



Chapter 8: 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.

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A state fiscal year begins on July 1, runs through June 30 of the following year, and is known by the calendar year in which it ends. Therefore, FY 2018 runs from July 1, 2017, through June 30, 2018.

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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 biennial session of the General Assembly. This work entails the introduction, hearings, and enactment of:

(1) The main operating appropriations bill, which provides funding for most state agencies, the legislature, and the judiciary.

(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 Bureau of Workers' Compensation and the Industrial Commission, which are funded primarily by the state, county, taxing district, and private employers.

In the second year of a biennium, two other important appropriations bills are generally enacted. One, known as the capital appropriations bill, appropriates money for projects involving 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 appropriations 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 73 and 74 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 funds, and Lottery Profits Education Fund during FY 2016. The second chart depicts the expenditures of state-source revenue that were made from these 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.

State Appropriation Limitation

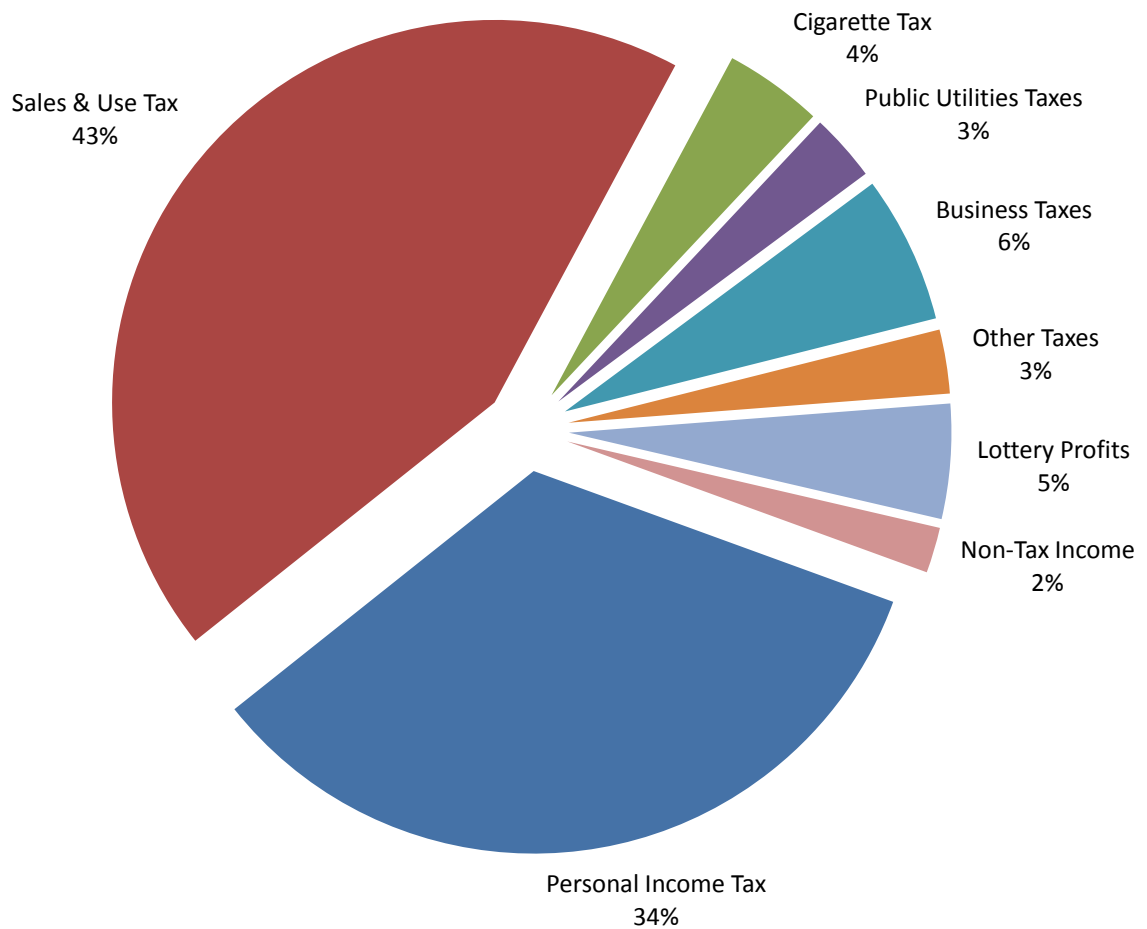
As part of the executive budget submitted at the beginning of each new General Assembly, the Governor must include a state appropriation limitation that the General Assembly may not exceed when making aggregate GRF appropriations for each fiscal year of the biennium covered by that budget. (For the purposes 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. The limitation is established by applying a statutory growth factor to the previous year's limitation, 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, if an appropriation that was made from a non-GRF fund in the preceding fiscal year is made for the first time from the GRF, the limitation is increased by the amount of the appropriation.

