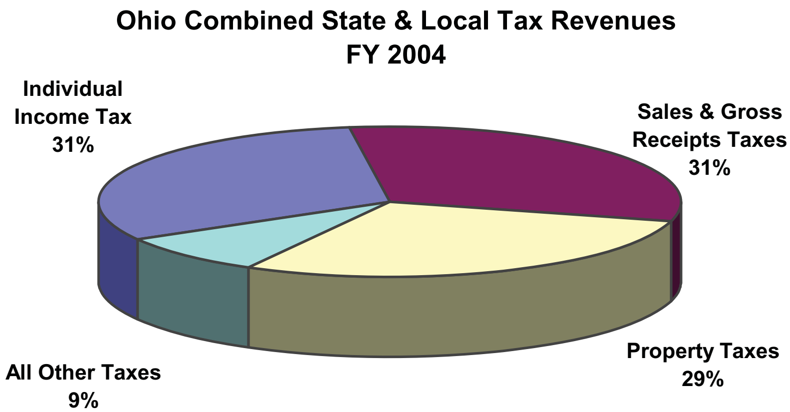
Ohio's State and Local Taxes Balanced among Income, Sales, and Property



*** Sales and gross receipts taxes include general state and local sales tax and excise taxes on specific products like tobacco, alcohol, motor fuels, and utility services.**

Sources: United States Census Bureau; Ohio Legislative Service Commission

- Ohio, like most other states, relies on the "Big 3" of property taxes, income taxes, and consumption taxes. In comparison with other states, Ohio's state and local tax system relies more heavily on the individual income tax, and somewhat less heavily on the property tax, on consumption taxes, and "other" taxes like the corporation franchise tax.
- State taxes accounted for 57.4% of combined state and local tax revenue in FY 2004. State taxes accounted for 71.5% of revenue from individual income taxes, 87.5% of revenue from sales and gross receipts taxes, and 86.2% of revenue from "other" taxes. Local taxes accounted for 99.6% of revenue from property taxes.
- For state taxes, 48.0% of tax revenue came from sales and gross receipts taxes, 38.7% from the individual income tax, 13.1% from "other" taxes, and 0.2% from taxes classified as property taxes.
- For local taxes, 67.1% of tax revenue came from property taxes, 20.9% from individual income taxes, 9.2% from sales and gross receipts taxes, and 2.8% from "other" taxes.

Ohio's Five-Year Tax Reform Plan

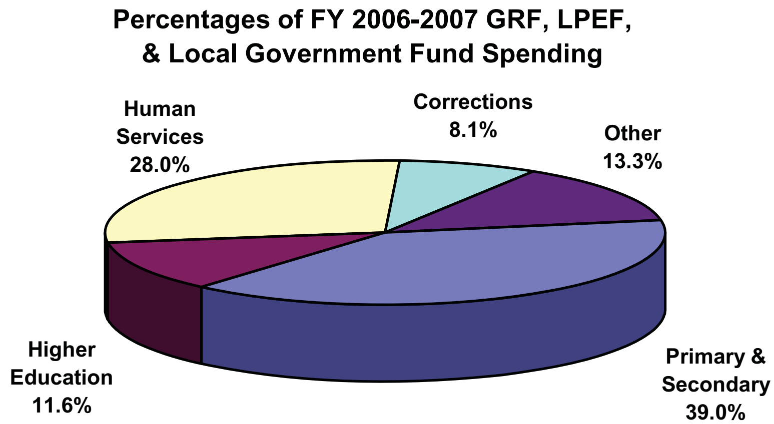
Am. Sub. H.B. 66 (126th General Assembly) made several changes to Ohio's tax structure. The most important changes in the five-year tax reform plan are described below.

- Taxes on tangible property are phased out over four years for most businesses beginning in tax year (TY) 2006, and over five years for telephone and telecommunications companies. Tangible property of other utilities remains taxable. The state initially reimburses local governments for lost revenues.
- The 10% tax "rollback" on real property of business is eliminated in TY 2005, increasing business taxes and reducing state reimbursement to local governments by equal amounts.
- Phaseout of state reimbursement to local governments for revenue lost due to the exemption of the first $10,000 of tangible property of each business, already under way, is accelerated, eliminating the payments after FY 2009 instead of FY 2012.
- The corporate franchise tax is phased out over five years for nonfinancial corporations, beginning in FY 2006. The tax will be reduced for general businesses in even per-year increments, and eliminated in FY 2010. Financial corporations, which have a different tax base than general corporations, will continue to pay the 13 mills franchise tax on their net worth base.
- The commercial activity tax, a new tax based on gross receipts, is phased in over five years, starting in FY 2006. The tax applies to any legal person with more than $150,000 in annual taxable gross receipts in Ohio. Businesses with annual gross receipts between $150,000 and $1 million pay an annual fee of $150. Those with receipts above $1 million pay $150 plus a tax rate of 0.26% on gross receipts in excess of $1 million.
- Income tax rates are reduced over a five-year period. The marginal tax rates for each income bracket are reduced by a total of 21%, beginning with taxable year 2005, in nearly even per-year increments. The income tax on trusts is made permanent. A new tax credit for low-income taxpayers effectively exempts taxpayers with taxable income that does not exceed $10,000.
- The sales and use tax rate is increased from 5.0% to 5.5%, starting July 1, 2005. The vendor discount is increased to 0.9%. Also, sales and use tax law is updated to substantially conform to the multi-state Streamlined Sales and Use Tax Agreement.
- The cigarette tax rate is increased from $0.55 to $1.25 per pack of 20 cigarettes, starting July 1, 2005. The tax on other tobacco products (cigars, snuff, chewing and smoking tobacco), at 17% of wholesale price, remains unchanged.

