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## 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.