State of Ohio

Executive Budget

Fiscal Years 2006 and 2007

The Executive Budget
Briefing Document
For Governor Bob Taft's Budget

Prepared by the
Office of Budget and Management
February 2005

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BOB TAFT
GOVERNOR
STATE OF OHIO

February 10, 2005

Dear Fellow Ohioans and Members of the General Assembly:

I am pleased to present my recommendations for the fiscal years 2006-2007 biennial budget. This is my fourth and final operating budget as governor of the State of Ohio. My recommendations for the upcoming biennium reflect values and priorities I have emphasized throughout the time I have held this office:

- Advancing tax reform that reduces the tax burden on families while enhancing Ohio's business climate;
- Supporting programs and activities that create jobs and spur economic development;
- Setting the stage for academic success for Ohio's children; and
- Creating a more efficient government.

Comprehensive Tax Reform
The Ohio economy is growing slowly relative to the rest of the nation. Our tax system is contributing to this slow growth, and we must do something about it. Our current tax system is archaic, uncompetitive, and unfair. Ohio's high taxes on personal income and on business equipment and inventory are its primary competitive disadvantages. I believe comprehensive tax reform is the major piece of unfinished business of my Administration. We must ensure that Ohio has a tax structure that is fair and supports our economic development goals. The tax reform included in my budget proposal will:

- Encourage capital investment and job creation;
- Slow out-migration of highly educated, high-income households;
- Reduce the need for tax abatement and level the playing field;
- Have business and individuals pay their "fair share" of tax;
- Create a tax structure whose revenue growth keeps pace with the economy; and
- Provide adequate revenue to fund essential state and local government services.

Encouraging Economic Development
A key priority of this administration is to strengthen Ohio's economy and create more, good-paying jobs. In addition to tax reform proposals, this budget supports a number of initiatives that foster economic growth.

We continue to support the Third Frontier Project, and in recent months launched the Third Frontier Network, a statewide, fiber-optic network for education, research and economic development. This budget recommends over $134 million for Third Frontier programs. It provides funding for the Third Frontier Action Fund, and for Innovation Ohio and research and development programs that began in the current biennium.

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Last February, we won the prestigious Governor's Cup, awarded by *Site Selection Magazine* to the state with the most new and expanded business facilities in 2003. We are proud of this award, and this budget builds on this recognition by increasing business development funding. These grants assisted in securing more than $1.3 billion in new investments in fiscal years 2003 and 2004, creating more than 6,600 new jobs and retaining more than 22,600 existing jobs. We continue to work to assure that we have a workforce that can meet the demands of our businesses. In the 2004 Jobs Bill, we began the Worker Guarantee Program to assess, screen, and train employees for companies creating 100 or more new jobs. This budget continues this initiative and provides substantial resources to ensure that customized training is available to new and expanding businesses. Finally, we continue to work to market Ohio to the nation and the world as a great place to do business. This budget provides funding to the Ohio Business Development Coalition, created in 2004 to promote and market Ohio's tremendous economic assets.

Education, the Cornerstone of Success
Reforming education in the State of Ohio has been a top priority of this administration. The first two steps toward that reform were the creation of the Governor's Commissions for Student Success and on Teaching Success. Implementation of the recommendations from these commissions has created an aligned educational system that holds students, teachers, and schools accountable. The final step toward this reform was ensuring that districts have the resources necessary to give all students the opportunity to succeed. For this purpose I called for the creation of the Governor's Blue Ribbon Task Force on Financing Student Success. The Task Force, made up of leaders from the education and business community and policy makers from the legislative and executive branches, began its work in August 2003 and issued its recommendations after 17 months of deliberation.

My budget begins phasing in the recommendations of the Task Force supporting a new building-blocks approach to allocating funds. It funds those activities, like teacher training, that research tells us make a difference in student achievement. It also recognizes that different children have different needs to achieve the same standards.

A More Efficient Government
As good stewards of the public treasury, we have an obligation to become more efficient and maintain the state's financial stability. Through common sense tax reform and spending constraints, we're returning the budget to structural balance and leaving the state on a solid financial footing.

Over the course of the last several years, my administration has worked very hard to balance the budget in very difficult economic times.

- We've cut $1.4 billion in spending from authorized spending levels.
- We've closed six state institutions.
- We've reduced the state workforce by more than 3,000 employees.
- We've reduced the state vehicle fleet by 12 percent.
- We negotiated the most conservative contract ever with state employee unions under which state employees received no cost of living adjustments for two years; and,
- We've worked to control the growth of Medicaid – implementing cost containment initiatives that will reduce spending by $863 million in the current biennium alone.

This budget continues that conservative management of state government. It reduces or holds flat spending for most agencies; consolidates functions and activities of several state agencies and holds the line on our biggest spender – the Medicaid program.

I am pleased to present to you a budget that is balanced, demonstrates good stewardship of taxpayer dollars and fosters the economic development so important to our great State.

Sincerely,

Bob Taft

Bob Taft
Governor

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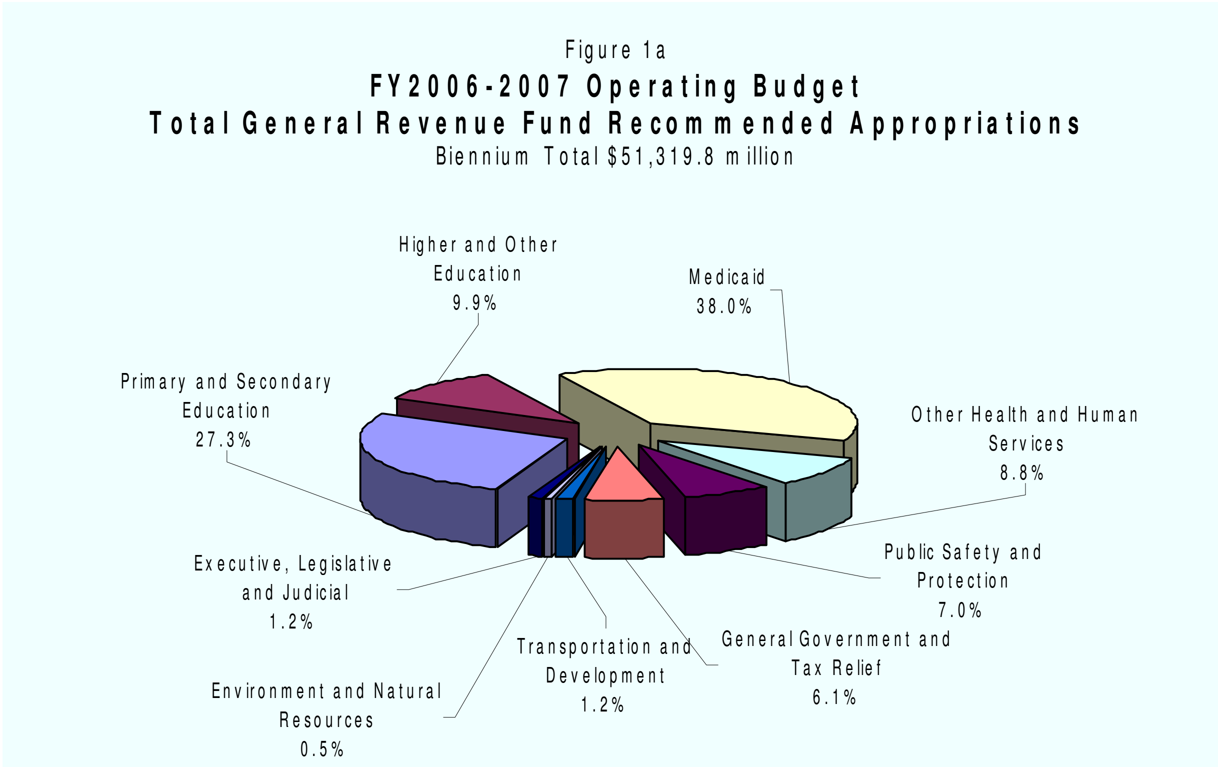
OVERVIEW OF GOVERNOR TAFT'S BUDGET

Governor Taft recommends GRF appropriations of $25.4 billion in FY 2006 (a 1.1% increase over estimated FY 2005 spending) and $26.0 billion in FY 2007 (a 2.3% increase over FY 2006). The Governor's recommendations for all funds total $53.1 billion in FY 2006 (a 3.3% increase over estimated FY 2005 spending) and $54.6 billion in FY 2007 (a 2.7% increase over FY 2006).

The state share of the GRF, not including federal reimbursement for ODJFS programs, is $19.6 billion in FY 2006 (an increase of 1.6% over FY 2005 appropriation) and $20.1 billion in FY 2007 (an increase of 2.4% over FY 2006 appropriation). Figure 1a, on page 2, displays the total GRF budget by major functional area, while Figure 1b displays the state-only GRF budget by major functional area.

