



TRANSFORMING OHIO FOR JOBS + GROWTH

2014 MID-BIENNIUM REVIEW

The 2014 MBR: Building on What Works

Ohio and the nation are emerging from one of the worst economic periods in our history. But, we're getting Ohio back on track thanks to fiscal restraint, jobs-friendly policies, reforms to K-12 education, job training and higher education, and help for the most vulnerable Ohioans. Ohio now enjoys a balanced budget, a \$1.5 billion surplus, and 238,000 new-private sector jobs. Continuing that progress means building on the policies that we know work.

Across the Board Income Tax Cuts: Ohio's income taxes are still too high and are a barrier to job creation. In his 2014 Mid-Biennium Review, Governor John R. Kasich proposes new income tax cuts for all Ohio taxpayers that will lower state income taxes 8.5 percent over the next three years across all income levels and reduce the top income tax rate below 5 percent. Once enacted, this means that in the past three years Ohio's top marginal income tax rate will have been reduced by 17.6 percent from 5.925 percent in 2011 to 4.88 percent in 2016.

New Tax Relief for Low- and Middle-Income Ohioans: Expanding the state's Earned Income Tax Credit and targeting new increases to the income tax's personal exemption for low- and middle-income families helps ensure that all Ohioans share in our state's on-going economic recovery.

Strengthening Education and Workforce Training: High-quality education and training programs help ensure that Ohioans can take advantage of our state's ever-expanding economic opportunities and that job-creators have the workforce they need to compete and succeed. Highlights of new MBR proposals that help achieve these goals include:

- New efforts to help prevent students from dropping out of high school;
- New mentorship strategies to boost community support for schools and help students get motivated about careers;
- Letting students as young as the 7th grade begin learning about careers via our high-quality vocational education schools;
- Giving more students an early start on college credits while they are still in high school;
- Focusing our colleges more on successful student outcomes rather than just enrollment rates; and
- Giving our veterans an easier transition to the home front with academic credit for military training and experience.

Caring for Ohioans: The governor is committed to making sure that vulnerable Ohioans are not left out of the benefits of our state's ongoing recovery. The MBR therefore increases support for Ohioans with mental illness and addiction, expands Ohio's new Start Talking! drug abuse prevention campaign and dedicates new funds to tobacco cessation.

BOTTOM LINE: Ohio's getting back on track, but we've got more work to do, so we can't let up in continuing to pursue reforms and policies that we know are working. The governor's 2014 Mid-Biennium Review proposes new, needed changes across a range of topics, all designed to keep Ohio moving forward.

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ACROSS THE BOARD TAX CUTS: REDUCING THE INCOME TAX FOR ALL OHIOANS

- ***Freeing-up Funds for Economic Growth and Job Creation***
- ***Dedicated Tax Relief for Low- and Middle-Income Ohioans***

Since he took office three years ago, Gov. John Kasich and the General Assembly have cut Ohioans' taxes by \$3 billion because, as he said in his 2014 State of the State address, "When you get to keep more of your own money, you can use it to control your own future and to help your family and your community." Letting Ohioans keep more of their own hard-earned paychecks helps make families stronger, communities stronger and our state stronger. Highlights of the tax cuts enacted to date include:

- **Eliminated the Death Tax**: Eliminating the death tax lets family farmers and small business owners pass on their enterprises to the next generation. Previously, the high cost of death taxes often forced families to sell their farms or businesses to pay the tax bill rather than passing them down to the next generation;
- **50% Small Business Tax Deduction**: Virtually all small business owners in Ohio who receive profit from their business can deduct 50% of that income up to a cap of \$250,000;
- **Cut Income Taxes by 10 percent**: By 2016, every Ohioan who pays taxes will see that tax cut by 10 percent.
- **Created an Ohio Earned Income Tax Credit**: In 2013 Ohio created a new Earned Income Tax Credit to allow certain lower income households who claim the federal EITC to also claim a non-refundable state tax credit equal to 5 percent of the federal credit claimed. For households with up to \$20,000 in Ohio Taxable Income, the OH EITC can possibly eliminate all tax liability; for higher incomes it can be used to offset up to 50 percent of their Ohio tax liability.