The Commercial Activity Tax (CAT)

- The commercial activity tax is the centerpiece of the five-year tax reform plan. Gross receipts from any business activity conducted for or resulting in gain, income, or profit are taxable. The tax applies to all legal persons with substantial nexus with Ohio. The CAT also applies to out-of-state businesses with taxable Ohio receipts. An out-of-state business is taxable if it has over $50,000 in real or personal property, $50,000 in payroll for work in Ohio, $500,000 in taxable gross receipts in Ohio, or has 25% or more of its activity in the state.
- Unlike the corporate franchise tax (CFT), which applies only to corporations, the commercial activity tax applies to any legal person with more than $150,000 in annual taxable gross receipts in Ohio regardless of the person's legal or organizational form, unless the business entity is specifically excluded. Public utilities, dealers in intangibles, insurance companies, and nonprofit institutions are exempt. These business entities will continue their current tax regimes. Financial institutions, banks' holding companies, financial holding companies, certain financial services companies, and majority-owned affiliates of all those companies and those of financial institutions and insurance companies are also exempt from the CAT. All of the exempted financial-type companies would be subject to the CFT if they are corporations and will continue to pay the 13 mills franchise tax on their net worth base.
- Revenues from the CAT are earmarked for the GRF and for reimbursing school districts and other local governments for the phaseout of local taxes on most tangible personal property. Revenues from the CAT are distributed to the School District Tangible Property Tax Replacement Fund (SDRF) and to the Local Government Tangible Property Tax Replacement Fund (LGRF). Percentages applied to the distribution of revenues from the CAT vary from year to year. No revenue will be distributed to the GRF from FY 2007 through FY 2011.
- A limited number of tax credits may be applied against the CAT. A taxpayer may apply against the CAT the credits for job creation, job retention, qualified research expenses, and qualified research and development loan payments. These credits are currently available for the CFT and the personal income tax.
- The CAT law includes a rate adjustment mechanism if revenues exceed or fall below certain thresholds during three specified "test" periods. If receipts from the CAT exceed the expected revenues for certain defined periods by more than 10%, the tax rate is adjusted downward. Excess revenue is credited to the Budget Stabilization Fund (BSF) and to the newly created CAT Refund Fund. Moneys credited to the CAT Refund Fund are returned to the CAT taxpayers. The tax rate may also be adjusted upward by the Tax Commissioner to meet revenue targets.

K-12 Education Largest Share of GRF, LPEF, & Local Government Fund Spending



Source: Table 2: State GRF, LGF, and LPEF Expenditures, FYs 1975-2007, Ohio Legislative Service Commission

State Spending from GRF, LPEF, and Local Government Funds (in millions)

	1998-1999	2000-2001	2002-2003	2004-2005	2006-2007*
Primary & Secondary	$11,654.4	$13,300.1	$15,147.5	$16,201.0	$16,803.4
Higher Education	$4,510.3	$4,951.5	$4,867.1	$4,852.3	$5,010.2
Human Services	$8,093.5	$8,835.6	$9,984.7	$11,312.0	$12,035.4
Corrections	$2,670.6	$3,085.7	$3,176.5	$3,293.4	$3,466.3
Other	$5,104.6	$5,753.5	$5,732.6	$5,651.4	$5,718.2

*2007 spending amounts approximated by appropriations as of August 2006

- State expenditures from the General Revenue Fund (GRF), the Lottery Profits Education Fund (LPEF), and the local government funds have grown 34.3% since the 1998-1999 biennium, from $32,033.4 million in FY 1998-1999 to $43,033.8 million in FY 2006-2007.