- **Medicaid** is the single-largest program in the state budget, with recommended GRF appropriations in FY 2006 of $9.6 billion (0.0% above FY 2005) and $9.9 billion in FY 2007 (3.6% above FY 2006). These appropriations include the federal share of the program, which makes up approximately 60% of the total, and funding for Medicare Part D.
- **Primary and Secondary Education** comprises the second-largest GRF area of expense and the largest in terms of state-only funding. Recommended appropriations total $6.9 billion in FY 2006 (2.1% above FY 2005) and $7.1 billion in FY 2007 (2.8% above FY 2006). The Department of Education is the largest agency in this category, with FY 2006 recommended appropriations of $6.7 billion (1.7% above FY 2005) and $6.8 billion in FY 2007 (2.3% above FY 2006).
- **Higher and Other Education** recommendations total $2.5 billion in FY 2006 (0.4% above FY 2005) and $2.6 billion in FY 2007 (1.9% above FY 2006). The largest agency in this category is the Board of Regents with GRF recommendations of $2.5 billion in FY 2006 (0.9% above FY 2005) and $2.5 billion in FY 2007 (2.0% above FY 2007).
- **Other Health and Human Services** spending totals $2.2 billion in FY 2006 (7.6% above FY 2005) and $2.3 billion in FY 2007 (1.2% above FY 2006). The largest agencies in this category include the non-Medicaid portion of the Departments of Job & Family Services, Mental Health, and Mental Retardation & Developmental Disabilities.
- **Public Safety and Protection** recommendations total $1.8 billion in FY 2006 (2.4% above FY 2005) and $1.8 billion in FY 2007 (1.9% above FY 2006). The largest agencies in this category are the Departments of Rehabilitation & Correction and Youth Services.
- **General Government and Tax Relief** spending consists primarily of payments to local governments to offset revenue losses due to the homestead exemption, 2.5%, and 10% real property exemption. Appropriations in this category total $1.6 billion in FY 2006 (3.0% below FY 2005) and $1.5 billion in FY 2007 (4.7% below FY 2006).
- **Environment, Development, and Transportation** recommendations total $447.0 million in FY 2006 (2.5% below FY 2005) and $462.9 million in FY 2007 (3.6% above FY 2006). The largest agencies in this category are the Departments of Development and Natural Resources.
- **Executive, Legislative, and Judicial** agencies include all independently elected statewide officials and the legislative and judicial agencies. The recommendations for these agencies total $305.5 million in FY 2006 (0.7% below FY 2005) and $311.1 million in FY 2007 (1.8% above FY 2006).

See Table 2 for a complete list of GRF agencies contained in each functional area.

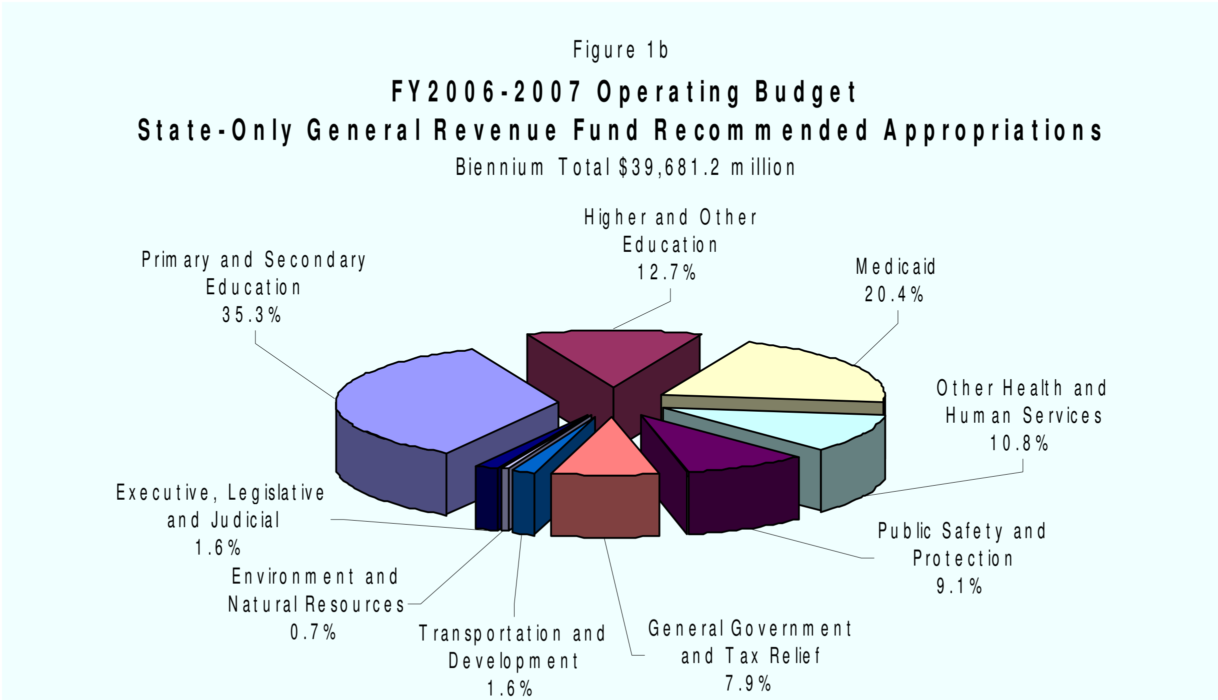


(Dollars in Millions)

Spending Category		FY2005 Estimate		FY 2006	% Change		FY 2007	% Change
Primary and Secondary Education	$	6,765.8	$	6,906.3	2.1%	$	7,096.3	2.7%
Higher and Other Education	$	2,493.7	$	2,503.7	0.4%	$	2,552.5	1.9%
Medicaid	$	9,574.9	$	9,575.9	0.0%	$	9,923.7	3.6%
Other Health and Human Services	$	2,080.7	$	2,238.4	7.6%	$	2,264.6	1.2%
Public Safety and Protection	$	1,743.6	$	1,784.6	2.4%	$	1,818.3	1.9%
General Government and Tax Relief	$	1,653.5	$	1,602.2	-3.1%	$	1,526.8	-4.7%
Transportation and Development	$	305.3	$	311.6	2.1%	$	329.8	5.8%
Environment and Natural Resources	$	154.6	$	135.4	-12.4%	$	133.1	-1.7%
Executive, Legislative and Judicial	$	307.6	$	305.5	-0.7%	$	311.1	1.8%
Total	**$**	**25,079.5**	**$**	**25,363.6**	**1.1%**	**$**	**25,956.2**	**2.3%**

Note: Numbers may not add to total due to rounding

Source: Ohio Office of Budget and Management, February 2005



(Dollars in Millions)

Spending Category		FY 2005 Estimate		FY 2006	% Change		FY 2007	% Change
Primary and Secondary Education	$	6,765.8	$	6,906.3	2.1%	$	7,096.3	2.8%
Higher and Other Education	$	2,493.7	$	2,503.6	0.4%	$	2,552.4	1.9%
Medicaid	$	3,886.1	$	3,928.9	1.1%	$	4,158.1	5.8%
Other Health and Human Services	$	1,978.5	$	2,125.1	7.4%	$	2,152.1	1.3%
Public Safety and Protection	$	1,743.6	$	1,784.6	2.4%	$	1,818.3	1.9%
General Government and Tax Relief	$	1,653.2	$	1,602.2	-3.1%	$	1,526.8	-4.7%
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Environment and Natural Resources	$	154.6	$	135.4	-12.4%	$	133.1	-1.7%
Executive, Legislative and Judicial	$	307.6	$	305.5	-0.7%	$	311.1	1.8%
Total	**$**	**19,288.4**	**$**	**19,603.2**	**1.6%**	**$**	**20,078.0**	**2.4%**

Note: Numbers may not add to total due to rounding

Source: Ohio Office of Budget and Management, February 2005

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ECONOMIC FORECAST AND REVENUE ESTIMATES

Overview

The U.S. economy has expanded for three straight years, despite the large decrease in financial wealth during 2000-2002, the uncertainty generated by the war in Iraq, the rise of oil prices to an all-time high, a series of devastating hurricanes, and continuing corporate scandals. However, record trade and federal budget deficits, the depreciation of the dollar in foreign exchange markets, and concerns about outsourcing labor to other countries have raised doubts about the sustainability of economic growth.

At 3.5 percent, the growth rate of the real Gross Domestic Product (GDP) since the end of the 2001 recession has exceeded the consensus among forecasters. Growth has approximately matched the long-run potential of the U.S. economy, though fallen well short of growth rates during the initial years of most previous business cycle expansions.

The economy hit a so-called "soft patch" in mid-2004, but managed to grow a healthy 3.5 percent during that time. Real GDP appeared on track to at least match that rate in the final quarter of 2004, but a number of indicators point toward slower growth ahead.

Among factors supporting continued economic expansion are the still-low level of interest rates, the depreciation of the dollar, fiscal stimulus, and strong corporate balance sheets. The rally in stock prices and the record-high level in November of the Business Optimism Index of the National Federation of Independent Business also point toward continued growth. Although short-term interest rates are on the rise, they remain relatively low. The cheaper dollar will begin to aid U.S. exporters in 2005, although the impact is muted by the fact that the Chinese currency is pegged to the dollar.

The Forecast in Brief

The Governor's Council of Economic Advisors met in early November 2004, and, given the nation's overall economic situation, projects moderate economic growth through 2006. Employment is expected to pick up and the unemployment rate to fall slightly. Inflation is projected to remain low.

After reaching an estimated 4.4 percent in 2004, **real GDP growth** is projected to decrease to 3.4 percent in both 2005 and 2006. Council members cited high energy costs and uncertainty about developments in Iraq as leading factors behind the slowdown.

U.S. employment growth is projected to increase from an estimated 1.0 percent in 2004 to 1.8 percent in 2005 and 1.6 percent in 2006. The **U.S. unemployment rate** is projected to edge down from 5.5 percent in 2004 to 5.3 percent in 2005 and 2006.

