’s limitation,

State Sources of Revenue for the General Revenue Fund, Local Government Funds,* and Lottery Profits Education Fund

Total = \$19.76 billion in FY 2010

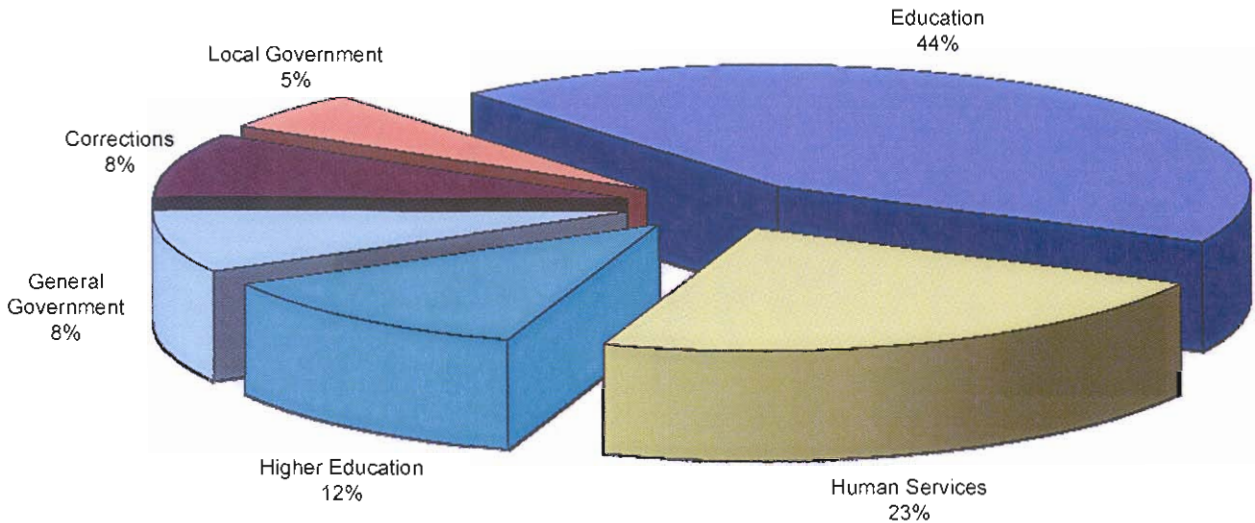


Non-Tax Income	Earnings on investments and various charges including licenses, fees, and liquor transfers
Lottery Profits	Lottery profits transfers to the Lottery Profits Education Fund
Other Taxes	Commercial Activity Tax, Domestic & Foreign Insurance Taxes, Alcoholic Beverage Tax, Liquor Gallonage Tax, Estate Tax, and Business & Property Taxes
Public Utilities Taxes	Public Utility Excise Tax and Kilowatt Hour Tax

* Local Government Funds include the Local Government Fund and the Public Library Fund.

Expenditures (Excluding Federal Funds) by Program from the General Revenue Fund, Local Government Funds,* and Lottery Profits Education Fund

Total = \$18.97 billion in FY 2010



Education	Department of Education, School Facilities Commission, eTech Ohio Commission, School for the Blind, and School for the Deaf
Human Services	Departments of Aging, Alcohol & Drug Addiction Services, Developmental Disabilities, Health, Job & Family Services, Mental Health, and Rehabilitation Services Commission
Higher Education	Board of Regents and State Institutions of Higher Education
General Government	Elected Officials, Regulatory & Non-Regulatory Boards and Commissions, Judicial & Legislative Agencies, Departments of Administrative Services, Agriculture, Commerce, Development, Natural Resources, Taxation, and Transportation, Controlling Board, Office of Budget & Management, Veterans Services, Ohio Historical Society, Arts Council, and Environmental Protection Agency
Corrections	Departments of Rehabilitation & Correction and Youth Services
Local Government	Subsidies for political subdivisions

* Local Government Funds include the Local Government Fund and the Public Library Fund.

except that every fourth fiscal year the growth factor is applied to the prior year's aggregate GRF appropriations.