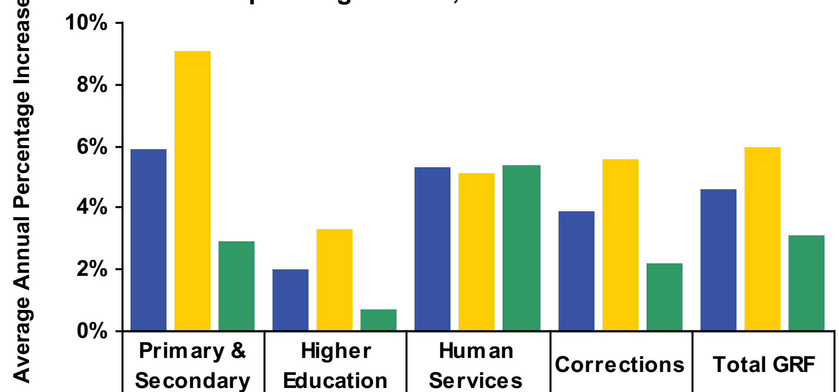
- Growth rates in expenditures for the major categories from the FY 2004-2005 biennium to the FY 2006-2007 biennium are Primary and Secondary (K-12) Education, 3.72%; Higher Education, 3.25%; Human Services, 6.40%; Corrections, 5.25%; and Other, 1.18%.

- The shares of the FY 2006-2007 biennial budget allocated to each of the major spending areas have changed since the FY 1998-1999 biennium by the following amounts: Primary and Secondary Education, 2.67% increase; Higher Education, 2.44% decrease; Human Services, 2.70% increase; Corrections, 0.28% decrease; and Other, 2.65% decrease.

- In the FY 2006-2007 biennium, K-12 Education and Higher Education together account for 50.7% of the entire state budget.

Spending Growth Varies across Program Areas and Years

GRF Spending Growth, FY 1997-FY 2007

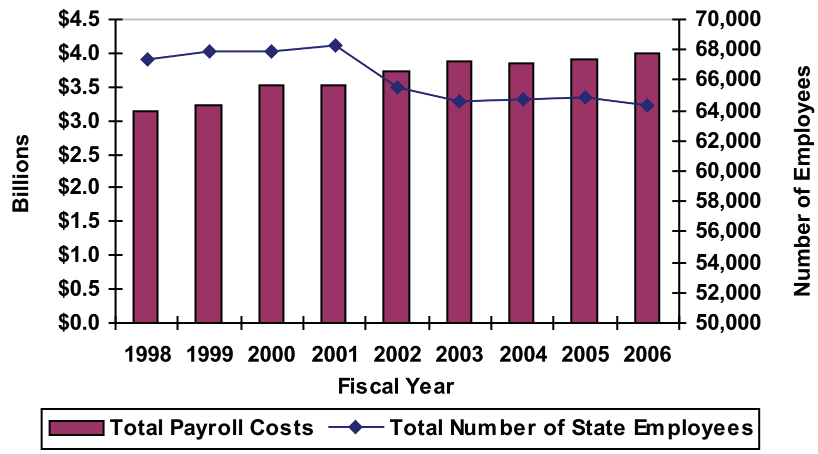


	Primary & Secondary	Higher Education	Human Services	Corrections	Total GRF
FY 1997-2007	5.9%	2.0%	5.3%	3.9%	4.6%
FY 1997-2002	9.1%	3.3%	5.1%	5.6%	6.0%
FY 2002-2007	2.9%	0.7%	5.4%	2.2%	3.1%

Source: Table 2: State GRF, LGF, and LPEF Expenditures, FYs 1975-2007, Ohio Legislative Service Commission

- Over the ten years encompassing actual FY 1997 expenditures through FY 2007 appropriations, total General Revenue Fund (GRF) spending grew at an average annual rate of 4.6%.
- Rates of spending growth differed sharply between the FY 1997-2002 period and the FY 2002-2007 period. In the FY 1997-2002 period, annual spending growth averaged 6.0%. In the FY 2002-2007 period, annual spending growth averaged 3.1%.
- In the FY 1997-2002 period, the fastest growing spending areas were primary and secondary education and corrections. The growth in corrections spending reflected the cost of building and operating a relatively large prison system, in combination with a dramatic expansion in community corrections programs.
- In the FY 2002-2007 period, the fastest growing spending areas are human services and primary and secondary education. The growth in human services spending is primarily attributable to growth in Medicaid caseloads and increasing health care costs paid by Medicaid.

Payroll Costs Increase Modestly as State Employment Declines



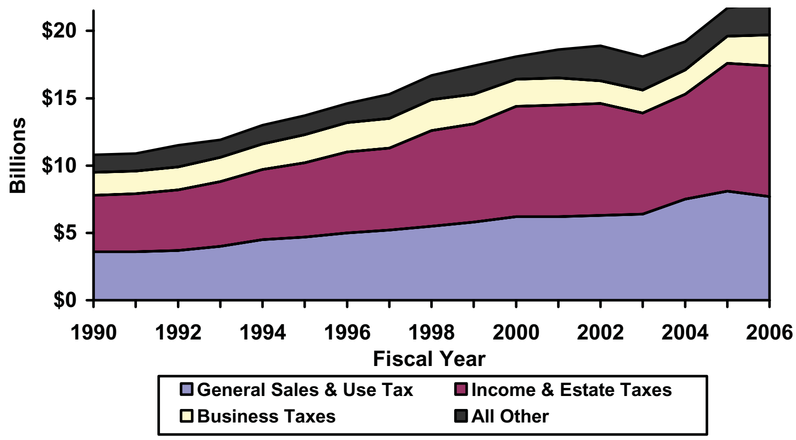
Source: Ohio Department of Administrative Services