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, by an affirmative vote of two-thirds of the members of each house, the General Assembly can make excess appropriations through a bill that specifically identifies the purpose of the appropriations and states whether they 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.

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

Total = \$24.21 billion in FY 2016

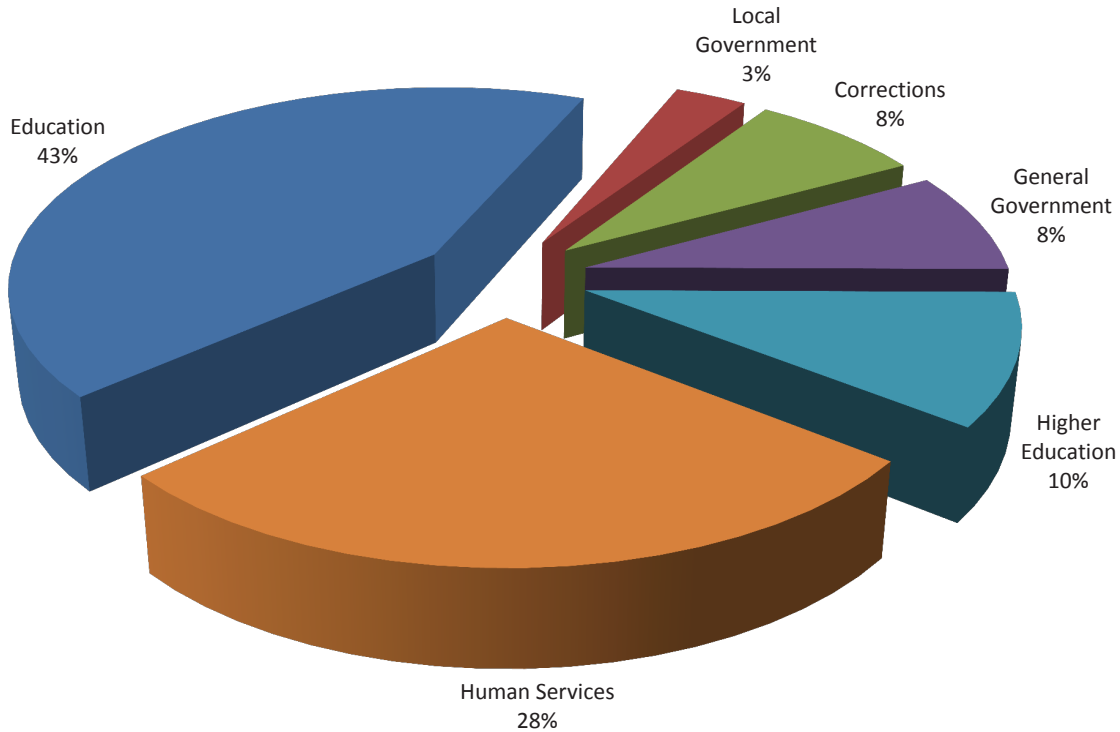


Public Utilities Taxes	Public Utility Excise Tax, Kilowatt Hour Tax, and Natural Gas Distribution (Mcf) Tax
Business Taxes	Commercial Activity Tax, Corporate Franchise Tax, Financial Institutions Tax, and Petroleum Activity Tax
Other Taxes	Domestic & Foreign Insurance Taxes, Alcoholic Beverage Tax, Liquor Gallonage Tax, Estate Tax, and Business & Property Taxes
Lottery Profits	Lottery profits transfers to the Lottery Profits Education Fund
Non-Tax Income	Earnings on investments and various charges, including licenses and fees

*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 = \$23.69 billion in FY 2016



Education	Department of Education, Ohio Facilities Construction Commission, Broadcast Educational Media Commission, Ohio State School for the Blind, and Ohio School for the Deaf
Human Services	Departments of Aging, Developmental Disabilities, Health, Job & Family Services, Medicaid, and Mental Health & Addiction Services; and Opportunities for Ohioans with Disabilities Agency
Higher Education	Department of Higher Education
General Government	Elected Officials; Regulatory and Non-Regulatory Boards and Commissions; Judicial & Legislative Agencies; Departments of Administrative Services, Agriculture, Commerce, Natural Resources, Taxation, Transportation, and Veterans Services; Arts Council; Controlling Board; Office of Budget & Management; Ohio History Connection; Development Services Agency; 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.

The Budget Process

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

Operating Appropriations Bills

In the case of the operating appropriations bills, the process begins in the middle 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 for the legislature and judiciary, are published in the executive budget document. Also published in the document 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 document 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 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.