The General Assembly cannot avoid the limitation by taking a GRF appropriation "off budget" and making it from a non-GRF fund. However, the General Assembly may exceed the limitation for a fiscal year under either of two circumstances. First, excess appropriations can be made in response to the Governor's proclamation of an emergency concerning such things as an act of God, a pandemic disease, or terrorist attacks. The excess amounts can be used only for that emergency. Second, the General Assembly can pass a bill making excess appropriations by an affirmative vote of two-thirds of the members of each house that specifically identifies the purpose of the excess and states whether the appropriations are to be included as aggregate GRF appropriations with respect to future determinations of the state appropriation limitation. Any appropriations made in response to an emergency proclamation are not included as aggregate GRF appropriations for purposes of determining the limitation.

The Budget Process

Although all are considered part of the budget process, the operating appropriations bills and the capital improvements bill follow different timetables.

Operating Appropriations Bills

In the case of the operating appropriations bills, the process begins in the early part of each even-numbered year. The Office of Budget and Management (OBM) initiates the process by submitting to agencies receiving appropriated funds detailed instructions on the process and formats they are to follow in preparing their budget requests, as well as the date by which the requests must be submitted to OBM.

After receiving an agency's budget request, OBM reviews the request and holds meetings and budget hearings with the agency as needed. OBM

then works with the Governor and his or her staff to formulate preliminary budget recommendations. The recommendations are shared with the agencies and may be appealed by them to the Governor. By law, budget requests of the legislative and judicial branches are exempt from approval, disapproval, or modification by OBM and the Governor during this process. Ultimately, all of the recommended appropriations, including those of the exempt agencies, are published in the executive budget document, the "blue book." Also published in the blue book is a report on "tax expenditures"—revenue not available to the General Revenue Fund because of deductions, exemptions, and credits in tax laws. This part of the blue book is prepared by the Department of Taxation.

The Governor is required to present the executive budget to the General Assembly within four weeks after its organization early in January of every odd-numbered year. However, in years in which a new Governor takes office, the executive budget may be presented by the new Governor as late as March 15.

The staff of the Legislative Service Commission (LSC) draft the Governor's proposed budget in the form of legislation. By tradition, the bills are introduced in the House of Representatives by the Chairperson of the Committee on Finance and Appropriations.

House committee hearings on the operating appropriations bills are conducted by the full Committee and by its standing subcommittees. Near the end of the hearings, the chairperson of the Finance and Appropriations Committee usually instructs LSC to draft substitute bills that make extensive changes in the bills as introduced. Many of the changes are based on recommendations of the subcommittees. The substitute bills are then considered and amended in full committee, reported, and sent to the House floor for third consideration.

After the House passes the operating appropriations bills, they are introduced in the Senate. Due to the limited amount of time available, the Senate Finance Committee ordinarily begins its hearings on the main operating appropriations bill while the bill is still in the House Finance and

Appropriations Committee. In some years the Senate Finance Committee holds all of its hearings on appropriations bills in full committee. In other years, subcommittees of the Senate Finance Committee also conduct hearings. At some point LSC staff are instructed to draft substitute bills to incorporate all the changes made to the bills as passed by the House. The substitute bills are considered and amended in full committee and then passed by the Senate.

Since it is unusual for the House to concur in the Senate amendments to the main operating appropriations bill, the bill is normally sent to a committee of conference. Conference committee meetings usually take place over a period of at least two weeks, after which the conference committee prepares a committee report to submit to the House and Senate.

If both houses agree to the conference committee report, the act is quickly enrolled so that it can be reviewed by the appropriate executive agencies and signed by the Governor. Since the Constitution empowers the Governor to veto any item in an act making an appropriation, approval of the act is usually accompanied by the Governor's line item veto (disapproval of specific items in the act). The Governor sets forth the reasons for vetoing these items in a written veto message.

