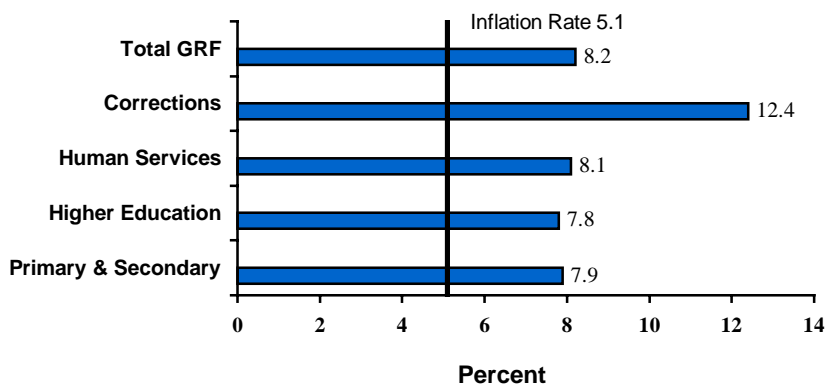


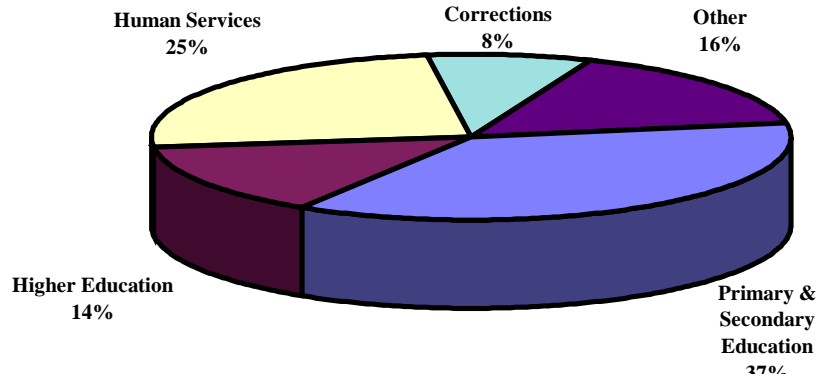
Spending Growth Varies Across Program Areas



- Over the period encompassing actual fiscal year 1975 expenditures through 1999 appropriations; GRF corrections spending, dominated by the Department of Rehabilitation and Correction, will have experienced a meteoric growth rate relative to most other areas of state spending. This growth is largely due to the combined effects of a steadily increasing inmate population and an aggressive prison construction program.
- From a fiscal perspective, the trade-off accompanying the higher annual growth rate associated with corrections spending are fairly obvious — more for some necessarily means less for others.
- These historical patterns are shifting as evidenced by the average growth rate for each program area during fiscal years 1998 and 1999: Corrections - 7.2 percent; Human Services - 3.6 percent; Higher Education 5.0 percent; and Primary and Secondary Education - 8.3 percent.

Spending on K - 12 Education Comprises Largest Share of the State Budget

Spending as a Percent of the FY 1998 - 99 State Budget



State Spending in Millions

	1990-1991	1992-1993	1994-1995	1996-1997	1998-1999*
Primary & Secondary	7,936.6	8,331.2	9,015.9	10,067.4	11,715.5
Higher Education	3,361.4	3,300.0	3,649.2	4,087.8	4,520.2
Human Services	5,983.5	6,839.0	7,126.2	7,361.5	7,925.2
Corrections	1,116.4	1,319.5	1,744.5	2,265.6	2,668.6
Other	3,546.6	3,452.3	3,920.5	4,472.3	5,187.2

*FY 1998 appropriations are from the main appropriation acts of the 122nd General Assembly. FY 1999 appropriations include subsequent legislative actions, which provided additional funding for primary and secondary education and reduced appropriations in other categories.

- Total spending has grown 46 percent during the 1990's.
- Growth rates in spending for major categories are: Corrections, 139 percent; Human Services, 32.5 percent; Primary and Secondary Education, 47.6 percent; and Higher Education, 34.5 percent.
- The share of the biennial budget allocated to each of the major spending areas has changed in the 1990's by the following amounts: Primary and Secondary Education .4 percent increase; Higher Education 1.2 percent decline; Human Services 2.5 percent decline; Corrections 3.2 percent increase.