Thanks to these and other jobs-friendly policies, Ohioans have created 238,000 private-sector jobs in the past three years. Advancing the policies that are getting Ohio back on track is essential to strengthening and broadening the benefits of our economic recovery. The governor's 2014 Mid-Biennium Review furthers those policies by proposing additional income tax cuts and overdue tax reforms.

Across the Board Income Tax Cuts: The governor proposes lowering income taxes across all income levels by 8.5 percent over the next three years, which would bring Ohio's top income tax rate below 5 percent. With these changes, Gov. Kasich and the Ohio General Assembly will have cut Ohio's income tax rate by 17.6 percent, taking the top rate from 5.925 percent in 2011 to 4.88 percent in 2016.

Cumulative Benefit of Income Tax Cuts (2011 – 2016)

Taxpayer	Annual Income	Income Taxes Due for CY2011	Income Taxes Due for CY2016	Total Tax Relief 2011-2016	Percent Change
Single parent w/ one child*	\$30,000	\$540.48	\$181.70	\$358.79	-66.4%
Married filing jointly w/ one child (median income)	\$60,000	\$1,441.96	\$1,160.14	\$281.82	-19.5%
Married filing joint w/ two children (median income)	\$73,000	\$1,843.70	\$1,487.51	\$356.19	-19.3%

*eligible for OH Earned Income Tax Credit

Tax Relief for Low- and Middle-Income Ohioans: Additional targeted tax relief for Ohio’s low- and middle-income families can help ensure that all Ohioans share in our state’s on-going economic recovery.

- **Increasing the Earned Income Tax Credit—Helping Low-Income Ohioans Move Ahead:** The governor proposes strengthening Ohio’s Earned Income Tax Credit (EITC) for low-income Ohioans by raising its benefit from 5 to 15 percent of the federal credit. Like President Ronald Reagan, the governor believes in the value of the EITC to help low-income Ohioans move up the economic ladder and keep more of the money they earn.
- **Raising the Personal Exemption—Needed Tax Relief for Low- and Middle-Income Ohioans:** The governor proposes increasing the income tax personal exemption from \$1,700 to \$2,700 for Ohioans earning less than \$40,000 annually and from \$1,700 to \$2,200 for those with annual incomes between \$40,000 and \$80,000.

Overdue Tax Reform: The governor’s proposal provides overdue updates to several areas of Ohio’s tax code in order to reflect changes in various areas of our economy and key industries. In addition to making Ohio’s tax code more fair and simple, these changes—together with budget capacity from the efficient management of state government—help provide for needed income tax relief for Ohioans.

- **Increasing Tobacco Taxes:** Over two years, the cigarette tax would go from \$1.25 to \$1.85 per pack; the tax on other tobacco products—such as the previously untaxed e-cigarettes—would rise to a level equivalent to the cigarette tax.
- **Modernizing Ohio’s Oil and Gas Drilling Taxes:** Ohio’s 40-year-old severance tax has not been revised to reflect the advent of the state’s new shale oil and gas boom, which means that the profits from horizontal drilling and the benefits of low tax rates go to the out-of-state oil companies.
 - **New Low Tax Rate—2.75 percent:** The governor thinks Ohio should share in the benefits of the oil and gas boom in the form of lower income taxes, which is why he’s proposing updating Ohio’s oil and gas severance taxes from rates established 30 years ago to a rate of 2.75 percent of producers’ gross receipts. Ohio’s rate would remain among the lowest in the country.
 - **Cost Recovery for Start-Up Drilling:** In order to help producers recoup their start-up drilling costs, \$8 million of gross receipts per well would be exempt from taxation during the first three years.
 - **No Tax on Small Producers:** Severance taxes would be eliminated for small conventional gas producers (less than 910,000 cu.ft./quarter).
 - **Local Government Benefits:** The governor’s proposal would direct about 20 percent of severance tax revenue to local governments in shale oil and gas-producing regions in order to help those local governments deal with the impacts to infrastructure and increased costs they experience from drilling activity, and to create a legacy fund to help sustain those areas into the future. These revenues would be controlled locally, in part by creating the Ohio Shale Gas Regional Commission, a nine-member board appointed by the governor.