Members who serve on the finance committees of the House and Senate face a very high level of legislative activity as the General Assembly considers the major appropriations bills each session. At each stage of the process, these members may be inundated with information from state agencies, lobbyists, special interest groups, and other legislators. These members participate in lengthy committee hearings evaluating testimony from numerous witnesses who offer detailed reasons and sometimes impassioned pleas for or against specific provisions of the bills.

Though not every legislator can serve on the finance committees, all members have the opportunity to vote on appropriations bills when they reach the House or Senate floor.

Capital Appropriations Bill

The process of enacting a biennial capital improvements bill is simpler and shorter than the one for enacting the operating appropriations bills. It also occurs within the context of another activity—the preparation of the state's six-year Capital Improvements Plan. This plan is updated biennially by OBM on the basis of recommendations it receives from affected state agencies. The process begins in the late summer of each odd-numbered year, when OBM distributes guidelines to the agencies for the preparation of both the Capital Budget and the six-year Capital Improvements Plan.

As with the operating appropriations bills, OBM reviews the agencies' submissions and sends its preliminary recommendations to the Governor. When final decisions have been made, the Governor's recommendations are generally drafted as a bill by LSC staff. Unlike the months-long process of considering the operating appropriations bills, the process of considering the capital appropriations bill usually concludes within a matter of weeks. The pie chart on page 83 illustrates expenditures made from capital appropriations for fiscal year 2010.

Understanding Appropriations Bills

Operating Appropriations

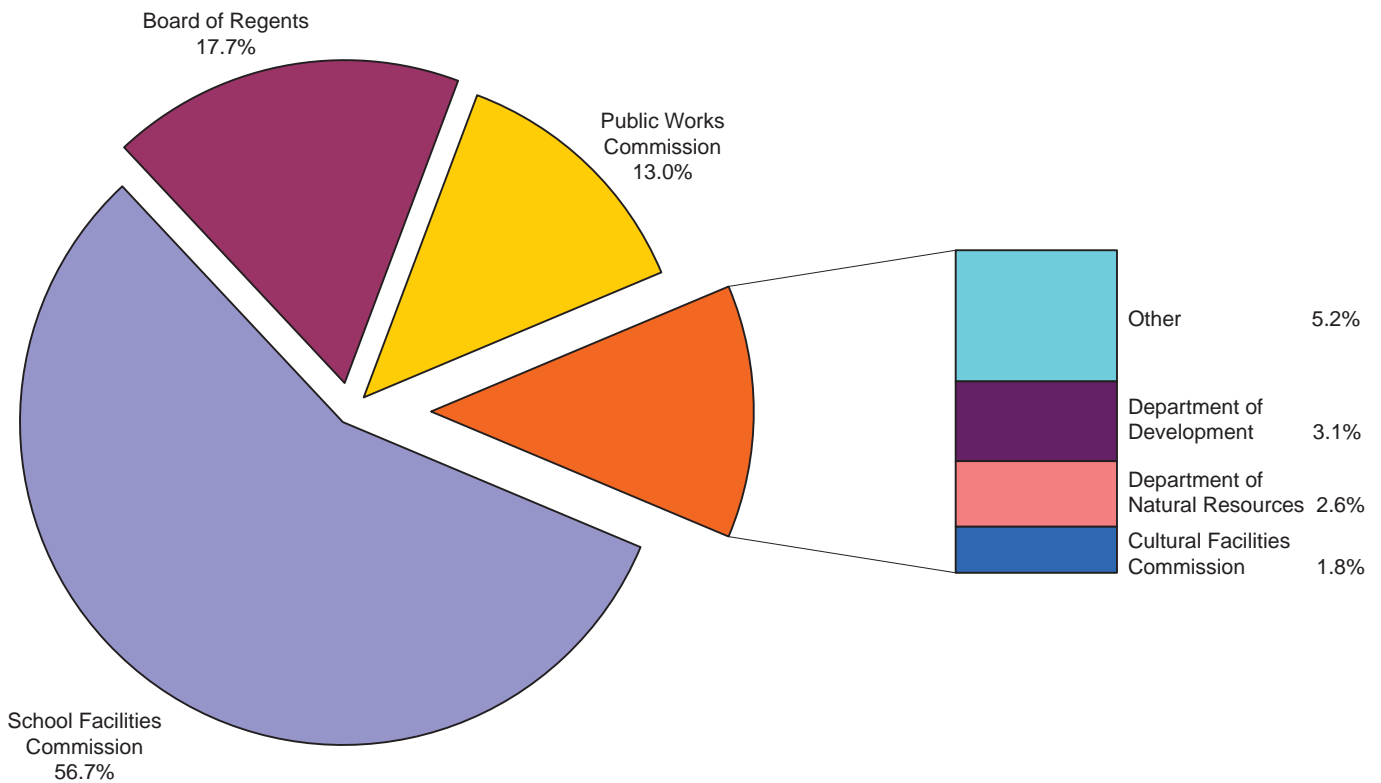
The operating appropriations bills usually contain both line-item appropriations and language appropriations.