House committee hearings on the main and transportation operating appropriations bills are conducted by the full Finance Committee and by its standing subcommittees. In recent General Assemblies, the operating appropriations bills for the Bureau of Workers' Compensation and

the Industrial Commission have been referred to and heard by the House committees with jurisdiction over the respective subject matters and thereafter re-referred to the Finance Committee for examination. Near the end of the hearing process, the chairperson of the committee hearing the bill usually instructs LSC to draft substitute bills that make extensive changes in the bills as introduced. Many of the changes to the main operating and transportation appropriations bill 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. The transportation appropriations bill and the appropriations bills for the Bureau of Workers' Compensation and the Industrial Commission are usually referred to the Senate committees with jurisdiction over the respective subject matters. Due to the limited amount of time available, the Senate Finance Committee and its subcommittees ordinarily begin their hearings on the main operating appropriations bill while the bill is still in the House Committee. 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. The General Assembly can override a line item veto by a three-fifths majority vote of each house.

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. Although not every legislator can serve on the finance committees, all members can request LSC staff to draft amendments, and all 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 appropriations 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 usually 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 77 illustrates expenditures made from capital appropriations for FY 2016.

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 78 is an excerpt from Section 319.10 of Am. Sub. H.B. 64 of the 131st General Assembly. Section 319.10 contains line-item

appropriations to the State Library Board, which provides library and information services to various entities in Ohio. The appropriations are made from money credited to six different funds, each of which is identified by an abbreviation of its fund name or by its fund number. OBM classifies all state funds into fund groups including, in the State Library Board example, the General Revenue Fund Group, Dedicated Purpose Fund Group, Internal Service Activity Fund Group, and Federal Fund Group. The largest of the fund groups contains only one fund – the General Revenue Fund.