- From June 1998 to June 2006, the number of employees on the state payroll declined from 67,371 to 64,298, a 3.7% decline.[1] Most of this decline occurred during FY 2002, especially among the rehabilitation and corrections, criminal justice services, natural resources, and mental health agencies.
- Total FY 2006 state payroll was $3.98 billion for all state funds. Payroll covered by the General Revenue Fund (GRF) amounted to 46.7% of total state payroll, or $1.86 billion. This proportion has remained fairly constant since FY 1998.
- Earned wages and overtime, which represent the largest share of payroll costs, totaled $2.53 billion in FY 2006, compared to $2.06 billion in FY 1998. This category includes wages for work performed, but not vacation and sick leave.
- The cost of employee benefits—such as retirement contributions, health, vision, and dental care, life insurance, and other fringe benefits—represents the second-largest portion of payroll costs, amounting to $1.39 billion in FY 2006. In FY 1998, employee benefit costs totaled $1.04 billion.

[1] These figures include full-time and part-time permanent employees of cabinet agencies, elected officials' offices, and employees of boards and commissions appointed by the Governor. Not included in this count are employees of colleges and universities and the Ohio Turnpike Commission.

GRF & LPEF State-Source Receipts Dominated by the Income Tax and the General Sales Tax

GRF and LPEF State-Source Receipts, FYs 1990-2006



Sources: Ohio Office of Budget and Management; Ohio Legislative Service Commission

- In FY 2006, total state General Revenue Fund (GRF) receipts (excluding federal grants) and net profits from lottery ticket sales amounted to $22.1 billion. The personal income tax ($9.7 billion) and the general sales and use tax ($7.7 billion) were the most important revenue sources in FY 2006, accounting for 78.4% of receipts.

- Over time, the largest contributors to the "All Other" category have been transfers to the Lottery Profits Education Fund (LPEF) and transfers from the Income Tax Reduction Fund (ITRF), the Budget Stabilization Fund (BSF), and the Tobacco Master Settlement Agreement Fund (TMSAF) to the state GRF. In FY 2005 and FY 2006, transfers to the LPEF were $638.9 million and $646.3 million, respectively. Transfers from the TMSAF were $234.7 million in FY 2005, and $5.0 million in FY 2006. There were no transfers from the ITRF or the BSF in the last two years.

- From FY 1990 to FY 2006, state-source GRF and LPEF receipts increased at a compounded annual growth rate of 4.6%. Ohio personal income grew at an annual compounded rate of 3.8% between FY 1990 and FY 2006.

- With the growth in the sales tax and the income tax, the relative importance of the "business taxes"—the corporation franchise tax, the public utility taxes, and the insurance taxes—has declined. These sources were over 16.1% of state-source GRF and LPEF receipts in FY 1990; they were only 10.2% of those receipts in FY 2006. The contribution of "All Other" was 11.7% of state-source GRF and LPEF receipts in FY 1990, and 11.3% in FY 2006.

Tax Burden Comparisons

Combined State and Local Taxes, FY 2004

	Taxes as % of Income	Rank*	Taxes Per Capita	Rank*
National Average	10.4		$3,447	
Ohio	**11.0**	**9**	**$3,419**	**20**
Neighboring States				
Indiana	9.9	34	$2,999	29
Kentucky	10.1	24	$2,767	39
Michigan	10.3	19	$3,313	24
Pennsylvania	10.3	19	$3,447	19
West Virginia	10.6	14	$2,740	40

*Highest to lowest

Sources: United States Census Bureau; Ohio Legislative Service Commission

- Ohio's FY 2004 combined state and local tax burden, measured by taxes per capita ($3,419) was lower than the national average and higher than those of its neighbors, except Pennsylvania. Taxes as a percentage of personal income (11.0%) were higher than both the national average and those of all its neighbors.
- Ohio's per capita tax burden from state taxes is below the national average and its tax burden from local taxes exceeds the national average.
- For FY 2004, Ohio's state taxes were $1,963 per capita while local taxes were $1,456 per capita. U.S. averages were $2,014 for state taxes and $1,432 for local taxes.
- As a percent of income, Ohio's tax burden exceeds the national average. As Ohio's income growth continues to lag the nation's average income growth, this measure of tax burden increases. For FY 2004, Ohio's state taxes were 6.3% of personal income and local taxes were 4.7% of personal income. The U.S. average was 6.1% for state taxes and 4.3% for local taxes.
- In FY 2004, New York had the highest per capita combined state and local tax burden at $5,260, while Alabama had the lowest at $2,328.
- New York had the highest level of combined state and local taxes as a percentage of personal income at 13.7%, and Alabama had the lowest at 8.4%.