Line-item Appropriations

The example on page 84 is an excerpt from Section 413.10 of Am. Sub. H.B. 1 of the 128th General Assembly. Section 413.10 contains line-item appropriations to the Department of Youth Services, which administers juvenile correctional programs. The appropriations are made from money credited to 18 different funds, each of which is

Expenditures Made From Capital Appropriations, by Agency* FY 2010

Total = \$1.77 billion



Board of Regents Board of Regents and State Institutions of Higher Education

Other Adjutant General, Capitol Square Review & Advisory Board, eTech Ohio Commission, Exposition Commission, Office of Budget & Management, Departments of Agriculture, Administrative Services, Alcohol & Drug Addiction Services, Commerce, Developmental Disabilities, Mental Health, Public Safety, Rehabilitation & Correction, Veterans Services, and Youth Services

* This number excludes capital expenditures made from operating appropriations, such as state and federal funding for highway construction and maintenance.

Excerpt of Line-Item Appropriations from Am. Sub. H.B. 1, 128th General Assembly

SECTION 413.10. DYS DEPARTMENT OF YOUTH SERVICES

Appropriation Line Item				
Fund	(ALI)	ALI Title	FY 10	FY 11
General Revenue Fund				
GRF	470401	RECLAIM Ohio	\$ 196,288,874	\$ 184,026,374
GRF	470412	Lease Rental Payments	\$ 22,863,300	\$ 26,043,900
GRF	470510	Youth Services	\$ 16,702,728	\$ 16,702,728
GRF	472321	Parole Operations	\$ 11,400,020	\$ 11,400,020
GRF	477321	Administrative Operations	\$ 13,342,557	\$ 13,580,057
TOTAL GRF General Revenue Fund			\$ 260,597,479	\$ 251,753,079
General Services Fund Group				
1750	470613	Education Reimbursement	\$ 11,000,000	\$ 11,000,000
4790	470609	Employee Food Service	\$ 200,000	\$ 150,000
4A20	470602	Child Support	\$ 450,000	\$ 450,000
4G60	470605	General Operational Funds	\$ 250,000	\$ 250,000
5BN0	470629	E-Rate Program	\$ 35,000	\$ 35,000
TOTAL GSF General Services Fund Group			\$ 11,935,000	\$ 11,885,000
Federal Special Revenue Fund Group				
3210	470601	Education	\$ 6,531,076	\$ 5,455,413
3210	470603	Juvenile Justice Prevention	\$ 300,000	\$ 300,000
3210	470606	Nutrition	\$ 2,750,000	\$ 2,750,000
3210	470610	Rehabilitation Programs	\$ 36,000	\$ 36,000
3210	470614	Title IV-E Reimbursements	\$ 6,000,000	\$ 6,000,000
3BH0	470630	Federal Juvenile Programs FFY 06	\$ 50,000	\$ 0
3BT0	470634	Federal Juvenile Programs	\$ 50,000	\$ 0
3BY0	470635	Federal Juvenile Programs FFY 07	\$ 334,000	\$ 335,000
3BZ0	470636	Federal Juvenile Programs FFY 08	\$ 653,350	\$ 570,700
3CP0	470638	Federal Juvenile Programs FFY 09	\$ 500,000	\$ 500,000
3CR0	470639	Federal Juvenile Programs FFY 10	\$ 0	\$ 500,000
3V50	470604	Juvenile Justice/Delinquency Prevention	\$ 1,935,300	\$ 2,361,000
3Z80	470625	Federal Juvenile Programs FFY 04	\$ 2,000	\$ 0
3Z90	470626	Federal Juvenile Programs FFY 05	\$ 2,000	\$ 0
TOTAL FED Federal Special Revenue Fund Group			\$ 19,143,726	\$ 18,808,113
State Special Revenue Fund Group				
1470	470612	Vocational Education	\$ 2,166,296	\$ 2,788,906
5BH0	470628	Partnerships for Success	\$ 1,500,000	\$ 1,500,000
TOTAL SSR State Special Revenue Fund Group			\$ 3,666,296	\$ 4,288,906
TOTAL ALL BUDGET FUND GROUPS			\$ 295,342,501	\$ 286,735,098