The council anticipates that December 2003 marked the low-point for **Ohio employment** and that the number of jobs will grow 1.1 percent on average in 2005 and 1.4 percent in 2006. The **Ohio unemployment rate**, which was 6.5 percent in November 2004, is projected to fall to 5.8 percent on average in 2005 and 5.6 percent in 2006.

Despite solid income growth, **consumer spending growth** is expected to slow. U.S. personal income growth is projected to average just over 5.0 percent annually through 2006. Retail sales growth is projected to slow from 7.1 percent in 2004 to around 4.5 percent through 2006. Ohio personal income is projected to rise less rapidly than at the national level – by 4.7 percent in both 2005 and 2006.

Light motor vehicle sales are projected to remain near recent highs, reflecting favorable motor vehicle prices, disposable income, household debt, inflation, and stock prices. Unit sales are projected at 16.8 million units in 2005 and 16.7 million units in 2006, compared with an estimated 16.8 unit selling pace in 2004.

Housing construction is expected to fade somewhat, but remain at a historically high level reflecting low interest rates and strong immigration. **U.S. housing starts** are projected to decrease from an estimated 1.9 million units in 2004 to 1.8 million units in 2005 and 1.7 million units in 2006. **Housing starts in Ohio** are projected to remain near 50,000 units from 2004 through 2006.

Substantial excess manufacturing capacity globally is expected to restrain inflation, aided by the strong inflation-fighting credibility of the Federal Reserve. In today's highly competitive environment, businesses face difficulty in sustaining price increases. After rising an estimated 2.6 percent in 2004, **consumer prices** are projected to rise 2.3 percent and 2.1 percent, respectively, in 2005 and 2006.

The chief risks to the outlook include additional and lasting increases in the price of oil or a sharp depreciation in the U.S. dollar or unexpected rise in inflation that prompts an abrupt rise in interest rates. The consensus forecast of sustained but slower economic growth translates into moderate revenue growth for the state's General Revenue Fund during 2005-2006. The Ohio economy appears to have turned the corner, however tentatively.

Summary of Revenue Estimates

The revenue estimates for the FY 2006-2007 biennium are based on the consensus forecast of the Governor's Council of Economic Advisors that predicts modest economic growth and moderate inflation. The estimates also use the economic forecasts of Global Insight, a leading economic forecasting company. Table 1 lists the historical and estimated future General Revenue Fund (GRF) receipts by source. Figures 2a and 2b display the projected FY 2006-2007 GRF revenues by major sources. Figure 2a shows total GRF revenue, which includes Federal Grants. Figure 2b shows total GRF revenue excluding Federal Grants to display state-only resources. All these revenues incorporate all of the Executive Budget proposals for tax reform and other law changes as well as the proposed reduction in local government fund distributions.

Total GRF revenues are projected to be $25.5 billion in FY 2006, an increase of 1.8 percent over FY 2005, and $25.9 billion in FY 2007, an increase of 1.6 percent from FY 2006. The state-only GRF revenues are estimated to increase from $19.2 billion in FY 2005 to $19.7 billion in FY 2006, and to $20.0 billion in FY 2007, by 2.4 percent and 1.5 percent, respectively. Total GRF tax receipts are expected to be $19.1 billion in FY 2006, an increase of 3.5 percent over FY 2005, and $19.4 billion in FY 2007, an increase of 1.5 percent over FY 2006.

Local Government Fund Proposal

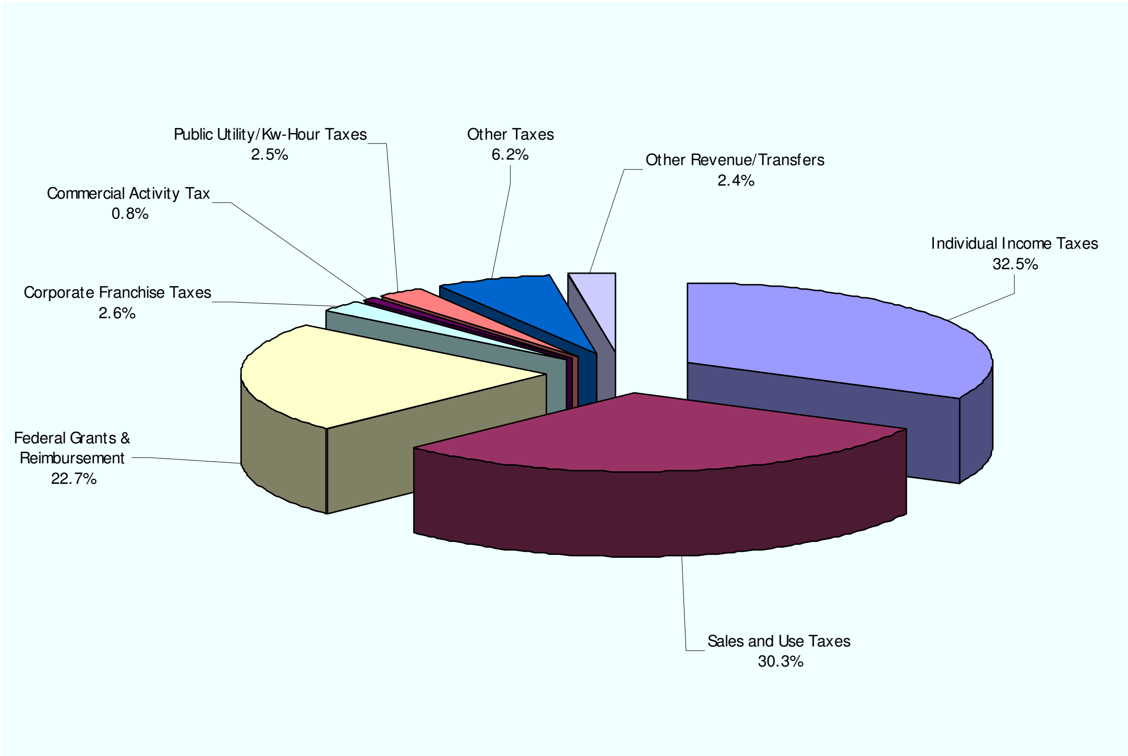
Under permanent law, portions of the receipts from major tax sources are deposited in three local government funds: the Local Government Fund (LGF), the Local Government Revenue Assistance Fund (LGRAF), and the Library and Local Government Support Fund (LLGSF). The Executive Budget proposes to limit growth of deposits into and distributions from the three local government funds.

- Distributions to local governments have been frozen since fiscal year 2002. As a result of House Bill 95, the FY 2004-2005 Budget Bill, distributions from all three local government funds are estimated to be $1,215.3 million in fiscal year 2005.
- The Executive Budget proposes to decrease monthly distributions to counties and cities by 20%, to townships and villages by 10%, and to libraries by 5%, compared to fiscal year 2005 distribution levels.
- Different reduction levels are proposed due to the variation in the local recipient governments' average reliance on state aid relative to their general and special revenue funding.
- Distribution changes will begin on January 1, 2006. This is the start of fiscal year 2006 for local governments, thus reductions will not impact those entities' current fiscal year.
- As a result of the proposal, local government fund distributions will be $1,112.6 million in fiscal year 2006 and $1,051.7 million in fiscal year 2007.
- An examination of select Ohio counties and the local governments within those counties showed that, based on 2002 data, the proposed reduction in local government funding would have led to an average reduction in general funds of less than 2% in cities and counties and less than 3% in villages and townships. Local governments' general and special revenues would have decreased by 1.2% as a result of reduced distribution levels. Audit analysis showed that local government budgeting philosophy varied greatly as to placing taxes in a general fund or special funds. Thus using the total of general and special revenues is helpful in eliminating differences in how governments choose to arrange their finances and fund services.
- Based on 2003 data, the proposed limits on state aid to libraries would have resulted in an average loss of 4.2% of operating revenues for the 250 state assisted libraries.
- The proposed reductions in local government fund distributions and the impact on local governments' and libraries' budgets is comparable to the reductions in GRF operating support most state agencies have experienced over the last five years.

Figure 2a

FY 2006-2007 Operating Budget
Total General Revenue Fund Estimated Revenues

Biennium Total $51,330.7 million



(Dollars in Millions)

Revenue Source	FY 2005	FY 2006	% Change	FY 2007	% Change
	Estimated Revenue				
Individual Income Taxes	$ 8,153.2	$ 8,291.0	1.7 %	$ 8,400.4	1.3 %
Sales and Use Taxes	$ 7,880.0	$ 7,604.3	-3.5 %	$ 7,957.9	4.7 %
Federal Grants & Reimbursement	$ 5,773.6	$ 5,760.5	-0.2 %	$ 5,878.1	2.0 %
Corporate Franchise Taxes	$ 820.0	$ 734.0	-10.5 %	$ 604.9	-17.6 %
Commercial Activity Tax	$ -	$ 220.0		$ 205.0	-6.8 %
Public Utility/Kw-Hour Taxes	$ 451.0	$ 628.0	39.2 %	$ 640.9	2.1 %
Other Taxes	$ 1,140.5	$ 1,612.0	41.3 %	$ 1,564.5	-2.9 %
Other Revenue/Transfers In	$ 796.8	$ 607.7	-23.7 %	$ 621.4	2.3 %
Total	$ 25,015.1	$ 25,457.5	1.8 %	$ 25,873.1	1.6 %

