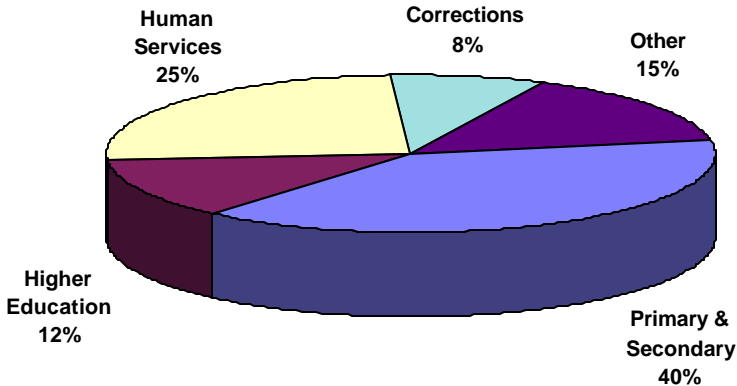


## Spending on K - 12 Education Remains Largest Share of the State Budget

### Spending as a Percentage of the FY 2002-2003 State Budget



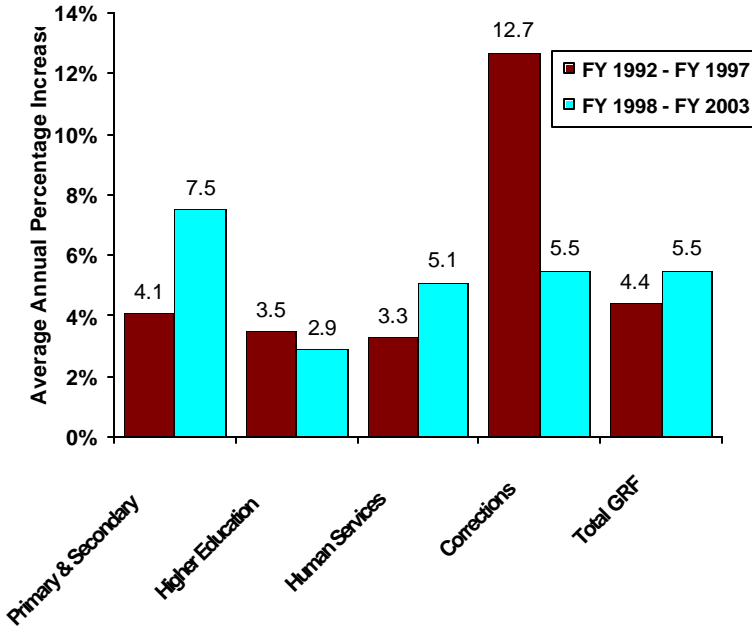
### State Spending (in millions)

	1994-1995	1996-1997	1998-1999	2000-2001	2002-2003*
<b>Primary &amp; Secondary</b>	\$8,905.1	\$9,947.0	\$11,654.4	\$13,584.5	\$15,300.9
<b>Higher Education</b>	\$3,649.2	\$4,087.7	\$4,510.3	\$4,951.5	\$4,877.9
<b>Human Services</b>	\$7,126.2	\$7,361.5	\$8,093.5	\$8,835.6	\$9,879.4
<b>Corrections</b>	\$1,744.5	\$2,265.6	\$2,670.6	\$3,085.7	\$3,223.3
<b>Other</b>	\$4,031.3	\$4,592.8	\$5,104.6	\$5,560.6	\$5,921.7