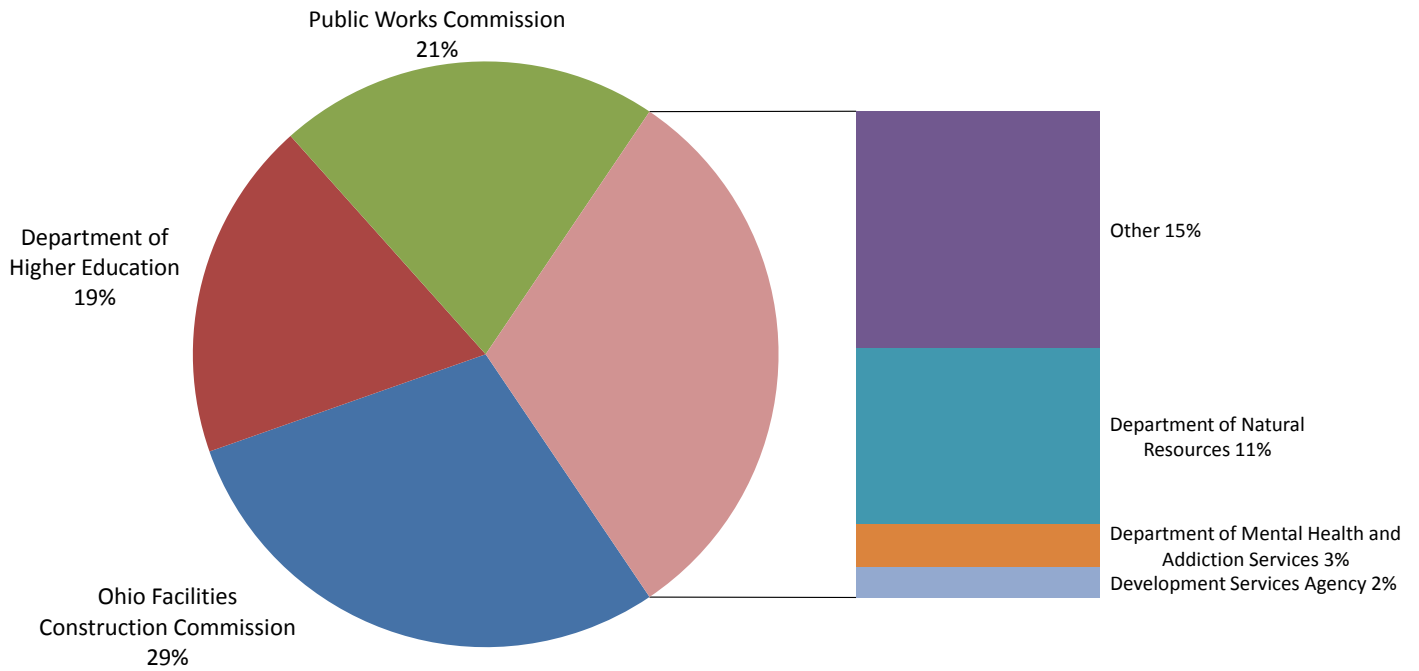
Following the fund's abbreviation or number is the appropriation line item (ALI). The first ALI in the appropriations section for the State Library Board is "350321." The first three numerals of the ALI ("350") denote the agency or division of the agency to which money is being appropriated. The last 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 "350321" is the ALI title describing the type of expenditure, in this case "Operating Expenses." 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 "Medicaid/Health Care Services" appropriation to the Department of Medicaid. 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. In general, money from a "500" account is distributed as a subsidy and not used for operating costs of the state agency that distributes the subsidy. The "600" appropriations denote special revenue funds. Money that is credited

Expenditures Made from Capital Appropriations by Agency* FY 2016

Total = \$1.12 billion



Department of Higher Education

Department of Higher Education and state institutions of higher education

Other

Adjutant General; Attorney General; Capitol Square Review & Advisory Board; Broadcast Educational Media Commission; Expositions Commission; Judiciary/Supreme Court; Ohio State School for the Blind; Ohio School for the Deaf; Departments of Agriculture, Administrative Services, Commerce, Developmental Disabilities, Job & Family Services, Public Safety, Rehabilitation & Correction, Transportation, 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. 64, 131st General Assembly