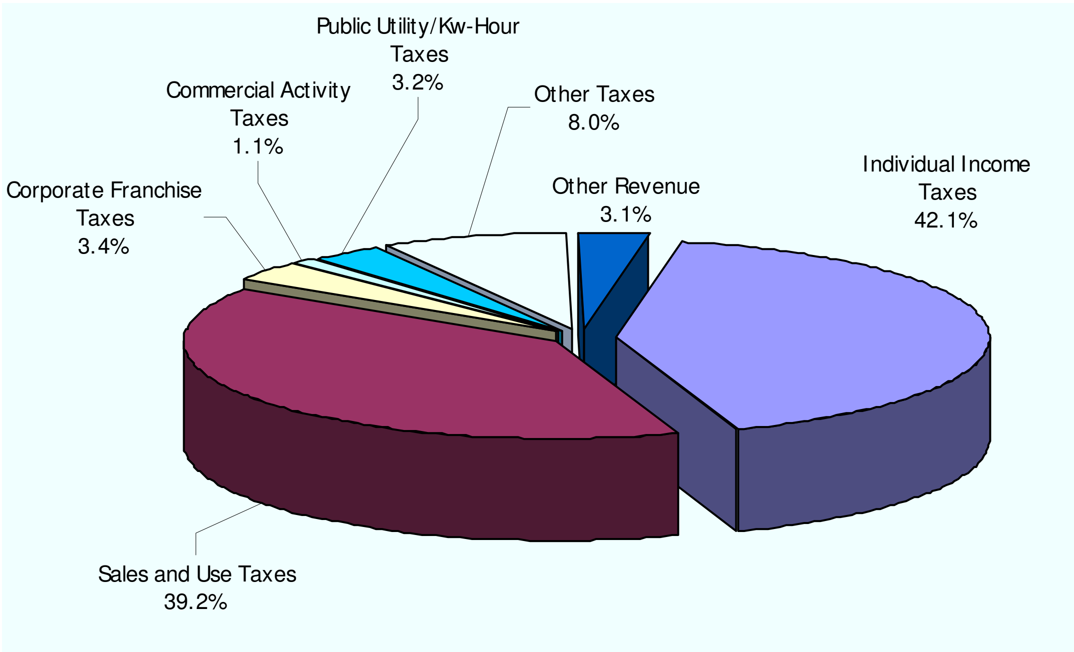
Numbers may not add to total due to rounding

Source: Ohio Office of Budget and Management, February 2005

Figure 2b

FY 2006-2007 Operating Budget
Total State-Only General Revenue Fund Estimated Revenues

Biennium Total $39,692.0 million



(Dollars in Millions)

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Corporate Franchise Taxes	$ 820.0	$ 734.0	-10.5 %	$ 604.9	-17.6 %
Commercial Activity Tax	$ -	$ 220.0	N/A	$ 205.0	-6.8 %
Public Utility/Kw-Hour Taxes	$ 451.0	$ 628.0	39.2 %	$ 640.9	2.1 %
Other Taxes	$ 1,140.5	$ 1,612.0	41.3 %	$ 1,564.5	-2.9 %
Other Revenue/Transfers In	$ 796.8	$ 607.7	-23.7 %	$ 621.4	2.3 %
Total	$ 19,241.5	$ 19,697.0	2.4 %	$ 19,995.0	1.5 %

Numbers may not add to total due to rounding

Source: Ohio Office of Budget and Management, February 2005

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COMPREHENSIVE TAX REFORM

Overview
The Executive Budget calls for fundamental tax reform in Ohio. Many of the critical economic and policy challenges that the Governor identified two years ago remain. In many ways the need for tax reform now is even clearer than it was then. The national economy has begun rebounding, and with that rebound, the economies of many states have significantly improved. However, the Midwestern economy has lagged behind the nation, and Ohio has been among the slowest to gain ground.

Lagging economic performance is the result of many factors. The nation as a whole and Ohio in particular are experiencing a long-term shift of industry to the Sunbelt and overseas. Tax reform, while not able to change the state's economic performance by itself, can be a powerful tool to lift Ohio's economic fortunes.

The tax reform proposal in this budget seeks to reduce the burden on investment, encourage capital formation, increase productivity, and encourage growth in employment and income. Because the state must continue to meet its financial obligations and make strategic public investments in education and infrastructure, these cuts in taxes on capital investment must be phased in over time, and also balanced with innovative proposals to raise the revenue needed to pay for essential public services. The results of these state and local tax changes are growing tax reductions each fiscal year reaching $2.1 billion annually by fiscal year 2010 relative to the tax structure in place for the current fiscal year.

The central theme of Ohio tax reform should be to broaden the tax base and lower the tax rates. This unifying theme satisfies all five of the guiding principles of a quality tax system: simplicity, equity, stability, neutrality, and competitiveness.

The Need for Tax Reform
The need for tax reform is demonstrated by Ohio's slow job growth, difficulty in competing for high-wage jobs, and lagging personal income. Elements of the current tax system can be tied to each of these economic problems, specifically the high tax burden on capital investment imposed by Ohio's tangible personal property tax, and the high combined state and local tax rates on personal income and corporate income. Ohio's relatively weak economic performance over the last 15 years is discussed in detail in the Tax Reform Special Analysis of the Executive Budget.

Specific Targets for Reform
Three specific areas are most in need of reform: the personal income tax, the tangible personal property tax, and the corporate franchise tax.

Personal Income Tax
Ohio has relatively high top marginal personal income tax rates, particularly when state and local rates are combined. The top state marginal tax rate of 7.5% was 13th highest among the states in 2004. The weighted average municipal income tax rate in 2002 was 1.7%, making the combined top marginal rate 9.2%, and putting Ohio very close to the highest combined state and local

marginal tax rate in the country. High marginal income tax rates put Ohio at a competitive disadvantage in attracting and keeping high-paying jobs, corporate headquarters, and higher income retirees. Additionally, Ohio's high marginal tax rates also act as a disincentive for small businesses, such as S corporations, limited liability companies (LLCs), and partnerships, where the owners of the company pay tax on their shares of the company's net income.

Tangible Personal Property Tax
Ohio's tangible personal property tax (TPP tax) fails to meet three of the five goals of state and local taxation. The TPP tax is not simple. The requirement to track the location and determine the value of every piece of equipment is a very expensive task. The various tax abatement programs also create inequities among taxpayers. The largest issue with the TPP tax, however, is that it hurts Ohio competitiveness.

The TPP tax makes Ohio look uncompetitive, although overall Ohio business taxes per capita are ranked in the middle of our neighboring states. Ohio's tax system rewards businesses that do not have significant operations in Ohio but which sell into the Ohio market, while it punishes businesses with significant physical presence in Ohio. This not only harms Ohio business owners but also indirectly penalizes Ohio labor (via reduced wages).

Eliminating or substantially reducing the tangible property tax all at once is probably not feasible. The administration believes that the biggest economic stimulus will come from first eliminating the tax on machinery and equipment. This is a direct tax on productive investment in Ohio. Manufacturing is where Ohio has traditionally had a competitive advantage, and it is where the Ohio economy is still concentrated (in 2002, manufacturing accounted for 13.0% of national gross domestic product, but manufacturing accounted for over 20% of Ohio gross state product). The second priority is eliminating the remaining tax on inventory.[1]

Corporate Franchise Tax
Ohio's corporate franchise tax is perceived as uncompetitive because the top marginal rate is relatively high (8.5%), but is actually unproductive, in that it does not raise much revenue. In 2004 Ohio was tied for the 15th highest state corporate tax rate. As with the personal income tax, when Ohio's weighted average 1.7% municipal income tax rate is added, Ohio's tax rate becomes close to the highest.

Despite the high marginal rate, Ohio's corporate tax is not very productive. According to 2002 Census of Government Finances data, Ohio's corporate income tax brought in $67 per capita, 25th highest of the 46 states that impose a corporate income tax, and almost one-third below the U.S. average of $98 per capita. The current corporate tax system, particularly the net income base, is full of loopholes that create both horizontal and vertical inequities between taxpayers, reduce revenue production, and distort economic decisions.

[1] In the past, inventory has received more attention, and it is inventory property that in current law will be phased out 2% per year resuming in tax year 2007. Besides the current-law phasing out of the tax on inventory property, there are complete exemptions already in effect. For example, inventory property that is held in a foreign trade zone or inventory that is shipped into Ohio, held in storage, and then shipped back out of Ohio is already exempt from the TPP tax.

This proposal acknowledges that the state and local tax planning enterprise has grown so sophisticated and so intense that as long as the state relies on a tax on corporate income it will always be playing catch-up with the latest planning techniques. Addressing this problem entails scrapping the corporate income tax altogether in favor of a business tax that is imposed on a non-income base. This approach may be criticized for abandoning the "ability to pay" principle, but tax planning has already seriously eroded the ability to pay basis of the corporate income tax. A substitute tax based on a measure of a business's activity in the state would rely more on the "benefit" principle of taxation.

Sales and Use Tax

The sales and use tax currently distorts economic decision making in two ways. It generally taxes goods more heavily than services, and it taxes goods purchased in Ohio more heavily than goods purchased from remote sellers – businesses that sell to customers through catalogues or over the Internet rather than through retail stores. Not imposing the sales and use tax on services both creates an un-level playing field and also allows one of the fastest-growing sectors of the economy to largely escape state and local taxation.