Ohio Taxes Higher than National Average and Neighbors in FY 2004

Combined State and Local Taxes as a Percentage of Income, FY 2004

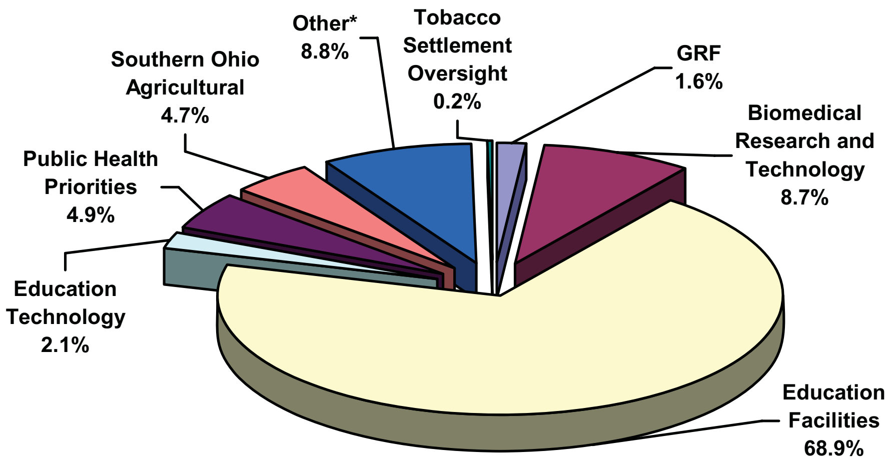
	Ohio	U.S.	WV	MI	PA	KY	IN
Total Taxes	**11.0%**	**10.4%**	**10.6%**	**10.3%**	**10.3%**	**10.1%**	**9.9%**
Individual Income	3.4%	2.2%	2.3%	2.0%	2.5%	3.2%	2.3%
Property Tax	3.1%	3.3%	2.1%	3.7%	3.0%	1.9%	3.2%
Sales & Gross Receipts	3.5%	3.7%	4.6%	3.4%	3.1%	3.8%	3.7%
General Sales	2.6%	2.5%	2.2%	2.4%	1.9%	2.2%	2.5%
Selective Sales	0.9%	1.2%	2.4%	1.0%	1.2%	1.6%	1.2%
Motor Fuel Sales	0.4%	0.4%	0.7%	0.3%	0.4%	0.4%	0.4%
Alcoholic Beverages	0.0%	0.1%	0.0%	0.0%	0.1%	0.1%	0.0%
Tobacco	0.2%	0.1%	0.2%	0.3%	0.2%	0.0%	0.2%
Public Utility	0.1%	0.2%	0.5%	0.0%	0.3%	0.2%	0.0%
Other Sales	0.2%	0.4%	1.0%	0.3%	0.2%	0.9%	0.5%
Corporate Income	0.3%	0.3%	0.4%	0.6%	0.4%	0.3%	0.3%
Motor Vehicle Licenses	0.2%	0.2%	0.2%	0.3%	0.2%	0.2%	0.1%
Other Taxes	0.4%	0.7%	1.1%	0.4%	1.1%	0.7%	0.3%

Sources: United States Census Bureau; Ohio Legislative Service Commission

- In FY 2004, Ohio's combined total state and local taxes as a percentage of income was higher than the U.S. average and those of its five neighbors.
- Ohio has low to average sales taxes and property taxes. However, Ohio's individual income tax stands out as being high relative to the U.S. average and relative to all its neighbors.
- Personal income growth in Ohio has lagged that of the U.S. and its neighbors between 2000 and 2004, except for Michigan. This has tended to increase the tax burden for Ohio relative to the U.S. and its neighbors.
- Ohio's graduated income tax is more progressive (that is, the tax rate on higher incomes is greater than the tax rate on lower incomes) than in most other states. This helps make Ohio's system relatively evenly balanced between income, sales, and property taxes.