\* 2003 spending amounts approximated by appropriations as of August 31, 2002

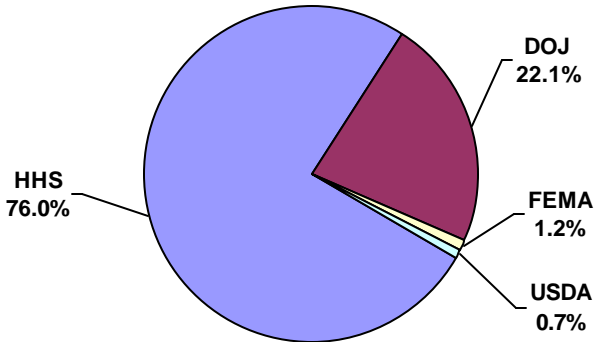
- Total state expenditures have grown 54.0% since the 1994-95 biennium, from \$25,456.2 million in FY 1994-1995 to \$39,203.2 million in FY 2002-2003.
- Growth rates in expenditures for the major categories from the FY 2000-2001 biennium to the FY 2002-2003 biennium are: Primary and Secondary (K-12) Education, 12.6%; Higher Education, -1.5%; Human Services, 11.8%, Corrections; 4.5%; and Other, 6.5%.
- The share of the biennial budget allocated to each of the major spending areas has changed since the FY 2000-2001 biennium by the following amounts: Primary and Secondary Education, 1.3% increase; Higher Education, 1.3% decrease; Human Services, 0.7% increase; and Corrections and Other, 0.3% decrease each.
- In the FY 2002-2003 biennium, K-12 Education and Higher Education together account for about 52% of the entire state budget.

## Spending Growth Varies across Program Areas



- Over the period encompassing actual FY 1992 expenditures through FY 2003 appropriations, GRF corrections spending experienced a high average annual growth rate relative to most other areas of state spending, growing at an average rate of 9.1% per year. This growth in corrections spending reflects the cost of building and operating a relatively large prison system, in combination with a dramatic expansion in community corrections programs, particularly in the first half of this period.
- Primary and Secondary Education funding posted the second highest annual growth rate over the 12-year period: an average of 5.9% per year. It posted the highest growth during the second half of the period.
- From 2002 to 2003, annual percentage increases (after several budget cuts) were as follows: Corrections, 2.4%; Human Services, 3.4%; Higher Education, 1.1%; and Primary and Secondary Education, 4.6%.
- Higher Education spending, which had the lowest average annual percentage increase over this period, grew an average of 3.4% annually, slightly less than 1% above the average inflation rate (which was 2.5% over the entire period).

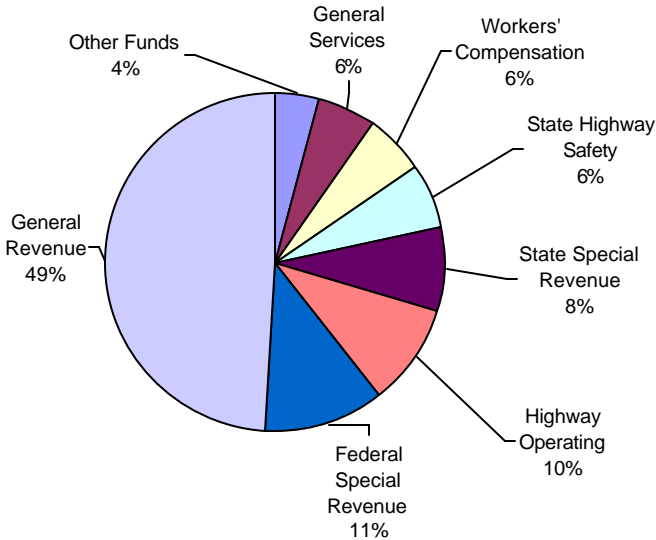
## FY 2002 Federal Homeland Security Funding