Over the years, the legislature has included additional services in the Ohio sales and use tax base, but currently the tax is still imposed on a fairly small portion of Ohio services. The disparity between the taxation of goods and services could be addressed directly by subjecting most or all Ohio services to taxation. However, the Taft Administration believes the disparity is best addressed indirectly through a broad based, low rate business tax that includes service industries, such as the administration's proposed Commercial Activity Tax (see below for details).

The method that the administration continues to pursue for addressing the disparity in taxing "brick and mortar" sales and not taxing remote sales is the Streamlined Sales Tax Project (SSTP). The SSTP seeks to simplify and unify state and local sales tax systems to the point where either remote sellers voluntarily agree to collect and remit state and local sales tax or Congress decides that administrative burdens have been reduced so much that it is appropriate to require remote sellers to collect and remit state and local sales tax.

Reform Proposals

The Governor's tax reform proposals seek to address the problem of high marginal rates, narrow tax bases, and high burdens on capital investment with fairly simple, straightforward, and sweeping proposals.

Cut Income Tax Rates 21%

All personal income tax rates would be cut by 21% over 5 years, with the cuts evenly phased in at 4.2% per year. Cutting the personal income tax rates impacts both businesses and individuals. This gives all Ohio taxpayers a break and provides a benefit to small businesses organized as pass-through entities (and which should offset the imposition of the new CAT). A companion proposal enhances the progressivity of the income tax structure. A new low-income credit will reduce income tax liability to zero for taxpayers whose Ohio Taxable Income (OTI) is below $10,000. This would eliminate tax liability for about 550,000 current Ohio taxpayers.

The proposed income tax changes would give Ohioans a $2.0 billion tax cut by FY 2010. Tax rate cut amounts are $325 million for fiscal year 2006 and $690 million for fiscal year 2007.

Beginning with tax year 2010, once the rate cuts are fully phased in, the tax brackets would be indexed annually for inflation.

Business Taxes – Reduce TPP Tax, Eliminate Corporate Franchise Tax (Except for Banks), and Replace with Commercial Activity Tax (CAT)
The Executive Budget proposes to eliminate the corporate franchise tax over 5 years – except for the special net worth tax paid by financial institutions – by phasing it down by 20% per year beginning with fiscal year 2006 and ending with fiscal year 2010. At the same time, the Executive Budget proposes to eliminate roughly three-quarters of the tangible personal property (TPP) tax, also over the five-year period from tax year 2006 through tax year 2010. The tax on manufacturing machinery and equipment will be reduced by 50% in tax year 2006 and eliminated entirely in tax year 2007.[2] After that, the inventory tax – which is already scheduled to be repealed under current law, but quite slowly – will be eliminated in three steps. The assessment percentage would be reduced from 21% to 14% in tax year 2008, then to 7% in tax year 2009, and finally to 0% in tax year 2010. Furniture, fixtures, and all other property would remain subject to the TPP tax, and public utilities will remain subject to the public utility property tax.

What will replace the revenue lost from the eliminated portions of the corporate franchise tax and the TPP tax, which are estimated to be about $1.7 billion in FY 2010? The administration proposes the creation of the **Commercial Activity Tax** (CAT). The CAT is a very broad base, very low rate tax and is designed to have minimal impact on economic decisions, fall relatively lightly on companies that have significant investment and employment in Ohio, and fall more heavily on companies that make heavy use of the Ohio market. The CAT will be phased in over 5 years, with projected CAT revenue in FY 2010 of about $1.55 billion.

The proposed CAT would tax the gross revenues of all business entities, whatever their form of organization (C-corporation, S-corporation, LLC, partnership, sole proprietorship) at a single low rate of 0.26 percent when fully implemented. The tax would be imposed on the gross revenues of the company, based on its books and records, on a quarterly basis. It is not a tax imposed on individual transactions and paid by the consumer.

The general rule followed in classifying whether entities will be subject to the CAT is as follows: if the business entity is currently paying the corporate franchise tax (or the personal income tax if the business is not a C corporation) rather than a special business tax, then the business entity will move to paying the CAT. The exception to this rule is that financial institutions will continue to only pay taxes on a net worth base.

[2] Actually the reduction in tax year 2006 is a little more than 50%. In tax year 2006, the assessment percentage would be lowered from 25% to 12.5%, and would be lowered to 0% in tax year 2007. In addition, in tax year 2006, new manufacturing machinery and equipment would be immediately dropped to the 0% assessment, i.e. would be untaxed.

In addition, the administration proposes an exemption on the first $1 million in gross Ohio revenues to help protect small emerging Ohio businesses. Those businesses that fall under this exemption will pay a minimal $100 fee. It is estimated that 250,000 small Ohio businesses will pay only the minimum fee.

Eliminate Additional Estate Tax
The administration proposes eliminating the portion of the Ohio estate tax that under former federal law allowed the state to obtain some additional estate tax revenue from high-value estates at the expense of the federal government. The federal government has now completely phased out the credit for state death taxes, so "additional" Ohio estate tax is no longer neutral but instead represents an added burden, and therefore the administration believes that it should be eliminated.

Reduce the State Sales Tax Rate by 0.5% from the Current Rate of 6.0%
As a result of the last biennial budget bill, the current state sales tax rate is 6.0%. The Executive Budget proposes a rate of 5.5%. Retaining half of the additional 1% sales tax makes it possible to have enough revenue to cut tangible personal property taxes and personal and corporate income taxes and still fund essential state services. Reducing the state sales tax rate from 6.0% to 5.5% reduces revenues by about $850 million annually by FY 2010.

Other Proposals – Sin Taxes, KWH Tax, Real Property Taxes
With all the taxes that the administration is proposing to cut in order to improve competitiveness and to spur the Ohio economy, there must be some replacement revenues in order to fund essential state services and provide for a balanced budget. The administration has tried to choose a set of proposals that will not harm Ohio competitiveness. In brief, these proposals are:

- Cigarette tax increase of 45 cents per pack and a tax increase for other tobacco products;
- Alcoholic beverage taxes are doubled;
- Kilowatt-hour tax increase of 30%;
- Real property transfer tax of one mill; and
- Elimination of the 10% property tax rollback for commercial and industrial property.

These proposals are discussed in greater detail in the Tax Reform Special Analysis of the Executive Budget.

Summary
The Executive Budget proposes to improve Ohio's competitiveness and spur economic growth by restructuring the tax system. There are two broad means to accomplish this goal. First, the level of state and local taxes will be cut over a five-year period ending in tax year 2010. The administration estimates that by that time, state and local taxes will be $2.1 billion lower than they would be with the sales tax rate at 6.0%.

The second means of restructuring the tax system to stimulate the economy is by shifting the burden of taxation from investment to consumption so that the tax burden on investment is dramatically reduced and tax distortions of economic decisions are minimized. The administration believes that drastically reducing the corporate franchise tax and the tangible personal property tax and replacing them with the proposed Commercial Activity Tax, which is a very broad-based, low rate tax, will accomplish this objective.

ENCOURAGING ECONOMIC DEVELOPMENT

While the economy continues to place enormous pressures on state finances, the Executive Budget promotes the development of Ohio's economy by assisting companies, training workers, and supporting strong communities. This budget reforms the tax structure of the state, continues to invest in research that will develop new technologies, and directs funding to business development, job training programs, and marketing activities.

Comprehensive Tax Reform

The most important economic development initiative in this budget is the Governor's proposal to reform Ohio's tax structure. The proposal seeks to reduce the burden on investment, encourage capital formation, increase productivity, and encourage growth in employment and income. All of these outcomes will improve Ohio's competitiveness and encourage businesses to invest in Ohio. To improve the Ohio tax climate, the corporate franchise tax and most of the tangible personal property tax are phased out. A new commercial activity tax (CAT) is phased in with a rate of only 0.26% after the phase-in. Personal income tax rates are also lowered over five years to increase Ohio competitiveness with other states.

The Third Frontier Project

The Third Frontier Project (www.thirdfrontier.com), launched by Governor Taft in February 2002, is a $1.1 billion, ten-year program of investment in new research, product and process innovation, and job creation. The core programs for the Third Frontier Project that are included in the Executive Budget are:

- **Third Frontier Action Fund:** Grants from this source support technology-based economic development, with a focus on creating more early stage capital for start-up companies, early stage growth companies, and new fuel cell technologies and products. Funding for the FY 2006-2007 biennium is continued at $16.79 million per year.
- **Innovation Ohio Loan Fund:** Loans from this fund assist companies with below-market financing for investments in fixed assets necessary to develop new commercial products. Appropriations for the FY 2006-2007 biennium are $50 million per year.
- **Third Frontier Ballot Initiative:** On November 8, 2005, voters will be asked to approve a proposal to amend the Ohio Constitution for a special bond issue. This initiative is the final component of the Third Frontier Project, and funding will be used to invest in research that will help transform Ohio's economy. The projected debt service payments for this initiative are included in the budget recommendations for the Department of Development.

Business Development
The Executive Budget expands funding for Business Development Grants that assist companies and communities to create and retain jobs. The recommended funding level of $11.75 million per year is an increase of more than 30 percent above the FY 2005 appropriation.

Worker Guarantee Program
The Worker Guarantee Program, created in the Governor's 2004 Jobs Bill, provides state match funding to assess, screen, and train employees for companies creating 100 or more new jobs. The Executive Budget maintains funding for this initiative at $3 million per year.

Ohio Investment in Training Program
The Ohio Investment in Training Program provides customized training to new and expanding businesses. The 2004 Jobs Bill provided additional resources for this program, and the Executive Budget recommends funding of $17.23 million per year.