identified by an abbreviation of its fund name or by its fund number. OBM classifies all state funds into fund groups including, in the Department of Youth Services example, the General Revenue Fund Group, General Services Fund Group, Federal Special Revenue Fund Group, and State Special Revenue Fund Group. The largest of the fund groups contains only one fund—the General Revenue Fund.

Following the fund’s abbreviation or number is the appropriation line item (ALI). The first ALI in the appropriations section for the Department of Youth Services is “470401.” The first three numerals of the ALI (“470”) denote the agency or division of the agency to which money is being appropriated. The last three numerals of the ALI denote the object of expenditure. These numerals indicate specific types of accounts listed in the state’s chart of accounts. Following the ALI “470401” is the ALI title describing the type of expenditure, in this case “RECLAIM Ohio.” An appropriation may be spent only for the object of expenditure indicated unless the Controlling Board subsequently agrees to transfer all or part of the amount from one account of the agency to another account of the same agency.

To the right of the ALI title are the amounts appropriated for the first and second fiscal years of the biennium. Appropriations made for a specific fiscal year may be expended only to pay liabilities incurred in that fiscal year, unless an exception to this provision is provided by law. One exception, enacted every biennium, is for the largest line-item appropriation in the main operating appropriations bill, the “Health Care/Medicaid” appropriation to the Department of Job and Family Services. Another exception allows for payment of liabilities that were incurred in a prior fiscal year but had not been paid at the close of that fiscal year.

Accounts that are numbered “100” are reserved for personal services, “200” for maintenance, and “300” for equipment. A “321” appropriation may be spent on personal services, maintenance, or equipment in whatever proportions the agency decides. The “400” accounts denote special purpose accounts. Money appropriated from a special purpose account may be spent only for the

purpose indicated. The “500” appropriations denote subsidies. Money from a “500” account may not be used for operating costs of the state agency that distributes the subsidy. The “600” appropriations denote special revenue funds. Money that is credited to a special revenue fund usually comes from a narrow range of sources, such as specific taxes or fees, and often is restricted by statute to use for specified purposes related to those sources.

Intent Language

Following the line-item appropriations is “limiting” or “intent” language. For some agencies, such language is written for every line-item appropriation. For other agencies, limiting language is included in the bill when the General Assembly sees a need to qualify or elaborate upon the spending being authorized in a line-item appropriation. The following is an illustration from Section 413.10 of Am. Sub. H.B. 1 of the 128th General Assembly:

EDUCATION REIMBURSEMENT

The foregoing appropriation item 470613, Education Reimbursement, shall be used to fund the operating expenses of providing educational services to youth supervised by the Department of Youth Services. Operating expenses include, but are not limited to, teachers’ salaries, maintenance costs, and educational equipment. This appropriation item may be used for capital expenses related to the education program.