- \$44.8 million has been awarded from the federal government in FY 2002 for Homeland Security. The grants have been awarded by the Federal Emergency Management Agency (FEMA), the Department of Justice (DOJ), the Department of Health and Human Services (HHS), and the United States Department of Agriculture (USDA).
- \$34 million has been awarded from HHS to help fight bioterrorism. This grant will focus on preparedness and planning, surveillance and epidemiology, biological laboratory capacity, the Health Alert Network, risk communication and health information dissemination, and education and training. Money will also be used to help hospitals coordinate mass care response in the event of a biologic event.
- \$9.89 million has been awarded by the DOJ — \$9.45 million for first-responder equipment and \$439,000 for exercise support. The state has formed the State of Ohio Security Task Force to develop a coordinated, comprehensive state strategy to address security issues. The task force will establish guidelines and criteria to distribute the homeland security grants. The criteria will require counties to establish teams with specified membership including the Emergency Management Agency, local police and fire departments, county sheriffs, health departments, emergency management services, township trustees, and other local government officials.
- \$540,400 has been awarded by FEMA for planning, training, and exercise.
- \$328,300 has been awarded by the USDA to establish a network of diagnostic labs to strengthen state capabilities to respond to animal disease emergencies, to provide surveillances for animal disease, and to improve capabilities to detect animal and plant diseases.

## GRF Accounts for Nearly Half of State Payroll Costs

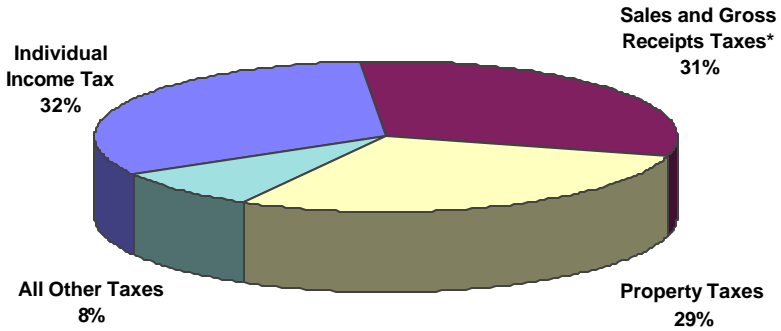
FY 2002 Funding Sources for State Payroll Costs



- Total FY 2002 state payroll was \$3.72 billion for all state funds. Payroll covered by the General Revenue Fund (GRF) amounted to 49% of total state payroll, or \$1.83 billion. This proportion has remained fairly constant since FY 1998.
- Earned wages and overtime, which represent the largest share of payroll costs, totaled \$2.38 billion in FY 2002. This category includes wages for work performed, but not vacation and sick leave.
- The cost of employee benefits — such as retirement contributions, health, vision, dental care, and other fringe benefits — represents the second-largest portion of payroll costs, amounting to \$812 million in FY 2002.
- From June 1998 to June 2002, the number of employees on the state payroll declined from 61,795 to 59,910, a 3.1% decline. Most of this decline occurred during FY 2002, especially among the corrections agencies.
- These figures include full-time and part-time permanent employees of cabinet agencies, corrections 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.

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

**Ohio State and Local Tax Revenues, FY 1999**



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

- Ohio state and local taxes are balanced among 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).
- State taxes accounted for 56.3% of total state and local tax revenue in FY 1999. State taxes accounted for 69.9% of revenue from individual income taxes, 87.4% of revenue from sales and gross receipts taxes, and 83.3% of revenue from “other” taxes. Local taxes accounted for 99.8% of revenue from property taxes.
- For state taxes, 47.8% of tax revenue came from sales and gross receipts taxes, 39.6% from the individual income tax, 12.6% from “other” taxes, and 0.1% from taxes classified as property taxes.
- For local taxes, 66.0% of tax revenue came from property taxes, 21.9% from individual income taxes, 8.9% from sales and gross receipts taxes, and 3.2% from “other” taxes.

## Ohio is a Moderate Tax State Relative to Other States

### State and Local Tax Comparisons, FY 1999

	Taxes as % of Income	Rank*	Taxes Per Capita	Rank*
National Average	11.0		\$2,990	
<b>Ohio</b>	<b>11.0</b>	<b>22</b>	<b>2,869</b>	<b>20</b>
Neighboring States				
Indiana	10.5	36	2,621	31
Kentucky	11.1	20	2,464	38
Michigan	11.4	14	3,032	15
Pennsylvania	10.7	31	2,934	18
West Virginia	11.7	10	2,368	42