- Updating the CAT: Since its inception in 2005, Ohio's Commercial Activity Tax rate has not changed. The CAT rate would be updated from 0.26 percent to 0.30 percent.

BOTTOM LINE: Ohio's income taxes are too high and are a barrier to new job creation. Thanks to \$3 billion in tax cuts, modernizing our tax code and other pro-growth policies Ohio is getting back on track, but additional tax cuts are needed so that Ohioans can keep more of their hard-earned money and more funds are available for economic growth, investment and job creation.

2014 Mid-Biennium Review Tax Relief with Offsets

All figures in millions of dollars

	FY2015	FY2016	FY2017	Total
Income Tax Cut	-461	-816	-909	-2186
Low/Middle Income Tax Relief <i>(Increase EITC & Exemptions)</i>	-151	-151	-151	-453
<i>TOTAL income tax cut</i>	-612	-967	-1060	-2639
Cigarette & Other Tobacco Taxes	204	334	310	848
Commercial Activity Tax (CAT)	196	269	278	743
Oil and Gas Severance Tax	121	304	449	874
<i>TOTAL revenue changes</i>	521	907	1037	2465
<i>TOTAL net tax cut</i>	-91	-60	-23	-174



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STRENGTHENING EDUCATION IN OHIO

Dropout Prevention, Preparing Students for Careers Sooner, Increasing Community Involvement with Kids

Gov. John Kasich has always made education a top priority, based on his firm belief that every child deserves a high-quality education, a pathway to a job and the ability to reach their God-given potential. For example, his *Achievement Everywhere Plan*, signed into law in 2013, provided \$1.6 billion in new resources for Ohio schools. The Kasich plan took steps to build on proven school improvement initiatives like the Third Grade Reading Guarantee, A-to-F Report Card and Cleveland School Plan to help better educate Ohio's children and prepare them for successful careers. Now, with proposals advanced by the Kasich Administration's 2014 Mid-Biennium Budget Review (MBR), important new steps will be taken to strengthen education in Ohio and prepare youth for life.

Dropout Prevention—Helping Keep Ohio Students in Schools: To help more of the nearly 24,000 Ohio students who drop out of school every year stay in school and get their high school diplomas, the governor proposes new ways to identify these at-risk students earlier in their school careers and then devise alternative strategies that better engage them. The Ohio Department of Education and local school districts will work together on new strategies for more effectively identifying students at risk of dropping out, connecting them with tailored career counseling, and creating new, alternative pathways to diplomas.

Dropout Recovery—Helping Ohio Adults Without Diplomas Get Back on Track: As many as one million Ohio adults lack a high school diploma. After the age of 22, adults are no longer eligible for traditional high school diplomas, so the governor proposes allowing approved community colleges and career centers to create new initiatives to help adults earn credits toward a high school diploma while pursuing job training coupled with credential efforts.

Encouraging Mentorship through Community Connectors: The governor proposes using \$10 million from casino-license fees to provide 3-to-1 matching grants in support of efforts in which community groups and businesses mentor students. Quality mentoring programs have proven to be effective at helping motivate and inspire students, as well as help them develop skills that lead to success in school and the workplace.

Expanding Access to Vocational Education: The governor proposes making Ohio's high-quality network of technical and vocational education available to students beginning in the 7th grade to give more Ohio students a jumpstart on career education. School districts can opt-out of the expansion by passing resolutions.

BOTTOM LINE: Every student deserves access to the educational resources that prepare them for career opportunities. An important resource is career education, because it helps students gain the motivation required to stay in school and succeed there. By better connecting students—especially those at risk of dropping out—with mentors, information on careers and job-focused training, more of them can find their ways to fulfilling careers that allow them to reach their God-given potential.