Language Appropriations

Not every appropriation is drafted in the form of a line item. In circumstances in which it is impossible to estimate the full amount of spending to be authorized, an appropriation may instead take the form of a statement of the amount that is necessary to accomplish the purpose. Section 503.40 of Am. Sub. H.B. 1 of the 128th General Assembly is a language appropriation:

Section 503.40. REISSUANCE OF VOIDED WARRANTS

In order to provide funds for the reissuance of voided warrants under section 126.37 of the Revised Code, there is hereby appropriated, out of moneys in the state treasury from the fund credited as

provided in section 126.37 of the Revised Code, that amount sufficient to pay such warrants when approved by the Office of Budget and Management.

Capital Appropriations

Capital appropriations are formatted differently from operating appropriations. Among the most obvious differences are the ALIs, the first character of which is the letter “C.” Another difference is the ALI title, for which the object of appropriation is always a capital project. A third difference is the period for which the appropriation is made—the

original issuance of obligations heretofore authorized by prior acts of the General Assembly. These authorized obligations shall be issued, subject to applicable constitutional and statutory limitations, to pay the costs associated with previously authorized capital facilities and the capital facilities referred to in Section 225.10 of this act for the Department of Youth Services.

Principal and interest on the bonds are then paid from amounts appropriated from the GRF. Specifically, Section 413.10 of Am. Sub. H.B. 1 of the 128th General Assembly provides:

**EXCERPT FROM CAPITAL APPROPRIATIONS BILL,
AM. SUB. H.B. 562, 127th GENERAL ASSEMBLY**

Section 225.10. The items set forth in this section are hereby appropriated out of any moneys in the state treasury to the credit of the Juvenile Correctional Building Fund (Fund 7028) that are not otherwise appropriated.

		Appropriations
DYS DEPARTMENT OF YOUTH SERVICES		
C47001	Fire Suppression, Safety and Security	\$ 4,036,125
C47002	General Institutional Renovations	\$ 4,424,725
C47003	CCF Renovations/Maintenance	\$ 2,000,000
C47007	Juvenile Detention Centers	\$ 4,980,000
C47016	Shower Renovation - SJCF	\$ 1,642,000
C47017	Roof Replacement - SJCF	\$ 1,508,650
C47018	Educational Annex - CHJCF	\$ 1,408,500
C47019	Lawrence County Youth Facility Relocation	\$ 500,000
Total Department of Youth Services		\$ 20,500,000
TOTAL Juvenile Correctional Building Fund		\$ 20,500,000

OHIO BUILDING AUTHORITY LEASE PAYMENTS

The foregoing appropriation item 470412, Lease Rental Payments, shall be used to meet all payments to the Ohio Building Authority for the period from July 1, 2009, to June 30, 2011, under the leases and agreements for facilities made under Chapter 152. of the Revised Code. This appropriation is the source of funds pledged for bond service charges on related obligations issued pursuant to Chapter 152. of the Revised Code.

Budget Briefing Documents

The LSC staff produce special documents to assist the members of the General Assembly in the analysis of the state’s major appropriations bills. All are available on the LSC web site.

Redbooks and Greenbooks

In the case of the main operating budget bill, LSC fiscal staff produce “redbooks” (named for their red cover), each of which analyzes a specific portion of the “As Introduced” version of the bill. As mentioned earlier, this version comprises the Governor’s budget recommendations. A redbook is prepared for each agency and includes an overview of the agency and its programs, an analysis of funding recommendations, including new law provisions, line item descriptions and appropriation

entire biennium, rather than each fiscal year of the biennium. The following is an example of capital appropriations.

Some capital improvements are financed directly by appropriations from the GRF or some other state fund that is credited with revenue from taxes or fees. However, most capital improvements are financed from funds that are credited with bond proceeds. For example, Section 225.11 of Am. Sub. H.B. 562 of the 127th General Assembly provides:

Section 225.11. The Ohio Building Authority is hereby authorized to issue and sell, in accordance with Section 2i of Article VIII, Ohio Constitution, and Chapter 152. and other applicable sections of the Revised Code, original obligations in an aggregate principal amount not to exceed \$19,000,000 in addition to the

spreadsheets. Each agency redbook also includes Budget in Detail information and a COBLI section (see pertinent sections below).