\*Highest to lowest

- Whether the measure is taxes per capita (\$2,869) or taxes as a percentage of personal income (11.0%), in 1999 Ohio still fit its traditional image as a state with moderate tax burdens. All figures shown in the table are for state and local taxes combined.
- For FY 1999, Ohio's state taxes were \$1,615 per capita while local taxes were \$1,255 per capita.
- Ohio state taxes were 6.2% of personal income in FY 1999 and local taxes were 4.8% of personal income.
- In FY 1999, Connecticut had the highest per capita combined state and local tax burden at \$4,536 while Alabama had the lowest at \$2,007.
- New York had the highest level of taxes as a percentage of personal income at 14.0% and Tennessee had the lowest at 8.8%.

## Ohio Taxes as a Percentage of Income Same as National Average and Lower Than Most Neighbors

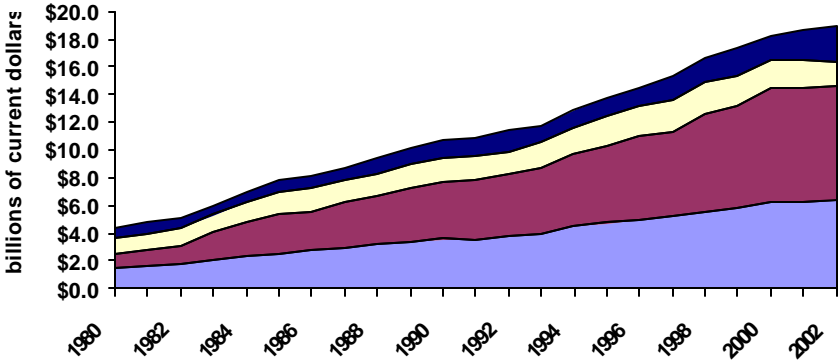
### State and Local Taxes as a Percentage of Income, FY 1999

	U.S.	IN	PA	<b>OH</b>	KY	MI	WV
Total Taxes	11.0%	10.5%	10.7%	<b>11.0%</b>	11.1%	11.4%	11.7%
Individual Income	2.4	2.8	2.7	<b>3.5</b>	3.7	2.8	2.5
Property Tax	3.4	3.5	2.9	<b>3.2</b>	1.9	3.3	2.2
Sales & Gross Receipts	4.1	3.2	3.2	<b>3.4</b>	4.1	3.6	4.9
General Sales	2.8	2.2	2.1	<b>2.4</b>	2.4	2.7	2.4
Selective Sales	1.3	1.0	1.1	<b>1.0</b>	1.7	0.8	2.4
Motor Fuel Sales	0.4	0.4	0.2	<b>0.5</b>	0.5	0.4	0.6
Alcoholic Beverages	0.1	0.0	0.1	<b>0.0</b>	0.1	0.0	0.0
Tobacco	0.1	0.1	0.1	<b>0.1</b>	0.0	0.2	0.1
Public Utility	0.3	0.0	0.2	<b>0.2</b>	0.2	0.0	0.5
Other Sales	0.4	0.4	0.5	<b>0.2</b>	0.9	0.1	1.1
Corporate Income	0.5	0.7	0.5	<b>0.3</b>	0.4	0.9	0.7
Motor Vehicle Licenses	0.2	0.1	0.2	<b>0.2</b>	0.2	0.3	0.2
Other Taxes	0.6	0.2	1.2	<b>0.4</b>	0.9	0.4	0.7

- Ohio's state and local taxes as a percentage of income are equal to the U.S. average, and Ohio's tax burden is lower than three 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 to all its neighbors except Kentucky.
- 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.