Although Taxes Have Increased Ohio is Still a Moderate Tax State

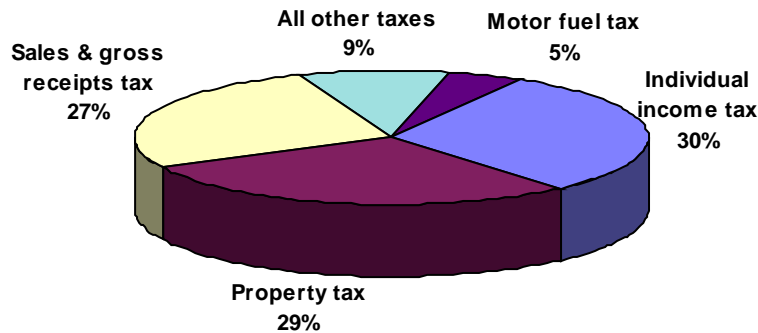
Comparative Tax Measures

FY 1995	Tax/Income Percentage	Rank	Taxes Per-Capita	Rank
National Average	11.7	na	\$2,514	na
Ohio	11.6	24	2,405	22
Neighboring States				
Indiana	11.0	39	2,201	34
Kentucky	11.9	16	2,101	38
Michigan	11.1	37	2,454	21
Pennsylvania	11.2	35	2,477	17
West Virginia	11.5	29	\$1,955	43

- Ohio is still below the national average in state and local taxes as a percentage of income, or in taxes per-capita. However, Ohio's rankings among the states increased substantially since FY 1993.
- Two years prior, Michigan had much higher taxes as a percentage of income than Ohio. This changed after Michigan scaled back its property taxes as part of its school finance reform.
- Although Ohio ranked 24th in taxes as a percentage of income, it ranked only 38th in total own-source revenue as a percentage of income. Ohio own-source state and local revenue was 15.8 percent of personal income in 1995, vs. 16.7 percent nationally. This indicates that Ohio collects relatively little non-tax revenue, through fees, charges, and assessments.
- Own-source revenues include taxes, governmental charges, and fees for services, as well as investment income and revenue from utility sales, but excludes federal grant money.

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

Ohio State & Local Tax Revenues, FY 1995



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

- Ohio state and local taxes are very evenly balanced between the “Big 3” of property taxes, income taxes, and consumption taxes. In comparison with other states, Ohio’s tax system relies more heavily on the individual income tax, and somewhat less heavily on the property tax and on consumption taxes (and “other” taxes like the corporate income tax or franchise tax).
- Ohio’s per-capita state and local taxes were 4.3 percent below the national average in FY 1995. Ohio’s per-capita property taxes were 10.5 percent below the national average, and its sales and gross receipts taxes were 16.5 percent below. On the other hand, Ohio’s per-capita individual income tax collections were 39.5 percent above the national average, and its motor fuel taxes were 12.6 percent above.
- Taxes accounted for \$26.82 billion of Ohio’s own-source government revenues in FY 1995, while fees and other non-tax sources accounted for another \$10.03 billion, or 27.2 percent of the own-source total of \$36.85 billion. Fees and charges account for \$6.21 billion of the non-tax revenue. Educational institutions collect about 41 percent of the fee and charge revenue (about 4/5 through higher education). Hospitals collect another 21 percent, and about 18 percent comes from waste disposal charges.
- Besides fees and charges, the main sources of non-tax revenue to Ohio’s state and local governments are investment income (\$1.47 billion) and utility revenues (\$1.67 billion). Utility revenues, which are completely local, grew by 36.1 percent over the three years from FY 1992 to FY 1995.

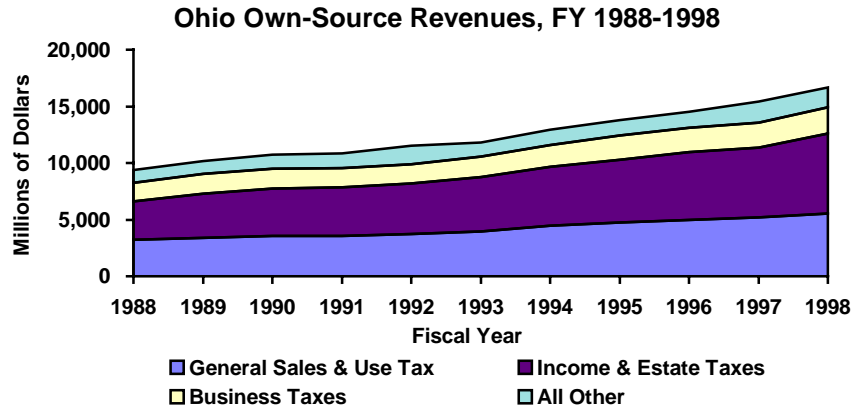
Ohio State and Local Taxes, by Type, Compared to Neighboring States (FY 1995)