Ohio Continues to Receive Tobacco Master Settlement Dollars

Distribution of Tobacco Settlement Revenue in FY 2006

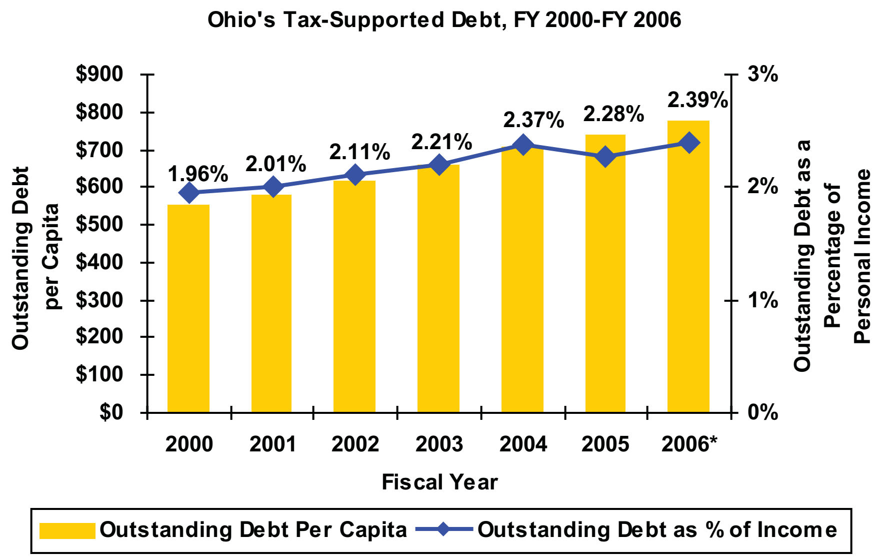


***Other includes: Children's Hospitals, Healthy Ohioans, Lung Cancer/ Disease Research, and Auto Emissions Testing**

Source: Ohio Office of Budget and Management

- In November 1998, 46 states, five U.S. territories, and the District of Columbia signed the Tobacco Master Settlement Agreement (MSA) with the United States' largest tobacco manufacturers. Florida, Minnesota, Mississippi and Texas settled separately. Under the terms of the MSA, Ohio was originally projected to receive about $10.1 billion through 2025.
- Through FY 2006, Ohio has received a total of $2.395 billion in MSA revenue. The Office of Budget and Management estimates that Ohio will receive $294.0 million in FY 2007.
- Distribution of tobacco revenue is specified in section 183.02 of the Revised Code. However, since 2002 the General Assembly has authorized the transfer of a total of $837.5 million in tobacco settlement revenue to the General Revenue Fund. (Actual amount transferred was $809.8 million.)
- Master Settlement dollars have been distributed to the following: the departments of Health, Alcohol and Drug Addiction Services, Public Safety, Development, Job and Family Services, and Taxation; Environmental Protection Agency; Commission on Minority Health; School Facilities Commission; eTech Ohio; Attorney General's Office; Controlling Board; the Southern Ohio Agricultural and Community Development Foundation; the Tobacco Use Prevention and Control Foundation; and the General Revenue Fund.

Ohio's Tax-Supported Debt

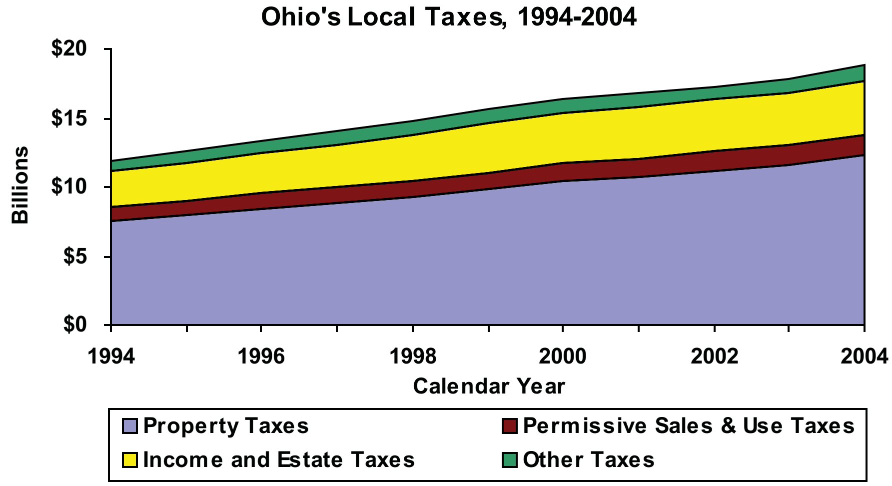


***Based on July 2005 population estimate and 2005 personal income.**

Source: Information Concerning the State of Ohio, Bonds and Debt Management, Ohio Office of Budget and Management, August 1, 2006

- Ohio's tax-supported debt is made up of general obligation (GO) debt and special obligation (SO) debt. As of July 1, 2006, the outstanding GO and SO debt payable from the state's GRF totaled $8.9 billion. GO debt outstanding totaled $5.7 billion and SO debt outstanding totaled $3.2 billion.
- Outstanding debt per capita has grown by 39.7% between FY 2000 and FY 2006. Overall, Ohio ranked 34th in debt per capita in 2004 (ranking is from highest debt per capita to lowest). As a percentage of personal income, outstanding debt has trended upward over this period.
- GO debt has been authorized by 18 constitutional amendments, mainly for the financing of capital facilities, and is backed by the state's full faith and credit. Debt service payments are guaranteed by the pledge of taxes or excises.
- SO debt is authorized for specified purposes by Section 2i of Article VIII of the Ohio Constitution, and debt service payments are subject to biennial appropriations by the General Assembly.
- As of December 1, 2005, Ohio GO bonds were rated AA+ by Fitch, Aa1 by Moody's, and AA+ by S & P—the three major rating agencies.