Ohio Business Development Coalition
In 2004, the Ohio Business Development Coalition was created to promote and market the advantages of doing business in Ohio. State funding of $5 million per year will supplement funding from the coalition's partners.

The Commission on Higher Education and the Economy (CHEE)
Governor Taft's Executive Budget builds upon the final recommendations (online at www.chee.ohio.gov) of the Commission on Higher Education and the Economy (CHEE), a committee of 33 leaders representing the private sector, government, and institutions of higher education, including public, private, and proprietary schools. The CHEE was charged to help Ohio create more and better jobs for the state's citizens, increase economic competitiveness, and fuel economic growth statewide through higher education initiatives. (See section titled "Education, the Cornerstone to Success" for discussion of other CHEE recommendations.)

The commission's final report provides Ohio with a strategic roadmap, supporting the Governor's vision to create a dynamic knowledge-driven economy through program alignment and targeted investments in higher education. The following highlighted programs represent the research and economic development related CHEE recommendations.

Alignment of Third Frontier Programs*:* As recommended in the CHEE report, the budget facilitates the alignment of science and technology programs and activities to assure that program objectives and grantee activities are aligned with objectives of the Third Frontier Project, as appropriate. Responsible administration of state programs requires that new Third Frontier Project programs and existing programs work together productively.

Economic Growth Challenge*:* The commission recommended the creation of an Economic Growth Challenge, which Governor Taft proposes in this budget. This challenge will help the state maximize the world-class research, innovation, and technology commercialization capacities of its public and private higher education institutions to drive economic growth and create jobs. The challenge is made up of three independent, but related programs that include:

- Research Incentive (formerly Research Challenge): Funding for Research Incentive will increase over five percent from FY 2005 funding levels of $17.1 million to $18 million in each year of the biennium. State funding has leveraged an average of $183 million in external research and development funding annually;
- Innovation Incentive: Total new funding of $2.3 million in FY 2006 and $4.7 million in FY 2007 is provided for the Innovation Incentive. This new investment of state dollars will be coupled with matching funds generated through institutional reallocation of the current doctoral set-aside (from the State Share of Instruction). Incentive recipients will receive an allocation of the total funding through a competitive, independently evaluated proposal process to support doctoral programs and areas of research that have the greatest potential to (a) attract preeminent researchers and build world-class research capacity; (b) enhance regional or state economic growth by creating new products and services to be commercialized by Ohio industrial firms; and (c) complement funding provided for Ohio's Third Frontier Project.
- Technology Commercialization Incentive: The Executive Budget provides $500,000 to begin implementation of this new incentive in FY 2007. The Technology Incentive is a competitive grant program designed to reward colleges and universities for working with Ohio industry for successful technology transfer and the commercialization of new ideas. This will incentivize cooperation between higher education and business to engage in more joint research and commercialization ventures.

Ohio Supercomputer Center (OSC): The OSC provides high performance computing resources to all of Ohio's colleges and universities beyond those currently available on campuses. Additionally, many researchers throughout the state include OSC as an available state resource to make their grant proposals for external non-state funding more competitive on a national level, which is a major priority of the CHEE report. OSC works with private industry to identify business solutions through high-performance computing and modeling. The Executive Budget provides support for the OSC with recommended funding of $10.0 million in each year of the biennium, $6 million of which comes from federal sources.

Ohio Academic Resource Network (OARnet): A primary goal of OARnet is to facilitate communications and resource sharing among Ohio's researchers and institutions of higher education, which is aligned with CHEE recommendations to promote increases in Ohio's research and development capacity. The Executive Budget provides $3.7 million in each fiscal year to OARnet to provide Internet access to 88 higher education institutions throughout Ohio and over two million Ohioans, while also providing network connectivity between researchers and the Ohio Supercomputer Center. On November 30, 2004, Ohio marked its national prominence in computing and connectivity by officially launching the Third Frontier Network (online at http://www.osc.edu/oarnet/tfn/), which has been described as the nation's most advanced fiber optic network for education, research, and economic development. In the upcoming year, OARnet will begin expanding the network to include areas of the state such as Steubenville, Marietta, and Defiance, as well as providing last mile connectivity to institutions of higher education in rural areas of the state.

Ohio Agricultural Research & Development Center (OARDC): The CHEE recommended that Ohio continue its efforts as a national leader in innovation and discovery, which includes continued investment in OARDC. The goal of the OARDC is to enhance Ohio's agricultural industries in terms of competitiveness and profitability. The OARDC, considered the nation's most comprehensive agricultural research facility, provides unbiased, research-based, scientific information for food, agricultural, and environmental systems. Each year the center administers nearly 600 research projects, attracting top researchers from across the nation and leveraging external funding to match state investments. The budget will ensure that funding of $35.8 million in each year of the biennium is distributed through independently evaluated, competitive mechanisms.

Eminent Scholars: The CHEE recommended that Ohio improve and increase research capacity and efforts to attract the nation's best research scientists. The Eminent Scholars Initiative supports endowed faculty chair positions in outstanding academic departments and fosters research excellence and academic quality for selected programs of critical importance to the state's economic growth. The executive budget requires that all new Eminent Scholars be associated with a Wright Center of Innovation, Biomedical Research and Technology Transfer Partnership Award, or Wright Capital Project. The Eminent Scholars program will receive $1.4 million in FY 2007.

Priorities in Collaborative Graduate Education (formerly Computer Science Graduate Education): A major component of the CHEE report addressed the role of research and development as a cornerstone to improving the state's economic standing. Improvements in the quality of graduate programs, identified as critical to economic development, are a step forward in Ohio's technology commercialization efforts. This program's goals are to make Ohio nationally competitive in graduate study areas that are identified as critical to the state's economy, increase the amount of federal and industrial funding in research and development in those identified areas, and to increase the number of individuals in Ohio with expertise in those areas. The change in program name and purpose allows the Board of Regents increased flexibility to adjust and respond to changing needs over time. This program will receive $2.4 million in each year of the biennium.

Jobs and Progress Plan

The Executive Budget recommends appropriations to continue implementation of the Jobs and Progress Plan, first announced in August 2003. This 10-year, $5 billion initiative to improve Ohio's roadways will generate more than 4,000 highway construction jobs, ease freeway congestion, improve road safety, and connect rural regions. Appropriations in this budget for the Department of Transportation's major new highway construction program total more than $1.5 billion over the biennium.

Marketing Ohio Products At Home and Abroad

OHIO PROUD was created in 1993 to increase the sales of agricultural products raised, grown, or processed in Ohio. This program, along with others in the Department of Agriculture, seeks to create consumer awareness of Ohio products through event displays, newspaper advertisements, and billboards. In addition to these activities, the department's marketing staff promotes Ohio products internationally. Total budget recommendations in the Department of Agriculture for marketing activities total over $2.0 million per year. Similarly, the Department of Development promotes Ohio businesses internationally through the operation of trade offices and by conducting trade missions. The Executive Budget provides $4.2 million per year for Development's International Trade program.

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EDUCATION, THE CORNERSTONE OF SUCCESS

Governor Taft's education vision is that Ohio's schools will prepare all children to succeed in education, in the workforce, and as productive citizens. This vision foresees that teachers, students, parents and communities know what is to be taught and learned, and how progress will be measured. Governor Taft's FY 2006-2007 budget provides assistance and training to schools and educators to help them meet standards that enable all students to succeed. Student achievement continues to be the focus of investments made in this budget.

Recommended funding for education purposes (all funds) totals $12.04 billion in FY 2006 (2.4% above FY 2005) and $12.61 billion in FY 2007 (4.7% above FY 2006). GRF funding for education totals $9.37 billion in FY 2006 (2.0% above FY 2005) and $9.61 billion in FY 2007 (2.5% above FY 2006).[1] (The following discussions focus on the FY 2006-2007 Executive Budgets of the Department of Education, under the section titled "Primary and Secondary Education," and the Board of Regents, under the section titled "Higher Education.")

Primary and Secondary Education

Education funding for the Department of Education (all funds) totals $9.30 billion in FY 2006 (2.4% above FY 2005) and $9.78 billion in FY 2007 (5.2% above FY 2006). GRF funding for the Department of Education totals $6.67 billion in FY 2006 (1.7% above FY 2005) and $6.82 billion in FY 2007 (2.3% above FY 2006). Funding from Lottery profits totals $637.9 million in each fiscal year.

Governor's Blue Ribbon Task Force on Financing Student Success

The Governor's Blue Ribbon Task Force on Financing Student Success (http://www.blueribbontaskforce.ohio.gov/) was charged to recommend a system that promotes higher levels of student achievement and gives every child the opportunity to succeed. The recommended system was also to provide funding for school districts that is stable and grows appropriately, is predictable, affordable within the context of the state's economy, and includes features that promote the effective use of resources.

Funding Recommendations

The FY 2006-2007 budget begins implementation of the funding recommendations made by the Task Force, most of which require changes to the Foundation Program, the formula by which most state funding is provided to school districts. The Executive Budget proposes funding for all Foundation Program items totaling $6.15 billion in FY 2006 (2.5% above FY 2005) and $6.29 billion in FY 2007 (2.3% above FY 2006).

The Foundation Program is currently comprised of seven line items. The Executive Budget proposes that four of these line items be merged. Line items 200-501, Base Cost Funding; 200-520, Disadvantaged Pupil Impact Aid; 200-525, Parity Aid; and 200-546, Charge-Off Supplement (also known as Gap Aid) are merged into the new line item 200-550, Foundation Funding. All critical inputs as identified by the Task Force will be included in the new line item.

