



The Ohio Society of CPAs

Ohio Budget Advisory Task Force

Executive Summary

Report to The Honorable Ted Strickland
November 6, 2009

INTRODUCTION

Ohio is facing a significant budget deficit in the current fiscal year, and is projected to face an even larger deficit in the next biennium budget. By putting forth the recommendations herein, The Ohio Society of CPAs (OSCPA) seeks to continue its tradition of serving the interests of Ohio businesses and taxpayers by applying the specialized knowledge, competence, integrity and objectivity that are hallmarks of the CPA profession.

OSCPA formed the Ohio Budget Advisory Task Force to provide guidance and recommendations to the Governor on how to get Ohio back on firm financial footing. The Ohio Budget Advisory Task Force is comprised of leading member CPAs from throughout Ohio who are committed to developing a deep understanding of the financial conditions facing Ohio now and in the future. Our basic approach, just as it would be for any client facing huge financial challenges, is to offer support and objective third-party recommendations to improve state revenue growth and reduce expenses.

As a result of several meetings and deliberations in the short time available, the Task Force has prepared this brief for the Governor and the Ohio General Assembly. Recommendations are focused on the following themes:

Efficiencies and Structure

The Ohio Budget Advisory Task Force recommends the state pursue consolidation of appropriate, related entities, services and purchasing among existing local and state government entities. This will help eliminate costly and unnecessary redundancies, improve state government efficiency and operations, and realize significant cost savings through economies of scale.

In addition, the OSCP Task Force suggests conducting a feasibility study regarding centralized administration and collection of municipal income taxes. Such a change will ease the burden on taxpayers, save administrative costs at the local level, and help Ohio attract out-of-state employers. Other recommended consolidation measures include streamlining redundant municipal services such as police and fire personnel, municipal and county building inspection operations, and health inspection operations. It may also be appropriate to require the smallest municipalities to centralize or merge all levels of services with larger adjacent municipalities. The resulting increase in buying power of consolidated entities could positively impact negotiations on the cost of common purchases such as supplies, equipment and insurance benefits.

Cost Containment

Concurrent with state government plans to delay the last 4.2% of the state income tax decrease for two years, The Ohio Budget Advisory Task Force recommends an aggressive program to identify best practices, additional management efficiencies and cost containment measures to ensure accountability for taxpayer funds at all levels of government.

Emphasis should be placed on conducting performance audits, particularly on areas with the highest potential savings and improvement such as the Department of Development's 166 Program and Medicaid, and a compensation audit of public employee retirement, health and other benefits to ensure they are on par with the private sector and peer groups in other states. Other key cost containment measures for consideration include: suspending non-essential Controlling Board expenditures and requiring detailed ROI justification for any proposed increases. Further, the Task Force recommends the state implement a "sunset process" every ten years. This independent analysis will determine which state agencies, programs and divisions meet the core needs of government, are operating at peak efficiency, and deserve continued funding.

Revenue Enhancements

In addition to cutting costs and streamlining operations, the state must commit to finding new and sustainable revenue sources that grow year after year and do not just provide temporary budget relief. Improving the financial performance of the existing tax base through economic growth is, of course, the best option, though difficult in recessionary times.

The Task Force has identified additional areas that may produce state revenue. In making these considerations, the group focused on sources that would keep Ohio competitive for recruiting and retaining new business, and would not overly burden Ohio taxpayers who help to fuel Ohio's economy and their local communities. These include:

- Personal income taxes
- Sales Taxes
- Sin Taxes
- User Fees
- Commercial Activity Tax
- Non-CAT business tax structure
- Sale of state assets
- Privatization of state services

Strategic Planning

The most basic function of state government is to provide its citizens with essential services. Doing so in the most efficient and economically viable manner is an ideal goal. The best way for Ohio to achieve this is by undertaking a comprehensive strategic planning process—one that pairs government leaders with citizen financial experts who can bring both objectivity and qualified experience to the planning table.

The approach could be modeled after a constitutionally mandated process put in place by Florida voters in 2006 who recognized the need to set long-term fiscal policies for the state. It is a forward thinking process that holds the state accountable to voters by requiring a deeper level of fiscal scrutiny and justification at all levels.

The Task Force recommends strategic planning for Ohio and adoption of a long-range financial outlook system that would supplement the biennial budget process. This tool would be similar to those used by many businesses to project revenue and budget beyond a two-year period.

The groundwork for implementing a plan like Florida's is already being done in Ohio, but is not currently available in one public document. Consolidating such information, and taking the planning process to a higher level would help the state to better allocate funding across agencies and justify to voters when difficult decisions or tax increases are necessary.

School funding challenges

Providing quality education to Ohio residents is an important public service—one that directly relates to the state's ongoing economic success and ability to compete on a national level. The Task Force does not have a solution for how best to fund Ohio schools, but does recommend areas for achieving efficiencies and reducing costs that will alleviate some pressure without affecting the delivery of core educational instruction. Full details are included in the plan. Where higher education is concerned, OSCPA applauds the creation of a Strategic Plan for Higher Education and recommends immediate implementation of its efficiency and accountability measures. The Task Force also identified additional strategies for reducing higher education costs covering primarily capital expenditures and the use of endowment accounts and state funds for building construction and maintenance.

In Summary

OSCPA has a long history of working closely with state leaders to craft legislation that promotes business development while minimizing regulatory burdens and developing a tax structure that is simple, fair and equitable. In 2005, OSCPA provided guidance to state legislators in developing landmark tax reform legislation which included the introduction of the commercial activity tax (CAT). Since adoption in 2005, OSCPA has worked diligently to prevent CAT carve outs and earmarks that would diminish the effectiveness of this legislation as a fundamental element of comprehensive tax reform for Ohio.

OSCPA's hope is that the detailed recommendations will serve as a catalyst for an ongoing, in-depth conversation between OSCP, the Governor, the Ohio General Assembly and other interested business organizations about approaches and solutions to the current and future budget crisis. We stand ready to mobilize the resources of our 23,000 member CPAs from throughout Ohio, and see the state budget crisis as an opportunity to make significant and lasting change in the state budget process to benefit state government as well as its business and taxpayer constituents today and for future generations to come.