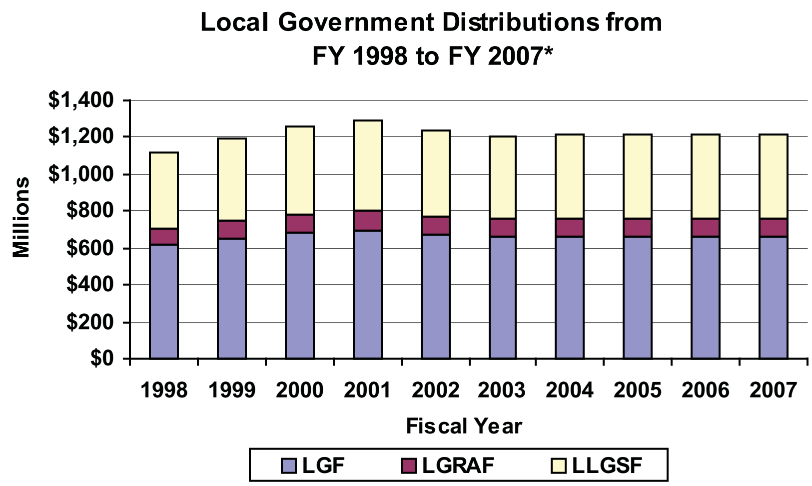
Local Property Taxes Continue to Be a Dependable Source of Revenue



Sources: Ohio Department of Taxation; Ohio Office of Budget and Management

- In 2004, $18.8 billion in local taxes were collected in Ohio. Property taxes yielded $12.3 billion. Combined income and estate taxes generated $3.9 billion. Sales and use taxes provided $1.5 billion. Other taxes (alcohol, cigarette, admission, lodging, motor vehicle fuel, and motor vehicle license) generated $1.0 billion. Data are on a calendar year basis except for the estate tax, which is on a fiscal year basis.
- From 1994 to 2004, total local tax revenue grew at an average of 5.7% annually. Growth in property tax revenue was higher, averaging 6.3% annually. Sales and use tax revenues grew at a 6.4% annual rate. The income and estate taxes grew at a 5.1% annual rate and all other taxes grew an average of 2.2% annually.
- In the last two years, total local tax revenue grew at a slower rate, averaging 4.4% annually. Property taxes grew 5.2% annually, sales and use taxes grew 4.3%, and income and estate taxes grew 2.1%. Other taxes increased 3.0% per year.
- Over the ten-year period from 1994 to 2004, the relative importance of the property tax increased from 63.5% of local revenue to 65.7%. Sales and use taxes grew from 7.6% of revenue to 7.9%. The income and estate taxes decreased from 21.8% of revenue to 20.9%. Other taxes decreased in relative importance, from 7.1% to 5.5%.

State-Shared Revenue Supports Local Governments

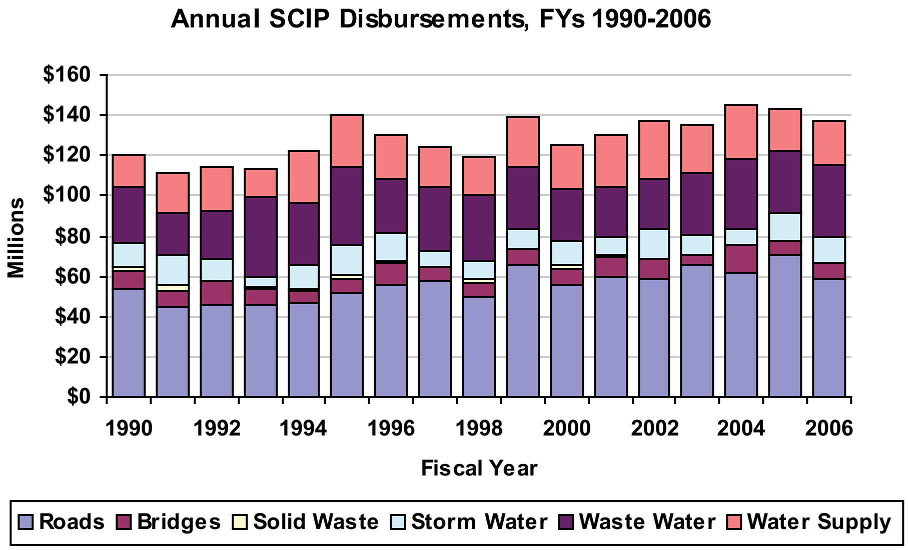


***Data do not include dealers in intangibles tax revenues. FY 2007 spending amounts are approximated by appropriations as of August 31, 2006.**

