



Legal Foundations of the Budget

1. **Power of the purse** – No expenditure of state funds may be made from the state treasury without the authorization of the General Assembly, referred to as an appropriation (Ohio Constitution, Article II, Section 22).
2. **Appropriation duration** – An appropriation can be made for no longer than two years (Ohio Constitution, Article II, Section 22).
3. **State budget required** – The Governor must submit a state budget containing a complete financial plan for the next biennium to the General Assembly within four weeks after a new General Assembly organizes, or by March 15 in a year a new Governor is inaugurated. The Governor’s transportation budget proposal, however, must always be submitted within four weeks after a new General Assembly organizes. (R.C. 107.03.)
4. **Capital budget required** – The Governor also must submit a capital budget for public improvements. Typically, the capital budget is submitted during the second year of a General Assembly. (R.C. 126.03.)
5. **Appropriation limitations** – General Revenue Fund (GRF) appropriation growth is limited to either 3.5% or the sum of the inflation rate plus the rate of population change, whichever is greater. Exemptions are provided for appropriations made for emergency situations, tax relief or refunds, or made with a $\frac{2}{3}$ supermajority vote, and for appropriations of federal funds or donations. (R.C. 107.032 to 107.035 and 131.55 to 131.60.)
6. **Item veto** – The Governor may veto “any item or items in any bill making an appropriation of money” (Ohio Constitution, Article II, Section 16).
7. **Balanced budget required** – These two requirements, operating together, are interpreted to require a balanced budget:
 - a. **State debt prohibited** – The state is prohibited from incurring debt except to finance specified capital improvements, to fund casual deficits up to \$750,000, to defend the state in time of war or rebellion, and to fund other items that have been approved through a constitutional amendment (Ohio Constitution, Article VIII, Sections 2 and 3; see also item number 11, below);
 - b. **Adequate revenues required** – The General Assembly must provide for raising sufficient revenue to offset state expenses each year (Ohio Constitution, Article XII, Section 4).
8. **Mandatory spending reductions** – If anticipated receipts and available balances of the GRF for the current fiscal year will likely be less than GRF appropriations for the year, the Governor must order GRF spending reductions to prevent a deficit, and may order spending reductions if that situation occurs with respect to any other fund (R.C. 126.05).
9. **Fiscal emergency** – 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 (a) reduce expenditures or (b) implement personnel actions consistent with such an emergency, including mandatory cost savings days (R.C. 126.05).

10. **Controlling Board** – 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. The Board may authorize the expenditure of unexpected revenues for a specific or related purpose or item in any fiscal year in an amount less than 0.05% of the GRF appropriations for that fiscal year. (R.C. 131.35.)
11. **5% debt cap** – State bonds or other obligations cannot be issued if the total amount of debt service payments (principal and interest) that would 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 $\frac{3}{5}$ of the members of each house. (Ohio Constitution, Article VIII, Section 17.)
12. **Budget Stabilization Fund** – Maintained in an amount equal to approximately 10% 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.)
13. **Motor vehicle taxes** – 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 (Ohio Constitution, Article XII, Section 5a).
14. **Gambling proceeds** – Net state lottery proceeds can be used only for the support of elementary, secondary, vocational, and special education programs. The tax collected on gross casino revenue is distributed to local governments and oversight agencies in accordance with a specified formula. (Ohio Constitution, Article XV, Section 6.)
15. **Income, estate, and inheritance taxes** – At least 50% of income, estate, and inheritance taxes that the state collects must be remitted to the county, school district, city, village, or township in which the tax originates, or to any combination of those entities as determined by the General Assembly (Ohio Constitution, Article XII, Section 9).
16. **Application of the referendum and effective dates** – Both (1) appropriations for the current expenses of state government and (2) laws providing for tax levies go into immediate effect and are not subject to the referendum (Ohio Constitution, Article II, Section 1d).
17. **Binding of future general assemblies** – One General Assembly cannot bind the legislative authority of a future General Assembly through the enactment of a law, because all future general assemblies have the authority to amend or repeal that law (Ohio Constitution, Article II, Sections 1 and 15).