## State Own-Source Revenues Dominated by Income Tax and General Sales Tax

**Ohio Own-Source Revenues, FY 1980-2002**



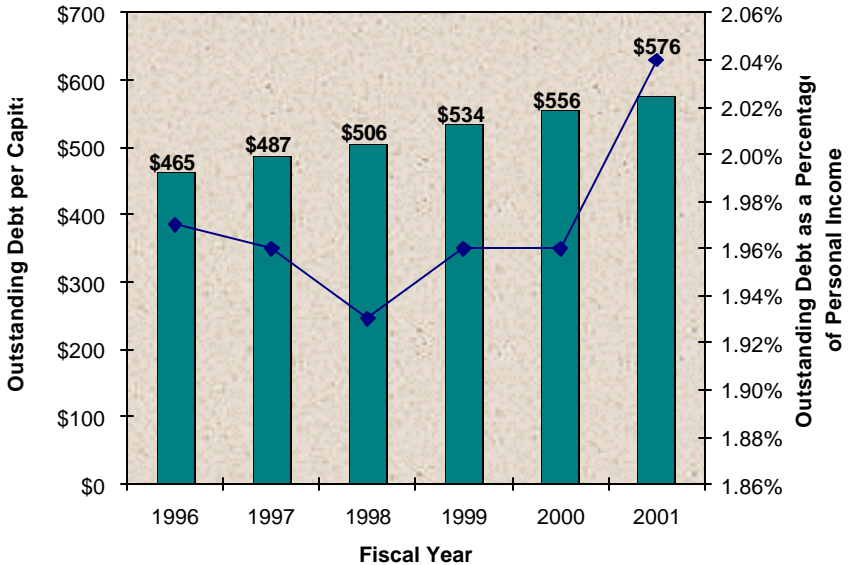
■ General Sales and Use Taxes 
 ■ Income and Estate Taxes 
 ■ Business Taxes 
 ■ All Other

- In FY 2002, total state revenue was \$19.0 billion. This figure includes tax and non-tax revenue. The personal income tax (\$8.2 billion) and the general sales and use tax (\$6.2 billion) were the most important revenue sources, accounting for 76% of state revenue. The two largest components of the “other” category are transfers to the Lottery Profits Education Fund (LPEF) and transfers from the Income Tax Reduction Fund (ITRF) to the state General Revenue Fund (GRF). The transfers to LPEF have generally been declining, while ITRF transfers are more variable. In 2001, transfers to LPEF were \$612.0 million and transfers from ITRF were \$546.3 million. In 2002, transfers to LPEF were \$642.6 million and transfers from ITRF were \$0. Net transfers from the Budget Stabilization Fund to the GRF of \$574.6 million accounted for 20% of “other” state revenue in FY 2002.
- From FY 1980 to FY 2002, state own-source revenue increased at a compounded annual growth rate of 6.9%. Inflation-adjusted growth over the period was 3.3% compounded annually. At the same time Ohio personal income grew at a compounded annual rate of 5.2% between 1980 and 2000.
- 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 accounted for over 25% of total state revenue in FY 1980, but only 9.2% in FY 2002.