[1] Totals include the Department of Education, the Board of Regents, the Ohio Schools for the Blind and Deaf, and the Ohio School Facilities Commission.

(Formerly line item 200-501, Base Cost Funding contained both base cost funding elements and supplemental weighted funding.) Line item 200-546, Charge-Off Supplement, is part of base cost funding for districts that do not have sufficient local revenue to cover their assumed share. Parity Aid and assistance provided to districts with students in poverty are vital supplemental inputs for academic success, similar to special education weighted. The new line item better organizes and presents funding for essential base and supplemental components, as envisioned by the Task Force.

Line item 200-550, Foundation Funding, increases over its four successor line items by $148.0 million in FY 2006 (2.7% above FY 2005) and by $129.0 million in FY 2007 (2.3% above FY 2006). Following are the key Task Force funding initiatives supported by the Executive Budget and included within the new line item 200-550, Foundation Funding:

Base Cost Funding

- The base cost per-pupil allocation is increased to $5,328 in FY 2006 (3.1% above the FY 2005 per-pupil amount of $5,169) and $5,489 in FY 2007 (3.0% above FY 2006). The FY 2005 per pupil base cost was split into three elements (salaries and non-health benefits - 71.2%, health benefits - 13.8%, and other - 15.0%) and inflated by two components of the Employment Cost Index (ECI) and by the Gross Domestic Product (GDP) Deflator as recommended by the Task Force.
- Additional state and local base cost funding for data-based decision making, professional development for data-based decision making, general professional development, and general intervention is proposed totaling $48.4 million in FY 2006 and $63.6 million in FY 2007. The Task Force found that the use of data to inform the allocation of resources and the use of data by educators to inform teaching practices are the best determinants of a district's ability to achieve successful academic results.
- The Executive Budget proposes that the Cost of Doing Business factor be eliminated, as recommended by the Task Force, and savings reallocated through the formula to school districts and students most in need. During a transitional period a base cost guarantee will be implemented so that school districts do not experience decreases below FY 2005 total base cost funding.
- The Task Force also recommended that transitional funding be provided for initiatives considered for elimination or phase-out. Because of significant changes made to the Foundation Program, the Executive Budget proposes that Transitional Aid be provided to guarantee that districts receive 100% of prior year total foundation formula aid in FY 2006 and 98% of prior year total foundation formula aid in FY 2007.

Poverty-Based Assistance

The Task Force recommended the creation of initiatives to increase funding levels for students in districts facing the challenges of poverty. Proposed funding for Poverty-Based Assistance totals $434.1 million in FY 2006 (27.6% above FY 2005) and $481.0 million in FY 2007 (10.8 % above FY 2006). The poverty indicator used to support the following funding supplements includes the unduplicated count of children in families that qualify for the Ohio Works First program, the Food Stamp program, the Medical Assistance program, the Children's Health Insurance program (CHIP), and the Disability Assistance program. This poverty indicator better reflects poverty concentrations in school districts than did the previous poverty indicator that only used participation in the Ohio Works First program. Following are the components of Poverty-Based Assistance:

- **All-Day Kindergarten:** Funding totaling $147.9 million in FY 2006 (39.0% above FY 2005) and $151.8 million in FY 2007 (2.6% above FY 2006) is proposed for all-day kindergarten. The use of the new poverty indicator (as outlined above) allows an additional 52 districts to qualify for this supplement.
- **Student Academic Intervention:** A new funding subsidy for student academic intervention provides districts increasing levels of funding for intervention as their poverty concentration increases. Funding is phased in at 40% in FY 2006 and 60% in FY 2007 of the total funding recommended by the Task Force. Funding totals $78.3 million in FY 2006 and $121.2 million in FY 2007.
- **Support for Large Urban Districts:** Large urban districts face unique challenges that other districts with high concentrations of poverty do not. For this reason additional funding is provided to large urban districts for drop-out prevention and community engagement to support community liaisons and/or attendance officers. Again, these funding initiatives are phased in at 40% of the total funding recommended by the Task Force in FY 2006 or $14.6 million and at 60% of the total funding recommended by the Task Force in FY 2007 or $22.6 million.
- **Professional Development:** A new subsidy for professional development is phased in at 40% and 60% of the total funding recommended by the Task Force in FY 2006 and FY 2007, respectively. Districts that have a concentration of poverty greater than the statewide average will receive $2.3 million in FY 2006 and $3.5 million in FY 2007.
- **Class Size Reduction:** The current formula for class size reduction is modified slightly based on Task Force recommendations to better target resources to those who need it most, resulting in total funding levels of $155.9 million in FY 2006 (13.3% above FY 2005) and $161.3 million in FY 2007 (3.4% above FY 2006).

Student Academic Intervention

Flexibility is provided in this biennium to enable districts to use all new funding initiatives for Poverty-Based Assistance for student academic intervention while the revised funding subsidy is phased in and new spending policies for districts are implemented. Combined, all state resources provided for intervention (including $15.0 million available each year from Temporary Assistance for Needy Families (TANF) dollars budgeted in the Department of Job and Family Services) total $153.5 million in FY 2006 (11.6% above FY 2005) and $195.1 million in FY 2007 (27.1% above FY 2006).

Parity Aid

Parity Aid is provided to 80% of Ohio's poorest schools on a sliding scale allocation above basic aid because of a lesser capacity for these districts to support education with local revenue. Each qualifying district receives the difference between what 9.5 mills raise in the district at the 80th percentile and what 9.5 mills raise in the qualifying district. Total funding of $455.1 million is provided in FY 2006 (7.1% above FY 2005) and $514.6 million in FY 2007 (13.1% above FY 2006). Funding for this supplement continues to be phased in at 80% and 85% of the total calculated supplemental payment in FY 2006 and FY 2007, respectively.

Charge-Off Supplement
This supplement (sometimes referred to as Gap Aid) provides districts that have less actual local revenue than what the state assumes for school districts as the local share for basic aid, special education weighted funding, career-technical weighted funding, and transportation. The assumed local share of basic aid is equivalent to 23 mills but districts are only required to raise 20 mills. For those districts that raise less than 23 mills, this supplement provides the difference (or gap) between 23 mills and what the district is actually raising. Proposed funding is increased by $19.0 million in FY 2006 (32.6% above FY 2005) and by $6.8 million in FY 2007 (8.8% above FY 2006).

Excess Cost Supplement
Proposed funding totals $57.1 million in FY 2006 (47.2% above FY 2005) and $73.9 million in FY 2007 (29.4% above FY 2006) for districts whose assumed local share for special education weighted funding, career-technical weighted funding, and pupil transportation exceeds 3.3 mills times the district's recognized valuation.

Revenue and Taxation Recommendations
The Executive Budget proposes that two of the three components of the tangible personal property assessment (machinery & equipment and inventory) be eliminated gradually over the period beginning tax year 2006 through tax year 2010. Districts will be 100% held harmless from revenue losses until FY 2011 through a combination of increased Foundation Program funding (due to lower valuations) and direct payments from a new revenue source, the Commercial Activity Tax (CAT). In FY 2012, while the direct hold harmless payments will begin to be phased out, total CAT revenues diverted for schools will be maintained and distributed to districts in an equitable fashion that accounts for district wealth differences.

Operations and Efficiency Recommendations
The Executive Budget supports the use of data analysis in decision making and the deployment of resources to yield operational efficiencies at the district level, a fundamental goal of the Task Force. The Task Force also focused on efficiencies that could be gained in health care and general school district operations as outlined below:

- The budget includes $1.0 million in each year for the Auditor of State to provide approximately ten additional financial or approximately five comprehensive performance audits per year to identify savings in the areas of financial systems, human resources, facilities maintenance, transportation, and technology utilization.
- A review coordinated by the Department of Education will result in a plan to identify potential efficiencies of consolidating health care insurance purchasing for public school employees for future consideration by the State Board, the Governor's Office, and the General Assembly.

Student Success Initiatives
The Executive budget builds upon the work of the Governor's Commission for Student Success (http://www.osn.state.oh.us/gcss/report.pdf/), which was charged with identifying a plan to promote student achievement by insisting on high academic expectations for all students, fair and effective assessments based on those standards, and accountability for results. The FY 2006-

2007 budget includes total recommendations of $90.5 million in FY 2006 and $107.9 million in FY 2007 for student success initiatives to support continued development of academic content standards and curriculum models; student assessments; and local accountability. Following are some key student success initiatives where continued support is proposed:

- **Model Curricula:** Funding of $4.6 million in FY 2006 and $4.7 million in FY 2007 is provided to support the development of model curricula for foreign language, fine arts, and technology along with the expansion of lesson plans available for other subjects.
- **Assessments:** Funding of $63.5 million in FY 2006 (38.1% above FY 2005) and $69.0 million in FY 2007 (8.8% above FY 2006) will allow for the continued development of achievement and diagnostic tests, the Ohio Graduation Test (OGT), and the development of new achievement tests in mathematics, reading, social studies, and writing.
- **Local Report Cards:** Funding of $3.7 million in each fiscal year maintains standard Local Report Cards for all public schools and districts to report student performance indicators.
- **Value-Added Specialists:** New funding of $200,000 in FY 2006 and $2.8 million in FY 2007 is provided to create a system of regional-level value-added specialists who will in-turn train district-level value-added specialists to track and measure individual student growth and academic progress over time.

