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Governor Discusses Impact of National Economic Deterioration on Ohio Budget

Calls for Extraordinary Partnerships and a Spirit of Cooperation to Confront Economic Challenges

Columbus, Ohio – To ensure Ohioans are fully aware of the historic economic challenges confronting Ohio and the nation, Governor Ted Strickland and Budget Director J. Pari Sabety today announced that the state is facing not only a budget deficit in our current fiscal year, but is projected to face an exceptionally large, more than \$7 billion deficit in the upcoming 2010 – 2011 operating budget.

“Our great state is confronted with challenges of historic proportions,” Strickland said. “But armed with a true understanding of the conditions we face, Ohioans will be better equipped to honestly address these difficult circumstances with the same strong resolve and spirit of cooperation we have applied to trying times in our past.”

Mirroring the national economy, Ohio’s economic circumstances have deteriorated rapidly. A \$640 million shortfall is now projected for the remainder of the current fiscal year. This is in line with the Office of Budget and Management’s recession-based scenario, outlined in January, which had forecast a \$1.9 billion total budget deficit if the economy fell into recession.

Strickland said that the need to initiate additional spending reductions to balance the current budget will be largely determined by whether considerable state aid is included in the federal government’s recovery package and if robust activity occurs in retail holiday sales. Any further reductions to the current budget will be in addition to the \$1.27 billion in budget adjustments already underway.

Based on current economic and revenue indicators, an approximate \$7.3 billion deficit is forecast for the FY 2010-11 operating budget. Even after assuming a 10 percent reduction to all state agency budgets, based on the February 2008 recalibrated spending levels, the projected deficit is approximately \$4.7 billion.

“Now is the time for all Ohioans to join together, in an extraordinary partnership, to meet the challenges before us,” Strickland said. “Working together in common purpose, I believe we will be able to address these circumstances with a consensus, bipartisan budget. There

will be shared sacrifice, but we also recognize that historic opportunities lie on the other side of our current economic challenges.”

The governor and budget director presented the austere budget picture to members of his cabinet, legislative leadership, Ohio’s public employee union leadership and representatives of the business community today. The administration will also present this information to Ohio’s mayors, county commissioners, members of the faith community, the human services and education communities, and other important stakeholders in the immediate days ahead.

Strickland asked his cabinet to begin conversations with all of their stakeholders to consider 2009 cuts as well as the challenges we face in the next budget – asking for and encouraging creativity, flexibility and collaboration while planning for future budgeting.

Recognizing the best long-term solution to address these challenges is to get the economy moving again, the Strickland Administration is pursuing an aggressive agenda of job creation through the \$1.57 billion bipartisan job stimulus bill and recently-enacted energy bill. And the administration has made significant reductions to the size of state government, both through proactive efficiency initiatives and in response to declining revenues.

The state workforce has been reduced from 63,568 employees in March 2007 to 60,540 employees as of December 1, 2008. In February and again in September, the governor acted quickly to implement budget adjustment plans totaling \$1.27 billion for the biennium. Those actions included spending reductions, programmatic cuts and the closure of state institutions.

“Unfortunately, many of these difficult reductions have come at a time when people are relying more than ever on state services,” Strickland said.

Repeating his call for an aggressive federal economic recovery package to include direct aid to states, Strickland said he believes significant federal help is essential to avoid the potentially severe effects of the projected budget shortfalls.

“I am traveling today to Philadelphia to join with other governors and President-elect Barack Obama in a discussion about the economy’s impact on the states,” Strickland said. “I believe that significant federal aid to states, and a willingness to make tough choices here in Ohio, are absolutely necessary to address this crisis in a way that will enable Ohio to continue investing in what matters to move our economy forward.”

In addition to meeting with President-elect Obama, Strickland is sending him a letter today detailing Ohio’s specific needs to help our economy recover.

Text of the letter is pasted below:

December 1st, 2008

The Honorable Barack Obama
The Office of the President-Elect

Washington, DC 20270

Mr. President-Elect,

As you know, most states are facing the same economic challenges the national economy is facing. Our economies are deteriorating rapidly with almost all states either in a recession or at risk of one. In Ohio, we are projected to see a reduction in wage and salary income for the first time ever.