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HIGHER EDUCATION REFORM

Making Ohio's State-supported Colleges and Universities More Accessible, More Affordable and More Effective

From Day One, Gov. John Kasich has made higher education reform a key priority for his Administration. His commitment has already put Ohio in a national leadership role by successfully implementing performance-based funding for Ohio's publicly supported colleges and universities. To further advance his goal of improving higher education in Ohio, Gov. Kasich is moving forward in the Mid-Biennium Budget Review (MBR) to strengthen pathways to college and enhance college learning opportunities. These initiatives are aimed at improving college readiness, lowering the out-of-pocket costs required to obtain a college degree, and improving graduation rates at our state-supported campuses.

A Jump-Start on College—Fixing the High School-Age College Enrollment Program: An improved system to help high schools encourage more students to earn college while completing their high school courses will give students a jump on their college careers and help reduce college costs for them and their parents. Last year 30,000 public high school students participated in the dual-credit program, but due to the program's complexity, that's a small fraction of the more than 500,000 who are eligible. Because participation in the past has been held back by the unfocused structure and lack of transparency in the way dual credit was funded, the governor's MBR reforms are designed to provide more students with access to this proven, effective and efficient accelerated pathway toward degree completion. Proposed recommendations for reforming Ohio's dual-credit programming and expanding its benefits to more students statewide will:

- create a transparent and equitable funding mechanism that works for both high schools and higher education institutions
- increase participation across all student demographics, improve educational achievement, and ensure course and programming quality
- provide consistent communication with students and parents
- establish a system-wide College Credit Plus data collection and reporting system

Incentivizing Colleges to Graduate Students, Not Just Enroll Them: To help increase the number of Ohioans with degrees, the state budget for FY 2014-15 included a new funding formula that ties state higher education funds to successful student outcomes. For undergraduate students at four-year schools, state funding was tied entirely to student graduation and course completion. Ohio community college presidents recently finalized their recommendations for the coming fiscal year that will also base all of their state funding on successful course, degree, and certificate completions, rather than course enrollments. The MBR enacts the final piece of this policy for two-year schools, completing the transition for all public colleges and universities. As a result, in a period of just two years (FY13 to FY15), Ohio's community colleges have gone from being funded almost entirely based on earmarks and student enrollment to being funded 100 percent based on successful student outcomes. However, although the new community college formula rewards student success, it also protects access to higher education by providing schools with greater payments for older, low income, and minority students that are successful.

Aligning Funding for Ohio's Technical Centers: Just as Ohio's two-year and four-year colleges have done, a new formula will shift the focus of Ohio's Technical Centers from simply enrolling more students to being successful with those students and working to ensure that students are finding jobs after they complete their program of study. Beginning in FY2015, 50 percent of state funding for Ohio Technical Centers will be based upon the percentage of their students that actually find a job after they complete their program of study. The remaining 50 percent of state funding will be based upon a combination of successful student retention, the number of students who successfully complete a workforce training program, and the number of students who successfully receive an industry recognized credential.

Taking Advantage of Technology and Distance Learning: Rapid changes in technology have created a wealth of learning opportunities for adult learners and teachers, including various modes of "distance learning" that take place outside the traditional classroom. To take full advantage of this emerging technology, Gov. Kasich has proposed a number of programs to better prepare Ohio's workforce, including:

- **Course- and Program-Sharing Network:** Requires the Chancellor of the Board of Regents to administer a course- and program-sharing network designed to encourage institutions and adult career centers to share existing courses and programs across the state.
- **Expanding access to Ohioans who want to learn and enhance their skills:** Provides the Chancellor of the Board of Regents with the ability to enter into an agreement with the Midwestern Higher Education Compact to allow Ohio colleges to deliver distance education to students in other states. Participation in an agreement would allow Ohio colleges and universities to expand their distance education offerings and create more opportunities for Ohio residents to take college courses to expand their knowledge and skill sets.

Keeping Ohio's International Students in Ohio After Graduation: The number of international students attending Ohio's colleges and universities is at an all-time high, and the state's future workforce needs – especially related to engineering and sciences – will rely on their contribution to a well-trained workforce. To ensure that Ohio job creators can meet their workforce needs, the Chancellor of the Board of Regents will create a globalization liaison to increase recruitment and enrollment of international students and to encourage them to remain in the state after graduation. The liaison will also concentrate on retaining those international students in areas such as engineering, while simultaneously encouraging more Ohioans to earn degrees in this and other high-demand fields. The Chancellor will work with institutions of higher education and the business community to make recommendations to accomplish these goals by the end of 2014.