## Ohio's Tax-Supported Debt

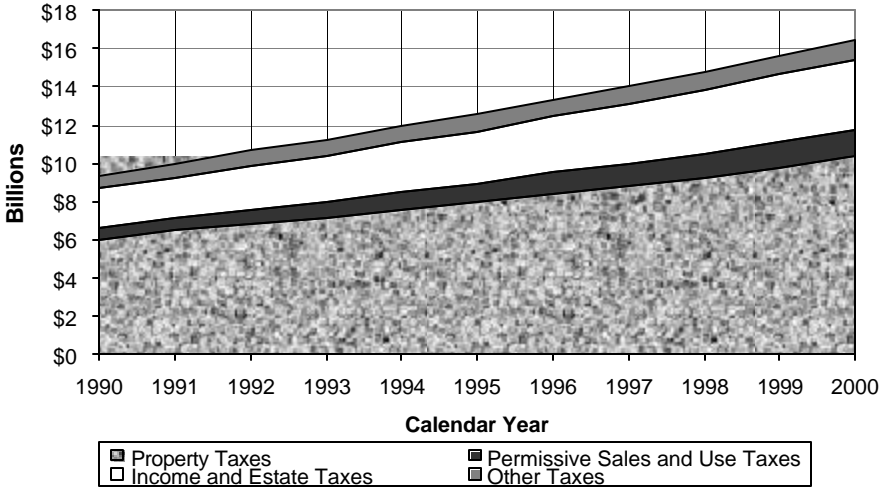
State Debt FY 1996 to FY 2001



- General obligation (GO) bonds, or debts pledged with the state's full faith and credit are used for capital improvements for primary and secondary education, higher education, natural resources, coal research and development, and highway and infrastructure improvements.
- At the end of FY 2002, Ohio GO bonds were rated AA+ by Fitch, Aa1 by Moody's, and AA+ by S & P — the three major rating agencies.
- As of June 30, 2002, the state's outstanding net tax-supported debt totaled \$7.09 billion.
- Outstanding debt per capita has grown by 24% between FY 1996 and FY 2001. As a percentage of personal income, though, outstanding debt has barely changed over this period.
- Overall, Ohio ranked 34th in debt per capita in 1999 (ranking is from highest debt per capita to lowest).

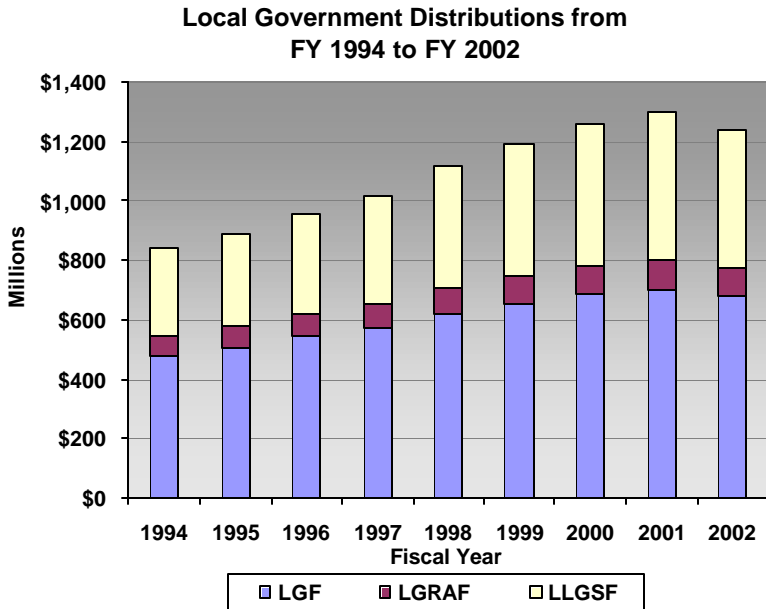
## Local Property Taxes Continue to be a Dependable Source of Revenue