LSC fiscal staff also prepare greenbooks (formerly called final fiscal analyses). While redbooks are the analyses of the executive budget proposal and are produced at the beginning of the budget process, greenbooks are analyses of the enacted version of agency budgets and are produced following enactment of the operating budgets.

Comparison Document

The most significant resource of budget information, especially for decision-making purposes, is the Comparison Document (or “compare doc”). This document compares the current version of the budget bill, provision by provision, with the version of the bill that was produced at each preceding step in the legislative process. This comparison includes an estimate of each provision’s fiscal effects but does not include line item appropriations which are detailed in the “spreadsheet.” (See below.) The compare doc is organized alphabetically by agency. A special compare doc that lists only the matters of difference between the “As Introduced,” “As Passed by the House,” and “As Passed by the Senate” versions of the bill is prepared for conference committee deliberations.

Budget in Detail (“Spreadsheet”)

The Budget in Detail commonly referred to as the “spreadsheet,” lists agency appropriations for all fund groups and appropriation amounts by account line item for each version of the main operating budget bill. The spreadsheet includes appropriations for each year of the biennium for which the budget decisions are deliberated and two to five years of historical expenditure data depending on the version of the budget.

Catalog of Budget Line Items

LSC fiscal staff publish the Catalog of Budget Line Items (COBLI). For each state agency, the catalog describes the legal authority, purpose, and

revenue source for each line item. It also lists actual disbursements from the previous four years and appropriations for the current biennium. The COBLI is updated at the beginning and end of the biennial main operating budget process. The updated COBLI section for each agency is included as an attachment to the agency’s redbook. After enactment of the main operating budget, the COBLI is updated and compiled as one document including all agencies.

State Revenue and Expenditure Spreadsheets

The LSC revenue and expenditure spreadsheets provide a history of revenues and expenditures for the GRF, lottery profits, and local government funds back to fiscal year 1975. These two spreadsheets provide an overview of sources and allocations of major state resources. The revenue spreadsheet groups revenues into three categories: tax revenues, nontax revenues such as license fees and other fees, and revenue transfers from liquor profits, lottery profits, and other sources. The personal income tax and the general sales and use tax are the two largest revenue sources, accounting for almost 77% of total receipts in fiscal year 2010. The expenditure spreadsheet groups expenditures into seven categories: primary and secondary education, higher education, human services, corrections, transportation, local government funds, and other.

Documents for Other Appropriations Bills

For major appropriations bills other than the main operating budget bill, LSC fiscal staff prepare fiscal analyses and, in some cases, compare docs and spreadsheets as well. Budget briefing documents are not prepared for bills that include an appropriation but are not major appropriations bills. The fiscal impact of these bills and the appropriations included in them are addressed in the bill’s fiscal note prepared and updated during the bill’s progress through the legislative process.