State and Local Taxes as a Percent of Income

	U.S.	IN	KY	MI	OH	PA	WV
Total Taxes	11.7	11.0	11.9	11.1	11.6	11.2	11.5
Property tax	3.6	3.6	1.9	3.1	3.3	3.2	2.2
Sales & gross receipts	4.2	3.1	4.5	3.7	3.6	3.3	4.8
General sales	2.8	2.3	2.5	2.8	2.4	2.1	2.5
Selective sales taxes	1.4	0.8	2.0	0.9	1.2	1.2	2.2
Individual income	2.4	3.1	3.6	2.8	3.5	2.6	2.3
Corporate income	0.6	0.8	0.5	1.0	0.3	0.7	0.7
Other taxes	0.7	0.2	1.2	0.3	0.5	1.2	1.2

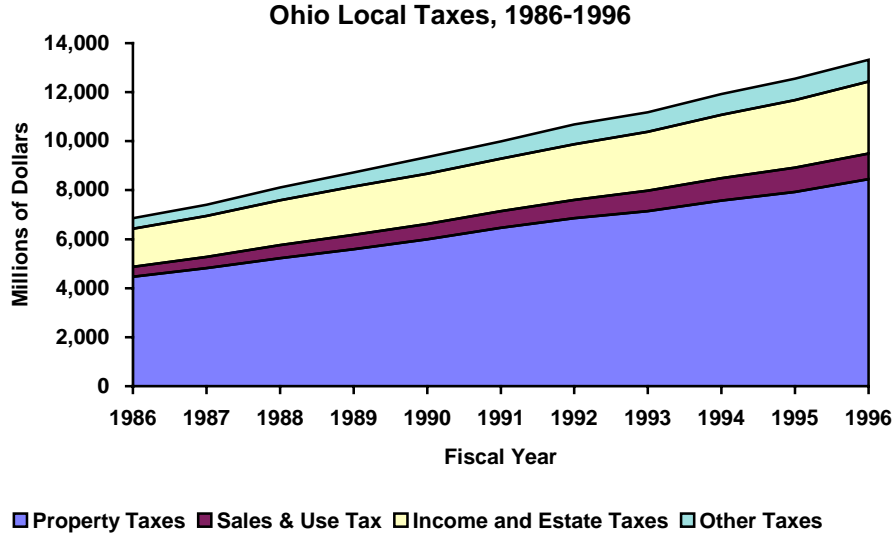
- Ohio's state and local taxes as a percentage of income were lower than all its neighboring states except Indiana in FY 1993. By FY 1995, Ohio was slightly higher than all its neighboring states except Kentucky. However, Ohio remained below the U.S. average.
- Ohio has low to average sales taxes and property taxes. The place where its taxes stand out as being high relative to its neighbors, and to the U.S. average, is in the individual income tax.
- Ohio's graduated income tax allows it to score well relative to other states in terms of the progressivity of its tax system (burden on rich taxpayers relative to poor ones). It also makes its system relatively well balanced between income, sales, and property. However, it may act as a negative factor in economic development.

State Own-Source Revenues Dominated by Income Tax, General Sales Tax



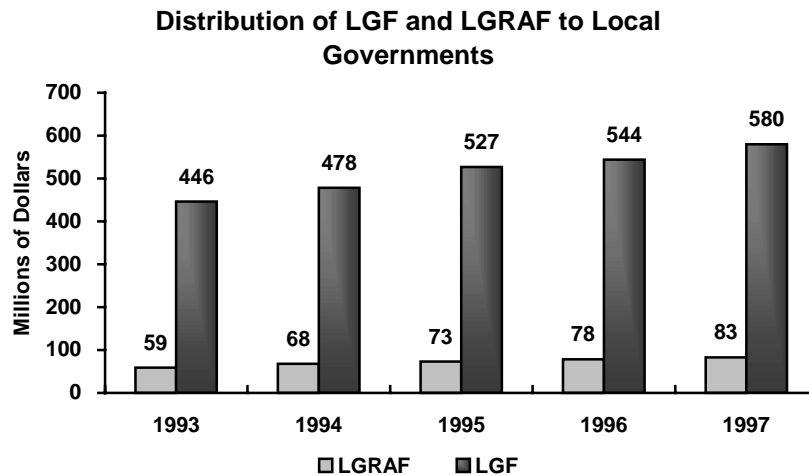
- In FY 1998, total state revenue was \$16.7 billion. This figure includes tax and non-tax revenue. The personal income tax (\$6.9 billion + \$235 million in ITRF transfers) and the general sales and use tax (\$5.5 billion) were the most important revenue sources, accounting for 76 percent of state revenue. Lottery profits were the biggest source of non-tax revenue, at \$723.9 million.
- From FY 1988 to FY 1998, state own-source revenues increased at a compounded annual growth rate of 5.9 percent. Inflation-adjusted growth over the period was 2.4 percent compounded annually.
- Most of the growth in state revenue since 1971 is from the personal income tax, which was adopted in 1971 and first collected in FY 1972. Ohio's corporate franchise tax was changed to include a net income basis at the same time.
- After the adoption of the income tax, several changes to the base and the rates were made. The largest changes were made in 1982-83, when rates were increased and new tax brackets were added. For the first 9 full years of the income tax, annual revenues increased by \$0.9 billion. After the rate increases, annual collections grew by \$3.0 billion over the next 9 years.
- With the growth in the sales tax and the income tax, the relative importance of the "business taxes" - the corporate tax, the public utility taxes, and the insurance taxes - has declined. These sources were over 26 percent of total state revenue in FY 1979; they were less than 14 percent in FY 1998.