Ohio's Local Taxes, 1990-2000



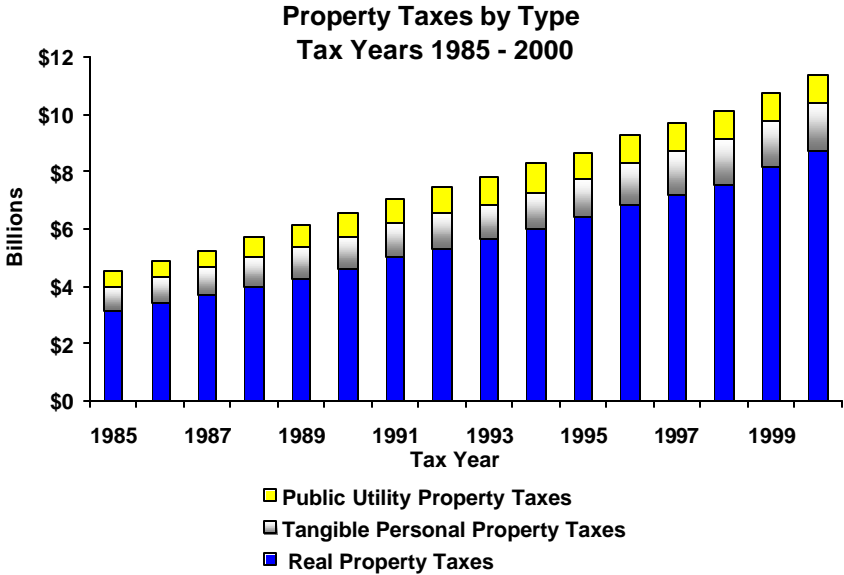
- In 2000, \$16.4 billion in local taxes was collected. Property taxes yielded \$10.4 billion. Income and estate taxes generated \$3.7 billion. Sales and use taxes yielded \$1.3 billion. Other taxes (alcohol, cigarette, lodging, motor vehicle fuel, and motor vehicle license) generated \$997 million.
- In 2000, property taxes accounted for 63.2% of local tax revenues. Income and estate taxes made up 22.6%. Sales and use taxes accounted for 8.1%. Other taxes yielded the remaining 6.1%.
- Over the ten-year period from FY 1990 to FY 2000, there was a small shift away from reliance on the property tax and toward reliance on the permissive sales tax and income tax; however, the shift was very gradual. The property tax went from 64.0% of local revenue to 63.2%, sales and use taxes grew from 6.7% of revenue to 8.1%, and the income tax grew from 21.9% of revenue to 22.6%.
- From FY 1990 to FY 2000, total local tax revenue grew at an average rate of 6.9% annually. Growth in property tax revenue was moderate, averaging 6.7% annually. Sales tax revenues grew at a more rapid 10.2% annual rate. Revenue from income and estate taxes and all other taxes grew an average rate of 7.4% annually.

## State-Shared Revenue Supports Local Governments



- Over the past five fiscal years, local governments and libraries have received more than \$3.2 billion from the state Local Government Fund (LGF), more than \$460 million from the Local Government Revenue Assistance Fund (LGRAF), and more than \$2.2 billion from the Library and Local Government Support Fund (LLGSF).
- In CY 2000, approximately \$645 million was distributed to Ohio's local governments from the LGF and LGRAF. Of that total, approximately \$343 million ultimately went to municipalities, over \$232 million went to counties, over \$57 million went to townships, and almost \$12 million was provided to certain county park districts. Local libraries in 88 counties in Ohio received \$491 million from the LLGSF in CY 2000.
- The ultimate disposition of LGF and LGRAF money for CY 2000 resulted in Ohio's municipalities receiving about 53% of total money disbursed, counties receiving 36%, townships receiving 9%, and park districts receiving about 2%.
- In FY 2001, the LGF received 4.2% of state sales tax, use tax, personal income tax, corporate franchise tax, and public utility excise tax revenue. The LGRAF received 0.6% of state sales tax, use tax, personal income tax, corporate franchise tax, and public utility excise tax revenues. The LLGSF receives 5.7% of personal income tax collections. In FY 2002 and FY 2003, budget cuts resulted in these funds receiving a smaller proportion of the tax revenues overall.

## Growth in Amount of Property Taxes Charged



### Percentage Growth in Property Taxes Levied, 1985-2000

	Real Property Taxes	Tangible Personal Property Taxes	Public Utility Taxes	Total
Overall	177.2	98.2	91.9	152.5
Average Annual Increase	7.0	4.7	4.6	6.4

- Despite the restrictions on real property tax growth, taxes on real property have increased by 177.2% since 1985, more than on any other class of property.
- The assessment rate for all tangible personal property was 25% in tax year 2000 (down from 33% of value in 1985). However, beginning in tax year 2002, the inventory assessment percentage will be reduced by one percentage point each year, so that the tax on inventories will be phased out completely no later than 2031.
- Approximately 60% of all property taxes charged are levied by Ohio's local school districts.
- Taxes charged (levied) include the 10% and 2.5% rollbacks, the homestead exemption amounts, and the \$10,000 exemption on tangible property, which are all paid by the state GRF. It also includes property tax delinquencies. In tax year 2000, cumulative delinquencies equaled \$985 million.