LEGAL FOUNDATIONS OF THE BUDGET

1. The General Assembly has the **power of the purse**: under Article II, Section 22 of the Ohio Constitution, “No money shall be drawn from the treasury, except in pursuance of a specific appropriation, made by law; and no appropriation shall be made for a longer period than two years.” The state’s appropriations bills are normally in effect for a period of two fiscal years (that is, one biennium).
2. The Governor must **submit a state budget** containing a complete financial plan for the next biennium within four weeks after a new General Assembly organizes (or by March 15 in a year a new Governor is inaugurated). Generally, a biennial capital budget for public improvement projects is submitted during the second year of the biennium. (R.C. 107.03 and 126.03.)
3. A **state appropriation limitation** applies to the General Revenue Fund (GRF) amounts the Governor proposes to spend and the General Assembly appropriates each fiscal year. The limitation restricts growth to the greater of 3.5% or the sum of the inflation rate plus the rate of population change. Exemptions are provided for appropriations made for emergency situations, tax relief, or refunds or made with a 2/3 supermajority vote, and for appropriations of federal funds or donations. (R.C. 107.032 to 107.035 and 131.55 to 131.60.)
4. The Governor has **item veto** authority to disapprove “any item or items in any bill making an appropriation of money” under Article II, Section 16 of the Ohio Constitution.
5. The state is obligated to maintain a **balanced budget** by the operation of two provisions of the Ohio Constitution: Article VIII, Section 3, which prohibits state debt except as otherwise expressly authorized in the Constitution (see #7 below), and Article XII, Section 4, which requires that the General Assembly provide for raising sufficient revenue to offset state expenses each year.
6. If anticipated receipts and available balances of the GRF for the current fiscal year will likely be less than appropriations from that fund for the year, the Governor must **order spending reductions** to prevent a deficit, and may order spending reductions if that situation occurs with respect to any other fund. Additionally, if the available revenue receipts and balances in any fund or across funds will likely be less than the appropriations for the year, the Governor may declare a “**fiscal emergency**” and issue orders to (1) reduce expenditures or (2) implement personnel actions consistent with such an emergency, including mandatory cost savings days. (R.C. 126.05.)
7. Article VIII of the Ohio Constitution **prohibits the state from incurring debt** except to finance specified capital improvements, to fund casual deficits in amounts not to exceed \$750,000, to defend the state in time of war or rebellion, and to fund certain other items that have been approved through constitutional amendment.

8. Article VIII, Section 17 of the Ohio Constitution imposes a “**5% cap**” that limits the amount of new debt the state can take on in a fiscal year: state bonds or other obligations cannot be issued if the total amount of debt service payments (that is, principal and interest payments) that must be made in any future fiscal year from the GRF and net state lottery proceeds would exceed 5% of the total estimated GRF and net state lottery proceeds revenue during the fiscal year of issuance. The General Assembly can waive this limitation by the vote of at least 3/5 of the members of each house.
9. The General Assembly has statutorily declared its intention to maintain in the **Budget Stabilization Fund** (the “Rainy Day Fund”) an amount equal to approximately 5% of GRF revenue for the preceding fiscal year. After this level has been reached and certain other reserves have been provided for, any remaining budget surplus is used to provide a temporary reduction in income tax rates through the **Income Tax Reduction Fund**. (R.C. 131.43 and 131.44.)
10. Under Article XII, Section 5a of the Ohio Constitution, the spending of money derived from **taxes and fees related to the use of motor vehicles on the public highways** (including gasoline taxes) is restricted to (a) highway purposes such as construction and maintenance, (b) state enforcement of traffic laws, (c) administration of the tax and fee laws, and (d) hospitalization of indigent persons injured in motor vehicle accidents.
11. Article XV, Section 6 of the Ohio Constitution requires that **net state lottery proceeds** be used solely for the support of elementary, secondary, vocational, and special education programs and that the tax collected on **gross casino revenue** be distributed in accordance with a specified formula.
12. At least 50% of the **income, estate, and inheritance taxes** that may be collected by the state must be returned to the county, school district, city, village, or township in which the tax originates, or to any of the same, pursuant to Article XII, Section 9 of the Ohio Constitution.
13. The seven-member **Controlling Board** provides legislative oversight of executive actions by ruling on agency requests for approval of (a) transfers of money from one fund, line item, or fiscal year to another, (b) the release or expenditure of appropriated funds, (c) the waiver of competitive selection to purchase goods and services, and (d) the expenditure of excess or unanticipated revenue. (R.C. Chapter 127. and R.C. 131.35.)
14. With respect to **effective dates**, Article II, Section 1d of the Ohio Constitution specifies that laws providing for tax levies or appropriations for the current expenses of state government go into immediate effect and are not subject to the referendum.
15. One General Assembly **cannot bind** the appropriation actions of a future General Assembly through the enactment of a law, because the future General Assembly has the power pursuant to Article II, Sections 1 and 15 of the Ohio Constitution to amend or repeal that law.