Local Property Taxes Are Still A Cash Cow



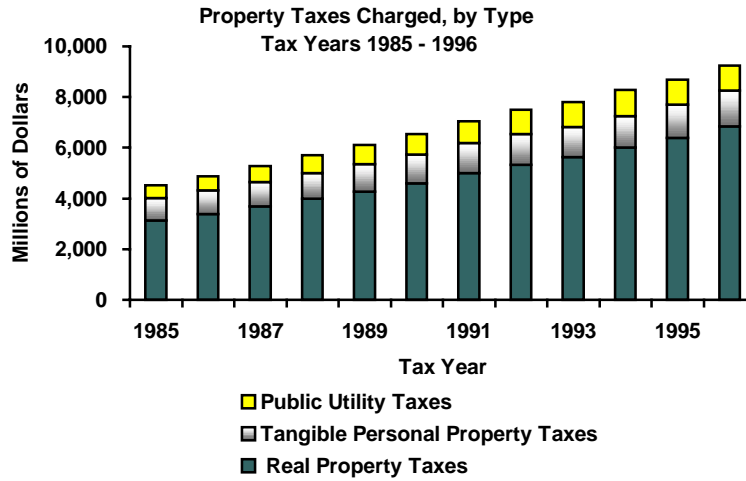
- In 1996, \$13.3 billion in local taxes were collected. Property taxes yielded \$8.4 billion. Income and estate taxes generated \$2.9 billion. Sales and uses taxes yielded \$1.1 billion. Other taxes (alcohol, cigarette, lodging, motor vehicle fuel, and motor vehicle license) generated \$885 million.
- In 1996, property taxes accounted for 63.4 percent of local tax revenues. Income and estate taxes made up 22.1 percent. Sales and use taxes accounted for 7.9 percent. Other taxes yield the remaining 6.6 percent.
- Over the 10 year period from FY 1986 to FY 1996, there was a small shift away from reliance on the property tax and toward reliance on the permissive sales tax. However, the shift was very gradual: the property tax went from 65.1 percent of local revenue to 63.4 percent, and the sales tax grew from 6.0 percent of revenue to 7.9 percent.
- From 1986 to 1996, total local tax revenue grew at a compounded annual rate of 6.9 percent. Growth in property tax and income and estate tax revenue was moderate, both averaging 6.6 percent annually. As more counties adopted or increased sales taxes, those revenues grew at 10.0 percent annually. Finally, all other taxes grew an average of 7.3 percent.

State-Shared Revenue Supports Local Governments



- Over the past five years local governments have received more than \$2.5 billion dollars from the state through the Local Government Fund (LGF) and more than \$360 million dollars from the Local Government Revenue Assistance fund (LGRAF).
- In 1995, approximately \$600 million dollars combined from the LGF and LGRAF was distributed to Ohio's local governments. Of that total, almost \$336 million ultimately went to municipalities, over \$206 million went to counties, nearly \$47 million went to townships, and about \$11 million was provided to certain county park districts.
- On average in 1995, each county in Ohio received more than \$2.3 million, each municipality received almost \$358,000, and each township received approximately \$36,000.
- The ultimate disposition of LGF and LGRAF moneys in 1995 resulted in Ohio's municipalities receiving about 56 percent of the total disbursed, counties receiving 34 percent, townships receiving 8 percent, and certain park districts receiving about 2 percent.
- The LGF is composed of 4.2 percent of the state sales tax, use tax, personal income tax, corporate franchise tax, and public utility excise tax. The LGRAF is composed of 0.6 percent of the state sales tax, use tax, personal income tax, corporate franchise tax, and public utility tax.

Historical Property Tax Collections



Percent Growth in Taxes, 1985-1996

	Real Property Taxes	Tangible Personal Property Taxes	Public Utility Taxes	Total
Overall	118.0	63.8	96.6	105.1
Annualized	7.3	4.6	6.5	6.8

- Despite the restrictions in real property tax growth, taxes charged have increased by 118 percent since 1985, larger than any other class of property tax.
- Tangible personal property assessment rates have fallen from 33 percent of value in 1985 to 25 percent of value in 1998, reducing the growth rate in tangible personal property taxes by an estimated 20 percent.
- Approximately 70 percent of all property taxes collected are allocated to Ohio's local school districts.