As a result of the national recession, most governors are facing significant revenue shortfalls in the remainder of fiscal year 2009 as many work to meet their constitutional requirements to balance their state budgets. In Ohio, even though we have already made nearly \$1.3 billion in budget adjustments this biennium and most agency spending levels have been reduced to 87.25% of their originally budgeted levels, we are still facing a projected shortfall of \$640 million in 2009. Ohioans have sacrificed and have been resilient in the face of the cuts taken thus far. However, additional cuts would be devastating as we are trying to provide basic safety net services during this recession and to stimulate the economy.

As governors prepare to introduce their fiscal years 2010-11 budgets in early 2009, they again face shortfalls. Some of these shortfalls, like Ohio's, are of historic proportions. In the next two years, Ohio will confront the most serious erosion in revenues it has experienced in the last 40 or 50 years. **At flat funding for fiscal years 2010-11, Ohio is projected to have a \$7.3 billion deficit. And even if we fund each agency at 90% for FY10-11, which in and of itself would mean cuts to important services Ohioans depend upon and decreased investments in initiatives that stimulate the economy, Ohio would still have a \$4.7 billion deficit for the coming biennium.**

To avoid drastic cuts in important services states provide and to allow states to continue to invest in activities that will spur economic activity, substantial aid to the states is needed immediately. Therefore, I ask you to work with Congress to provide the following:

- **\$100 Billion in Block Grants to the States:** Unless federal resources are provided, the severe nature of current and future shortfalls states are facing will have devastating consequences on core services states provide, including education (early care through higher education), healthcare, vaccinations, food safety, and other vital public health and safety net services. Giving states block grants to ensure that these basic services are not compromised and that states can continue to invest in education at all levels is a critical part of any recovery package.
- **\$ 3.2 Billion in Additional TANF Funds to the States:** With this recession, there is no doubt that more families will need basic assistance, and it is TANF that allows states and counties to meet these families' basic needs. However, many states, including Ohio, will not have enough TANF resources to assist our neediest families in each of the coming years. Since the establishment of the TANF program 13 years ago, there has not been an

increase. Additional TANF funds will help with the economic challenges low income families all across this nation are facing. And as states are dealing with revenue shortfalls, the state match to pull down these federal funds should be waived. Additionally, because there are currently fewer jobs available, penalties as a result of TANF work requirements should also be waived during this time of recession.

- **A Recovery Package is Needed Immediately:** Many governors must introduce their budgets in January and February 2009. Assistance is needed immediately if we are to avoid budgeting for and beginning to execute even more painful reductions. I am encouraged by the leadership of Speaker Nancy Pelosi and Senate Majority Leader Harry Reid and their commitment to move legislation quickly, and it is my hope that you could enact a recovery package your first week in office.

I would also be encouraged by other types of assistance, if coupled with the block grant to states and additional TANF funds, including enhanced FMAP, increases in food stamps, infrastructure investments, and unemployment trust fund resources.

Additionally, I am hopeful that by the time you take office in January, Congress will have passed and President Bush will have signed legislation to aid the auto industry and its suppliers. Passage of a \$25 billion package made available to General Motors, Ford, and Chrysler and to companies in the automotive supply chain is vital. Immediate financial support is critical to ensure continued, stable employment throughout the automotive supply chain. This support is also critical for the many other businesses and state and local governments most at risk from the industry's potential financial collapse. The failure of General Motors, Ford Motor Company or Chrysler Corporation would cascade through parts suppliers, materials industries, and technology companies that support the automotive market and, in turn, the services industries that are tied to all those businesses.

There will be no national economic recovery without strong states, and I have no doubt that Ohioans, with their resolve and creativity, will do their part and come together in extraordinary partnerships to meet the challenges before us. It is with this collaborative spirit and resolve that I write this letter asking for your partnership. I stand ready to work with you and your incoming administration on this challenge.

Sincerely,

Ted Strickland

Governor of Ohio

CC: The Honorable Nancy Pelosi, Speaker

The Honorable John Boehner, Minority Leader
The Honorable Harry Reid, Majority Leader
The Honorable Mitch McConnell, Minority Leader
Members of the Ohio Congressional Delegation