THE BUCKEYE INSTITUTE

Ohio's Budget:
An Opportunity for Reform

Interested Party Testimony
Ohio Senate Finance Committee
Ohio House Bill 96

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May 29, 2025

As Prepared for Delivery

Chair Cirino, Vice Chair Chavez, Ranking Member Hicks-Hudson, and members of the Committee, thank you for the opportunity to testify regarding **Ohio House Bill 96**—Ohio's biennial budget.

My name is Greg R. Lawson. I am a research fellow at **The Buckeye Institute**, an independent research and educational institution—a think tank—whose mission is to advance free-market public policy in the states.

As The Buckeye Institute **warned** the House of Representatives, Ohio must remain fiscally responsible. Significant growth in Medicaid and education spending—the two largest budget items—could prove especially dangerous to the state's long-term fiscal health and make it difficult, if not impossible, to maintain pro-growth tax policies like those adopted in the **last budget**. Economic uncertainty brought on by residual inflation, looming trade wars, and federal spending cuts only exacerbate the concern.

House Bill 96 offers modest belt-tightening, some policy improvements, and a number of missed budget improvement opportunities, including its failure to address tax expenditures or close tax loopholes while adding a series of new earmarks. A **better budget** would aggressively reprioritize spending and inhibit the accounting gimmicks that perpetuate runaway spending by applying the statutory appropriation limitation (SAL) to most of the all funds budget rather than just the general revenue fund (GRF).

Medicaid

Medicaid consumes more than half of Ohio's general revenue fund spending, with an unsustainable growth rate that will soon crowd out other priorities and jeopardize pro-growth tax reforms. Fortunately, House Bill 96's substitute version adopts several innovative guardrails to program spending, including:

- Authorizing **rigorous eligibility audits** using credible third-party data;
- Seeking a waiver from the Centers for Medicare and Medicaid Services to eliminate presumptive eligibility except for children and pregnant women;
- Authorizing performance and fiscal audits of Medicaid's NextGen program;
- Modifying Medicaid's Group VIII trigger language to redirect ineligible participants to private insurance subsidies or charity care programs;
- Requiring an annual audit of administrative costs and total expenditures of Medicaid-managed care organizations; and
- Improving the Joint Medicaid Oversight Committee's oversight.

In addition to these improvements, policymakers should strictly enforce Ohio's Medicaid **work requirement waiver** and closely monitor any federal action that scales back allowable hospital franchise fees. Although the current House version rightly seeks to redirect ineligible Group VIII participants to private insurance if Washington cuts the federal matching rates, the "trigger" language for removing all Group VIII participants immediately is so severe that it could diminish congressional support for making those cuts in the first place. Instead, if triggered, the bill should freeze rather than eliminate the Medicaid expansion and prevent re-enrollment by those current Group VIII enrollees who naturally move up and off the program rolls. The Senate should be prepared for a large budget hole if pending federal legislation puts limits on **new provider fees** like the hospital franchise fee currently in this bill.

Finally, the Senate should also examine the budget's new dispensing fee for pharmacies. Dispensing fees are intended to cover the costs of filling prescriptions and are added to the price of the drugs. The House bill sets a minimum dispensing fee and ties it to the average dispensing fee across the state. The higher the average, the higher the minimum fee. This creates an incentive for pharmacies to raise the average in order to reap higher reimbursements, which would raise prices for consumers and health care plans. If the budget retains this proposal, the bill's fee formula should deduct several percentage points from the statewide average to retain incentives for cost containment.

Primary and Secondary Education

Education funding formulas for K-12 public schools remain hopelessly complex and intricate even as families enroll students elsewhere and public district school enrollment **declines** across the state. The General Assembly should acknowledge that reality—and the state's subpar **grades** on the most recent Nation's Report Card—and appropriate funds accordingly and responsibly. Instead of guaranteeing that school districts will not receive less state aid next year than they did in fiscal year 25, for example, Ohio should allow state funds to follow students rather than simply fund districts.