Providing Tuition Certainty to Students and Their Families: In an effort to keep Ohio's colleges more affordable, Ohio's community colleges will be provided with the option of giving their students a guaranteed tuition rate that would apply to their time on campus. This same type of guarantee was provided to all of Ohio's four-year public universities as part of the last state budget.

Giving Veterans College Credit for Their Military Training and Experience: Veterans who work toward a college degree deserve credit for the military training, experience and coursework they've received in the service. But until now, Ohio has lacked a uniform and effective process for awarding that credit. Gov. Kasich has stepped up to address this in his MBR proposal with changes in law to require Ohio's higher education system to develop a set of standards and procedures for granting college credit for military experience. The Military Transfer Assurance Guide will provide a baseline of standards, procedures and tools for granting college credit for military experience for any public college and university providing more consistent services across our system.

- Additional changes proposed in the MBR will ensure that no veteran is ever asked to pay for the military-training credits he or she is awarded. While the majority of Ohio's state-supported colleges and universities do not charge veterans for

such credits, this has not been universal. Proposed language in the MBR would ensure that Ohio's public colleges and universities cannot charge for evaluation, transcription and application of college credit for military experience.

Helping Ohio Veterans Make the Transition to College: When reentering civilian life as a college student, veterans often struggle to learn their options and the many opportunities available on a college campus. There are colleges and universities in Ohio with first-rate veteran offices or specifically assigned counselors to support transitioning veterans. The MBR seeks to achieve these "best practices" on every public campus in the state. In addition, through a MBR proposal, veterans and active military members will be provided priority course registration at our public institutions ensuring they have access to the classes they need to succeed and thrive in civilian life.

BOTTOM LINE: Ohio's world-class higher education system more effectively meets the needs of students and job creators when it focuses more closely on graduation, is more accessible to more Ohioans and responds to the unique needs and skills of our veterans.

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WORKFORCE TRANSFORMATION

Meeting the Workforce Needs of Ohio Employers, Supporting Our Military Veterans and Building a Stronger Economy

Creating an economic environment that promotes job creation has been Gov. John Kasich's primary focus since he took office in 2011. Over the three years since, Ohio has balanced its budget, lowered taxes and reduced regulatory burdens. While Ohio's system for workforce development has seen much improvement, we have more to do by continuing to better connect Ohio's unemployed, underemployed and incumbent workforce with the job training and tools they need to compete for today's in-demand jobs. Though his Mid-Biennium Review, Gov. Kasich is proposing new reforms to better align Ohio's workforce development system to fully focus on the needs of our state's businesses and workers.

Creating a Unified, More Effective Workforce Development System for Ohio: The state's fragmented workforce training system has been criticized in the past for being complicated, duplicative and misaligned. The result is that Ohio workers do not always get the training that best prepares them for Ohio's in-demand jobs and Ohio's job creators do not always get the workers they need to compete and succeed. To resolve these problems, the governor proposes that Ohio align the three main federal workforce programs—Adult Basic Literacy Education (ABLE), Carl D. Perkins Career and Technical Education Act (Perkins) and the Workforce Investment Act (WIA)—through the development of a single, integrated plan instead of via three disconnected plans as it does now. The benefits would include:

- **Workers Would Get Needed Training Faster:** If Ohio's various programs are working together, then officials will be able to more quickly refer Ohioans to the right programs that meet their needs instead of leaving Ohioans to figure it out on their own;
- **Ohio Will Know If Efforts Are Working and How to Improve:** New, better ways of measuring the effectiveness of Ohio's workforce programs will let officials know where and how they need to improve them so workers and job creators get the support they need to succeed and compete;
- **Greater Efficiency, Better Results:** Better coordination means less duplication. Resources are deployed in the most efficient and effective way and workers receive more effective training so they can land and keep sought-after jobs.

Helping Veterans Get Jobs: Veterans often have advanced training in many of the skills that Ohio job creators are seeking. The governor proposes making it easier for veterans to transfer their skills to receive academic and licensure credit so they can quickly begin applying their skills in good-paying jobs that support their families, job creators and their communities.

