
Detailed Fiscal Analysis

Substitute Senate Joint Resolution 4 (S.J.R. 4) proposes a constitutional amendment earmarking **minimum percentages** of receipts from the state individual income tax, the sales and use tax, the commercial activity tax, and the kilowatt-hour tax for primary, secondary, and higher education funding. All state lottery profits continue to be earmarked specifically for primary and secondary education. The percentages for the earmarks are as follows: individual income tax (61.8%), sales and use tax (72%), commercial activity tax (70.0%), and kilowatt-hour tax (25.4%). Earmarked tax revenues and lottery profits would be credited to a new Education Fund. The resolution also requires the creation of an Education Stabilization Fund by the General Assembly to stabilize education funding against cyclical changes in revenues and expenditures. The fund will be similar in purpose to the existing Budget Stabilization Fund.

The following table shows sources of funds for education appropriations in FY 2009 according to S.J.R. 4.

Sources of Funding FY 2009 (in millions)	
Funding from Income Tax Revenue	\$5,669.8
Funding from Sales and Use Tax Revenue	\$5,669.8
GRF Funding	\$11,339.6
Funding from Lottery Profits Education Fund (LPEF)	\$667.9
Funding from the Revenue Distribution Fund (RDF)	\$854.4
1. School District Property Tax Replacement – Commercial Activity Tax	\$763.3
2. School District Property Tax Replacement – Tax on Electric Utilities	\$91.1
Non-GRF Funding	\$1,522.3
Total FY 2009 Appropriations (GRF, LPEF, RDF)	\$12,861.9

Based on the LSC revenue forecasts for Am. Sub. H.B. 119, the General Revenue Fund (GRF) would provide \$11,339.6 million in funding for appropriations to education in FY 2009. GRF funding would be from the personal income tax and the sales and use tax. Including funding from the Lottery Profits Education Fund (LPEF), the share of commercial activity tax (CAT) earmarked for school districts, and distributions from the kilowatt-hour tax earmarked for schools in the Revenue Distribution Funds (RDF), combined total funding for education would be \$12,861.9 million in FY 2009. Dedicated funds for education from the Ohio lottery profits, commercial activity tax receipts, and revenues from the kilowatt-hour tax are ***all non-GRF funds***. In H.B. 119, schools are appropriated \$667.9 million from the LPEF. Schools also are to receive funds from RDF totaling \$854.4 million. Funds in the RDF for education include appropriations of \$763.3 million from CAT and \$91.1 million from the kilowatt-hour tax on electric utilities.

Current non-GRF earmarks for education remain unchanged in the joint resolution proposal. The earmark percentage for CAT (70%) equals the percentage currently earmarked for primary and

secondary school funding. This percentage was established by Am. Sub. H.B. 66 (126th General Assembly) to reimburse school districts for the phase out and elimination of local taxes on business tangible personal property. Am. Sub. S.B. 3 (123rd General Assembly) established the percentage of the kilowatt-hour tax receipts earmarked for utility deregulation-related property tax replacement. The Ohio Constitution currently requires that net proceeds of any lottery conducted by the state to be credited to the Lottery Profits Education Fund and expended only for primary and secondary education (including vocational and special education). S.J.R. 4 modifies the current constitutional requirement by requiring the crediting of net proceeds from the Ohio Lottery to the Education Fund and preserves the requirement that the proceeds be used solely for primary and secondary education.

For Am. Sub. H.B. 119, LSC forecasted GRF receipts of \$9.2 billion and \$7.9 billion for the personal income tax and the sales and use tax, respectively. Based on those forecasts, 61.8% of GRF receipts from the personal income tax and 72.0% of GRF receipts from the sales and use tax would provide the necessary funding for FY 2009 GRF education appropriations. Updated forecasts of revenues are likely to yield tax receipts that are different than those presented in the table. Under S.J.R. 4, amounts that are to fund appropriations will vary based on actual receipts, which may differ from forecasted amounts. Tax revenues depend on several factors, primarily state tax policy and the state of the economy. Revenues fluctuate with changes to the taxable base and to the tax rates. Also, receipts fluctuate with the business cycle. A growing economy increases tax revenues, while a sagging economy acts to decrease tax revenues.

Although S.J.R. 4 guarantees that certain tax revenues are dedicated to education funding, the resolution has no direct fiscal impact on state or local revenues. The resolution may or may not have a direct fiscal impact on state or local government expenditures. Appropriations (or spending authority for a specific purpose) are set during the budgetary process. If tax revenues and lottery profits are higher than anticipated for a certain fiscal year, S.J.R. 4 may or may not increase actual spending for primary, secondary, and higher education for that year. Any excess revenue above the level of appropriations required or established by the budget act may be spent or deposited in the Education Stabilization Fund. (S.J.R. 4 does not designate a source of money for the Education Stabilization Fund.) Also, S.J.R. 4 may or may not have a direct impact on education funding if tax revenues and lottery profits lag because the joint resolution only requires minimum percentages for the earmarks. Under this scenario, revenue from earmarks for the fiscal year might be below the level of appropriations established in the budget act, and funds in the Education Stabilization Fund may or may not be used to fill the gap between tax receipts from earmarks and appropriations. Ultimately, the impact of S.J.R. 4 on GRF and non-GRF spending is uncertain because it depends on appropriations set in the budget process and the allocation of state resources among competing needs every two years.

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