SECTION 319.10. LIB STATE LIBRARY BOARD

<i>Fund</i>	Appropriation Line Item (ALI)	<i>ALI Title</i>	<i>FY 16</i>	<i>FY 17</i>
General Revenue Fund				
GRF	350321	Operating Expenses	\$ 5,057,364	\$ 5,057,364
GRF	350401	Ohioana Rental Payments	\$ 120,114	\$ 120,114
GRF	350502	Regional Library Systems	\$ 582,469	\$ 582,469
TOTAL GRF General Revenue Fund			\$ 5,759,947	\$ 5,759,947
Dedicated Purpose Fund Group				
4590	350603	Services for Libraries	\$ 4,094,092	\$ 4,190,834
4S40	350604	Ohio Public Library Information Network	\$ 5,689,788	\$ 5,689,788
5GB0	350605	Library for the Blind	\$ 1,274,194	\$ 1,274,194
TOTAL DPF Dedicated Purpose Fund Group			\$ 11,058,074	\$ 11,154,816
Internal Service Activity Fund				
1390	350602	Services for State Agencies	\$ 8,000	\$ 8,000
TOTAL ISA Internal Service Activity Fund Group			\$ 8,000	\$ 8,000
Federal Fund Group				
3130	350601	LSTA Federal	\$ 5,350,000	\$ 5,350,000
TOTAL FED Federal Fund Group			\$ 5,350,000	\$ 5,350,000
TOTAL ALL BUDGET FUND GROUPS			\$ 22,176,021	\$ 22,272,763

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 be used for specified purposes related to those sources.

Earmarking and Intent Language

Following the line-item appropriations, there may be intent or earmarking language. This 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. Intent language may express the General Assembly's intent for the use of the entire appropriation such as this example in Section 319.10 of Am. Sub. H.B. 64 of the 131st General Assembly:

OHIOANA RENTAL PAYMENTS

The foregoing appropriation item 350401, Ohioana Rental Payments, shall be used to pay the rental expenses of the Martha Kinney Cooper Ohioana Library Association under section 3375.61 of the Revised Code.

Earmarking sets aside part of an appropriation for a specific purpose. Earmarks may be mandatory or permissive and may be for an exact amount, a maximum amount ("up to"), or a minimum amount ("not less than"). The following are illustrations from Sections 311.10 and 399.15 of Am. Sub. H.B. 64 of the 131st General Assembly:

OPERATING EXPENSES - JUDICIARY/SUPREME COURT

Of the foregoing appropriation item 005321, Operating Expenses – Judiciary/ Supreme Court, up to \$304,353 in fiscal year 2016 and up to \$308,433 in fiscal year 2017 may be used to support the functions of the State Criminal Sentencing Council.

SECTION 399.15. PUBLIC TRANSPORTATION – STATE

Of the foregoing appropriation item 775451, Public Transportation – State, not less than \$500,000 in each fiscal year shall be allocated to rural transit systems.

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. 64 of the 131st General Assembly is a language appropriation:

SECTION 503.40. RE-ISSUANCE 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" followed by three numerals denoting the agency or division of the agency to which money is being appropriated. 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 entire biennium, rather than each fiscal year of the biennium. An example of capital appropriations can be found on the following page.

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 233.40 of S.B. 310 of the 131st General Assembly provides:

Section 233.40. The Treasurer of State is hereby authorized to issue and sell, in accordance with Section 2i of Article VIII, Ohio Constitution, and Chapter 154. and other applicable sections of the Revised Code, original obligations in an aggregate principal amount not to exceed \$28,000,000 in addition to the original issuance of obligations heretofore authorized by