Source: Ohio Office of Budget and Management monthly revenue reports

- Over the past five fiscal years, local governments and libraries have received more than $6 billion in state-shared revenue: $3.3 billion from the state Local Government Fund (LGF), $475 million from the Local Government Revenue Assistance Fund (LGRAF), and $2.3 billion from the Library and Local Government Support Fund (LLGSF).
- In CY 2004, approximately $756.4 million was distributed to Ohio's local governments from the LGF and LGRAF. Of that total, $257.9 million (34%) was distributed to counties, $430.3 million (57%) went to municipalities, $66.7 million (9%) went to townships, and the rest (less than 1%) went to certain park districts. Local libraries in 88 counties in Ohio received $455.5 million from the LLGSF in CY 2004.
- The LGF and LGRAF receive their funding from the five major state tax sources: sales and use tax, personal income tax, corporate franchise tax, public utility and excise tax, and kilowatt-hour tax. Funding for the LLGSF comes from the personal income tax.
- Recent state operating budgets have included "temporary adjustments to local government distributions." Under these "freezes" tax receipts that would otherwise have been credited to the local funds are instead credited to the GRF. The effect of the freezes can be seen in the chart above. After growing through FY 2001, distributions were reduced in FYs 2002 and 2003 and have remained at the FY 2003 level for FYs 2004 through 2007.

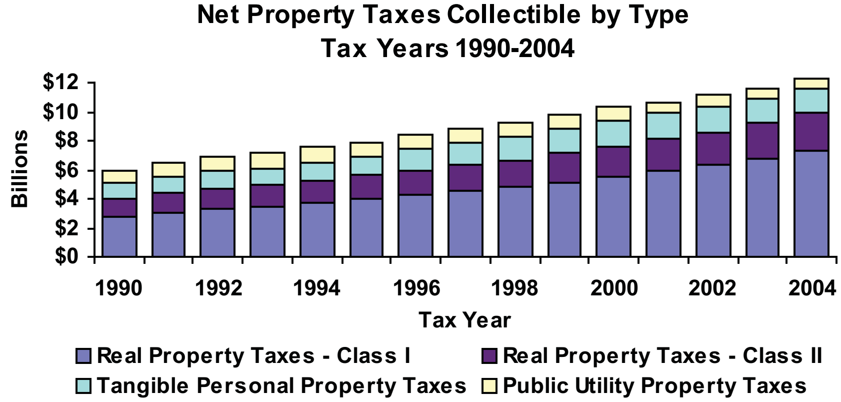
State Capital Improvements Program Funding Authorized for Another Ten Years



Source: Ohio Public Works Commission

- The State Capital Improvements Program (SCIP) supports local government infrastructure construction. It was created by constitutional amendment in 1987 and recently reauthorized by Am. Sub. H.J.R. 2 of the 125th General Assembly. The Public Works Commission (PWC) is the administrator of the program. After October 2006, $120 million will remain to be spent from prior authorizations. The program is commonly referred to as "Issue 2" funding.
- The program has disbursed $2.18 billion since 1990. The new authorization will allow for up to $1.35 billion in general obligation bonds to be issued starting in December 2009 and continuing until 2018 or later.
- A total of $137 million was disbursed in 2006. Almost half of the money went to cities ($64 million), followed by counties ($41 million), villages ($19 million), townships ($7 million), and water districts ($5 million). In 2006, 60% of the program's disbursements were grants.
- Projects are ranked and recommended locally by one of 19 district public works integrating committees. The PWC then determines which projects will receive funding and uses the SCIP funds to reimburse political subdivisions for project costs.

Taxes on Real Estate Have Grown Faster than Other Types of Property Taxes



Sources: Ohio Department of Taxation; Ohio Legislative Service Commission

Percentage Change in Property Taxes Collectible, 1990-2004

	Real Property Class I	Real Property Class II	Tangible Personal Property	Public Utility Property	Total Property Taxes
Total Change	159.8	114.9	43.7	-3.0	106.5
Average Annual Change	7.1	5.6	2.6	-0.2	5.3

- Taxes on real property in Ohio increased 146%, 6.6% per year on average, from tax year 1990 to tax year 2004. Residential and agricultural (Class I) real property taxes rose faster than taxes on other (Class II) real property, as residential property values rose more rapidly. Taxes rose more slowly on tangible property of general business and fell on public utility tangible property.
- Approximately two-thirds of all property taxes go to local school districts.
- Taxes charged (levied) on residential and agricultural real property exceed net taxes collectible by a 10% rollback. In addition, homeowners are eligible for a 2.5% rollback on their residences, and low-income elderly or disabled homeowners are eligible for further tax reduction under the homestead exemption. The state reimburses local governments for revenues forgone due to these programs. The 10% rollback was eliminated for business taxpayers in tax year 2005, along with state reimbursement.
- The assessment rate for tangible personal property of business was 25% of true value in tax years 2004 and 2005, except for inventories, assessed at 23%. The first $10,000 of business tangible property is exempt from tax. As part of the 2005 tax reform, assessment rates on all tangible property of general business fall to 0% in tax year 2009, and new manufacturing equipment was exempted from tax in 2006 and thereafter. Phaseout of state reimbursement to local governments for the $10,000 exemption was accelerated.