- **Fast Track to State Licenses:** The governor proposes a number of changes to strengthen opportunities for veterans who work with a professional license board, including making sure they can use their GI Bill dollars to pay for national or state occupational license and certificate testing fees, a prioritized process to expedite licensing and certification for veterans and their spouses, a consistent and broad definition of *veteran* to allow the State of Ohio to treat all veterans

equally and creation of a centralized website that provides state occupational licensing information to veterans and their spouses.

- Academic Credit for Military Training and Experience: Veterans who are working toward a college degree deserve credit for the military training, experience and coursework they have received in the service. The governor proposes that higher education institutions grant free college credit for military experience.
- Better Academic Counseling For Veterans: The governor proposes that all public higher education institutions provide high-quality academic and career counseling for veterans to help them ease back into civilian life and navigate the unique programs designed to support them. Veterans would also receive priority course registration.

Bottom Line: Ohioans seeking to improve their careers and lives with new skills deserve world-class supports. Improving our fragmented workforce training system to become more streamlined, responsive and efficient, and making it easier for veterans to contribute to our workforce, strengthens both Ohioans and the job creators that employ them and helps further propel our state's continued economic recovery.

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HELPING OHIOANS MOST IN NEED

Providing the Treatment and Support Ohioans Need to Recover

Governor John R. Kasich has made it a priority to help our state's most vulnerable citizens. Even when Ohio faced an \$8 billion budget deficit in 2011, Gov. Kasich protected funding for efforts for the most needy, the mentally ill and Ohioans with developmental disabilities. Furthermore, since 2011, he has taken prescription drug abuse head-on, helped more families get needed support for children with autism, worked with Ohio's children's hospitals to fund new research for drug-addicted babies, strongly supported foodbanks, and expanded health care coverage to low-income residents. His Mid-Biennium Review builds on these efforts with new proposals to help those Ohioans most in need.

- **Strengthening Support for Ohioans with Mental Illness and Addiction:** The governor will propose an initiative to increase access to crisis intervention and safe places for Ohioans with mental illness and addiction. These temporary housing and treatment resources fill a gap for those Ohioans who are able to live at home and those transitioning out of the highest levels of care, such as traditional in-patient hospitalization, by providing them a safe place in times of crisis.
- **Expanding Ohio's New "Start Talking!" Drug Abuse Prevention Campaign:** The governor proposes expanding "Start Talking!" by working with legislators to get the program adopted by more schools across Ohio. "Start Talking!" is rooted in research that shows youth are up to 50 percent less likely to use drugs when parents and adults talk with them about substance abuse than youth whose parents do not. Since it was launched, the program has interacted with more than 8,600 students, and engaged 186 student ambassadors to stand up and be leaders in their schools.
- **Stemming the Tide of Substance Abuse:** The governor's MBR proposal prioritizes a \$6.5 million statewide investment in prevention initiatives that are essential in order to stop substance abuse before it gets started. By targeting evidence-based programming that has proven to keep kids away from drugs, fewer families will have to deal with the costs and heartache of addiction in the future.
- **Tobacco Cessation:** Provisions in the governor's MBR will allocate \$26.9 million from the Master Settlement Agreement to the Ohio Department of Health to support a five-year plan for tobacco prevention and cessation programs.
- **Services for Individuals with Autism:** In his MBR, Governor Kasich proposes creation of a voluntary, free-of-charge online training and certification program for Ohioans interested in getting training on how to work with individuals with autism. This service will improve the quality and safety of the supports available to families of children with autism.
- **Human Services Innovation Office:** To begin the process of preparing people for life and the dignity of work by breaking down silos within the state system for those in poverty, a new office will be created within the Department of Job and Family Services.

BOTTOM LINE: In the past three years Ohio has provided significant new support for Ohioans most in need—the drug addicted, those with mental illness, people with disabilities and others. Every Ohioan deserves a chance to share in our state's emerging recovery and reach their God-given potential. Our increasing commitments to less-fortunate Ohioans can help make that happen.

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