**EXCERPT FROM CAPITAL APPROPRIATIONS BILL,
S.B. 310, 131st GENERAL ASSEMBLY**

SECTION 233.10. DYS DEPARTMENT OF
YOUTH SERVICES

Juvenile Correctional Building Fund (Fund 7028)		
C47001	Fire Suppression, Safety, and Security	\$4,867,980
C47002	General Institutional Renovations	\$5,191,659
C47003	Community Rehabilitation Centers	\$4,050,086
C47007	Local Juvenile Detention Centers	\$4,640,475
C47022	Building Additions – Circleville Juvenile Correctional Facility	\$10,683,000
C47023	Housing and Programs – Special Needs	\$5,212,230
C47024	First Step Recovery Expansion	\$100,000
TOTAL Juvenile Correctional Building Fund		\$34,745,430
TOTAL ALL FUNDS		\$34,745,430

prior acts of the General Assembly. These authorized obligations shall be issued, subject to applicable constitutional and statutory limitations, as needed to provide sufficient moneys to the credit of the Juvenile Correctional Building Fund (Fund 7028) to pay the costs associated with previously authorized capital facilities and the appropriations in this act from Fund 7028 for the Department of Youth Services.

Principal and interest on the bonds are then paid from amounts appropriated from the GRF. Specifically, Section 409.10 of Am. Sub. H.B. 64 of the 131st General Assembly provides:

JUVENILE CORRECTIONAL FACILITIES LEASE RENTAL BOND PAYMENTS

The foregoing appropriation item 470412, Juvenile Correctional Facilities Lease Rental Bond Payments, shall be used to meet all payments during the period from July 1, 2015, through June 30, 2017, by the Department of Youth Services under the leases and agreements for facilities made under Chapters 152.

and 154. of the Revised Code. This appropriation is the source of funds pledged for bond service charges on related obligations issued under Chapters 152. and 154. 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 website (<http://www.lsc.ohio.gov/budget/default.htm>).

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

LSC fiscal staff also prepare greenbooks. 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"). With the exception of its "As Introduced" version, which just describes the executive recommendations contained in the bill, this document compares the current version of the budget bill, provision by provision, with prior versions of the bill. This comparison includes an estimate of each provision's fiscal effect but does not include line-item appropriations which are detailed in the "spreadsheet." (See below.) The compare doc is organized 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 appropriation 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.

Fees

For main operating budget bills, LSC fiscal staff prepare a chart identifying all provisions of the bill that create new fees, or alter existing fees, charged by state agencies or local governments. The initial chart indicates the fee provisions included in the "As Introduced" version. Fiscal staff update the chart throughout the budget process to reflect changes made by the House-passed, Senate-passed, and "As Enacted" versions. The chart also provides the estimated annual revenue change that will occur as a result of each provision.

Historical Revenue and Expenditure Spreadsheets

LSC revenue and expenditure spreadsheets available on the LSC website (<http://www.lsc.ohio.gov/fiscal/revenuehistory/staterevenue.htm>) provide a history of sources and allocations of major state resources and can provide useful information. For example, the revenue spreadsheet for GRF and lottery profits and local government funds (Table 1) organizes revenues into three categories: tax revenues, non-tax revenues such as license fees and other fees, and revenue transfers from liquor profits, lottery profits, and other sources. Of these revenue sources, the personal income tax and the general sales and use tax are the two largest, accounting for 77% of total receipts in FY 2016.

The expenditure spreadsheet for state-source GRF, lottery profits, and local government funds (Table 2) lists seven categories of expenditures: primary and secondary education, higher education, human services, corrections, transportation, local government funds, and other. Other spreadsheets provide history for GRF-only revenue (Table 1A), total state and federal GRF expenditures (Table 3), and Medicaid expenditures for all funds (Table 4).

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.

Bill Analyses

The LSC staff produce an analysis for each bill that is scheduled for a committee hearing. The analysis for an appropriations bill is organized by agency and provides a summary of the bill's provisions, followed by a detailed description of the bill's content and operation that focuses on codified law provisions and nonappropriation uncoded law provisions. For main operating budget bills, an analysis is prepared following the bill's introduction and passage by each house. After a budget bill becomes law, LSC research staff also prepare a final analysis. For a more detailed discussion of bill analyses, see Chapter 5.



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 generally 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 8.5% 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 appropriations for the current expenses of state government and laws providing for tax levies 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.