The House wisely retains the governor's proposal to increase the per-student allocation for charter school capital costs from $1,000 to $1,500 because charter schools do not benefit from local property taxes and already receive less per-student funding than district schools. The House also proposes reasonable increases in the Jon Peterson and Autism scholarships. Still, Ohio should allow recipients of all scholarships, including EdChoice, to receive the **Disadvantaged Pupil Impact Aid** (DPIA) for lower-income and disadvantaged students. Scholarship recipients do not receive the DPIA funds available to public district and public charter school students. Extending the DPIA to non-public school scholarship recipients will help the non-public schools reach and educate more students from lower-income families.

House Bill 96 should also include, however, the governor's proposal requiring public district schools to report whether a school building operated by the district is unused. Such reports would enhance transparency, prevent districts from sitting on un- or under-used buildings, and allow those facilities to be **repurposed** or sold to public charter and chartered nonpublic schools with growing enrollment. In addition, the Senate should expand the **pilot** program that authorizes two educational service centers to provide transportation for participating charter and private school students, and tighten the loose statutory language governing how districts make **impracticality determinations** for transporting those students.

Finally, The Buckeye Institute appreciates the House's intent to provide possible property tax relief for families in school districts with budget carryovers exceeding 30 percent of the previous fiscal year's expenditures. The carryover amounts vary across districts, of course, but the fact that district cash-on-hand has almost tripled since 2012—to **$10.5 billion**—suggests that some districts are not just fiscally prudent, they are keeping more than needed from their local taxpayers. The Buckeye Institute is concerned, however, that the bill, as written, will incentivize districts to spend those large surpluses rather than offer local tax relief. Guardrails—such as an emergency declaration or a supermajority vote by the school board—should be added to make this more difficult.

Higher Education

The House's budget **rightly** modifies the state share of instruction (SSI) formula to include outcome-based metrics like workforce placement. The Buckeye Institute supports eventually converting all of the SSI to an outcome-based formula as incentive for our universities and community colleges to better align student training with employer needs. Accordingly, The Buckeye Institute appreciates the modest increase to the **Ohio Work Ready Grant** to help more students obtain workforce credentials. We also support offering revolving loans to public colleges and universities to facilitate offloading unused physical space as part of a broader effort to reduce costs and right-size higher education.

Regrettably, House Bill 96 wrongly includes broad restrictions that could discourage the legitimate use of online program managers (OPM)—new technology platforms that can help scale training for in-demand fields like healthcare, information technology, and advanced manufacturing. The Buckeye Institute **recommends** modifying the bill so that Ohio treats OPM partnerships reasonably and clarifying the "fiscal watch" language regarding schools that use OPMs.

Taxes

Ohio's 2023 tax bill reduced two tax rates, eliminated several tax brackets, and raised the commercial activities tax threshold. The governor's proposed budget and the House version retain those reforms and follow The Buckeye Institute's **recommendation** not to suspend the indexation of tax brackets to inflation again. If the Senate wishes to reduce the income tax further, it should adopt **revenue triggers** to avoid unanticipated revenue drops precipitating budget reductions or tax increases.

Local Government

The budget includes several local government reforms, including provisions that would make county coroners appointed rather than elected officials. Given some of the **challenges** associated with finding qualified candidates willing to run for the position, this small reform makes sense and echoes The Buckeye Institute's **encouragement** to simplify Ohio's complex, inefficient, and expensive local government system. Policies that reduce the number of officials, incentivize greater shared services, and limit separate ballot authority for taxing authorities could help relieve the pain of recent property tax increases.

Thank you for your time and attention. I would be happy to answer any questions that the Committee might have.

About The Buckeye Institute

Founded in 1989, The Buckeye Institute is an independent research and educational institution – a think tank – whose mission is to advance free-market public policy in the states.

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