Ohio Choice Scholarships

This budget introduces a new initiative in FY 2007 that provides $3,500 scholarships to parents of students who attend persistently failing schools, enabling them to choose to send their child to a more successful chartered, nonpublic school. The Ohio Choice Scholarships are not only intended to offer another route for student success, but also to impel the administration and teaching staff of a failing school building to improve upon their students' academic performance. Recommended funding totals $9.0 million in FY 2007.

Teaching Success Initiatives

The Executive Budget continues education reform as recommended by the Governor's Commission on Teaching Success (http://www.teaching-success.org/documents), a commission created to address and make recommendations regarding the preparation, recruitment, retention, and professional development of teachers to ensure student success in meeting Ohio's academic standards. The FY 2006-2007 budget includes support for teacher recruitment and preparation; teacher induction, support, and retention; professional development for teachers and administrators; and alternative teacher and administrator licensure programs. Total support for this series of programs is $46.7 million in FY 2006 and $49.1 million in FY 2007. Following are some key teaching success initiatives where continued support is proposed:

- **National Board Certification:** The proposed operating budget includes $7.9 million in FY 2006 (9.2% above FY 2005) and $8.3 million in FY 2007 (5.1% above FY 2006) to support and encourage the participation of teachers in the National Board Certification process.
- **Teacher-on-Loan:** Funding of $2.5 million in each fiscal year supports the expansion of the Teacher-on-Loan program from 12 to 24 teachers from classrooms around the state to serve as master teachers who understand and implement standards-based education and to train their peers.

- **Professional Development:** Funding of $4.4 million in each fiscal year is proposed to maintain the support of additional days for teacher professional development (professional days) in low-performing school districts.
- **Professional Development Institutes:** Funding of $12.7 million in each fiscal year is proposed for the Ohio Mathematics Academy Program (OMAP) and the State Institutes for Reading Instruction (SIRI) for professional development in standards-based mathematics and reading instruction.

School Building Assistance

To date, the Ohio School Facilities Commission (OSFC), charged to provide funding to public school districts and oversee the construction and renovation of school facilities, has completed over 290 newly constructed or renovated school buildings in 167 school districts across the state. Governor Taft's budget for the FY 2006-2007 biennium provides the necessary resources to continue the effective oversight of Ohio's school construction and renovation programs and debt service payments. The state has issued bonds totaling $2.3 billion to support the state's share of OSFC building projects. The debt service supporting these bonds totals $220.4 million in FY 2006 and $256.5 million in FY 2007.

Subsidizing the OSFC Half-Mill Maintenance Requirement

The Executive Budget recommends providing financial assistance to enhance the ability of school districts to maintain their new facilities. This initiative targets resources to those districts with the greatest needs. To that end, the Executive Budget includes funding of $10.7 million in FY 2007 to support a new provision that will equalize a school district's one-half mill maintenance set-aside to the statewide per pupil average yield.

Higher Education

Funding for the Board of Regents (all funds) totals $2.49 billion in FY 2006 (0.9% above FY 2005) and $2.54 billion in FY 2007 (2.0% above FY 2006). GRF funding for the Board of Regents totals $2.47 billion (0.9% above FY 2005) and $2.52 billion (2.0% above FY 2006) in FY 2006 and FY 2007, respectively.

Increased investments in higher education fund implementation of key recommendations made by the Commission on Higher Education and the Economy (CHEE) (http://www.chee.ohio.gov/documents/CHEE_4_22.pdf), a group charged by Governor Taft to develop a strategic plan for the state to help higher education achieve its full potential in the creation of more and better jobs for Ohioans, increase economic competitiveness and fuel economic growth. The highlighted programs in this section address the CHEE recommendations related to increasing the number of Ohioans participating in higher education. (The economic development and research-related recommendations are addressed in the "Encouraging Economic Development" section of this document).

Ohio College Opportunity Grant: Ohio's strategy to improve educational access includes providing direct aid to Ohioans that face financial barriers to higher education. As recommended in the CHEE report, this budget includes funding to create a new need-based financial aid program, the Ohio College Opportunity Grant. The program, which will provide an additional $58.1 million in FY 2007, will be phased in over four years beginning in FY 2007 and take the place of the Ohio Instructional Grant and the Part-time Instructional Grant. The new program provides consistency between the state's measure of need and the measure utilized for the federal Pell grant. This effort will increase the tuition-buying power of those students demonstrating the most financial need. Additionally, the new program increases the maximum grant award for students attending public institutions from $2,190 under the current Ohio Instructional Grant to $2,496, an increase of 14%. When coupled with investments in other direct need-based financial assistance to students (the Ohio Instructional Grant and Part-time Instructional Grant programs), this budget proposes a total of $161.2 million in FY 2007 (24.2% above FY 2005). By FY 2011, the Ohio College Opportunity Grant will be fully phased in, taking the place of both the Ohio Instructional Grant and the Part-time Instructional Grant.

<u>Ohio Instructional Grant & Part-time Instructional Grant Programs</u>: Students who participated in higher education prior to FY 2007 will remain eligible to receive grants under the state's current need-based financial aid program, the Ohio Instructions Grants for full-time students ($121.2 million in FY 2006 and $92.5 million in FY 2007) and the Part-time Instructional Grants for part-time students ($14.5 million in FY 2006 and $10.5 million in FY 2007). As noted above, these programs will be phased out over four years and replaced by the Ohio College Opportunity Grant.

<u>Other State Financial Aid Programs</u>: In addition to the need-based financial aid programs, Ohio also provides the following tuition assistance programs. These programs help meet specific state needs and commitments:

- <u>Student Choice Grants</u>: The Executive Budget includes $50.9 million in FY 2006 and $53.0 million in FY 2007 to provide incentives for Ohio students to pursue higher education in the state. Grants are provided to resident undergraduates who attend Ohio private non-profit colleges and universities.
- <u>Ohio Academic Scholarships</u>: $7.8 million is provided in each fiscal year to support merit-based scholarships to Ohio's high achieving high school graduates.
- <u>Workforce Development Grants</u>: $2.1 million is recommended in each fiscal year to provide merit-based grants to students at eligible proprietary schools throughout Ohio.
- <u>Ohio National Guard Scholarship Program</u>: The budget includes $15.1 million in FY 2006 and $16.6 million in FY 2007 to fulfill Ohio's commitment to provide educational support to members of the Ohio National Guard.
- <u>Ohio War Orphans Scholarship</u>: $4.7 million in each fiscal year is proposed to support Ohio's commitment to the state's service men and women who become permanently disabled or die while in active duty during a time of conflict.
- <u>Health Professional Loan Repayment</u>: Non-GRF support is also provided for three health professional loan repayment programs ($1.5 million in each fiscal year), which incentivize health professionals to work in health care shortage areas of the state by providing student loan repayment for each year of service.

Continuation of the Tuition Cap: The CHEE report recommends restraining tuition growth at state-assisted institutions of higher education. The Executive Budget limits growth to 6% and allows for an additional 3% assessment that may only be used to provide students with need-based financial aid in an effort to expand access to higher education.

Ohio's Partnership for Continued Learning (P-16 Council): A major recommendation of the CHEE was to continue initiatives that increase overall cooperation among the state and local communities in efforts to create a seamless P-16 education system that serves all Ohioans. The Executive Budget provides $150,000 in each fiscal year in both the Board of Regents and the Department of Education's budgets to create Ohio's Partnership for Continued Learning, which will work in cooperation with local and state level partners to create a single comprehensive education system from early childhood through adulthood.

Articulation & Transfer: Total funding of $2.9 million (303.6% above FY 2005) is provided in each fiscal year to support this initiative. In each fiscal year, $1.9 million will be used to complete implementation and expansion of the statewide Course Applicability System to ensure all credits earned for similar coursework is transferable among state-assisted colleges and universities. Also, $200,000 in each fiscal year will be used to investigate the transferability of Adult Career Center coursework to degree-granting colleges and universities for credit. These efforts seek to encourage college enrollment and degree completion.

College Readiness & Access: The Executive Budget provides support for CHEE recommendations focused on increasing the skills and education level of Ohioans to create a highly educated and work-ready population. Total GRF funding for College Readiness & Access initiatives of $6.4 million in FY 2006 (51.8% above FY 2005) and $7.7 million in FY 2007 (20% above FY 2006) expands the reach and impact of projects targeted to encourage college enrollment by primary and secondary students throughout the state. The following two initiatives, funded through College Readiness & Access, represent major investments in Ohio's youth, improving awareness and planning for higher education and increasing college participation in the upcoming years.

- **The Ohio College Access Network (OCAN):** OCAN will receive $1.1 million in FY 2006 (120.0% above FY 2005) and $1.2 million in FY 2007 (140.0% above FY 2006) to continue support for current initiatives, to expand upon current programming and to reach into counties that are currently underserved.
- **Early College High School Pilot Program:** This program will receive $1.6 million in FY 2006 and $2.8 million in FY 2007 in new funding in both the Board of Regents and the Department of Education's budgets to implement the pilot partnership programs recommended by the CHEE and the Committee to Redesign Ohio High Schools. The partnerships will provide high achieving students, who may not have had the opportunity to attend college otherwise, the opportunity to earn college credit towards an associate or bachelor's degree while still in high school.

State Share of Instruction: In this difficult budget environment, Governor Taft's budget proposal protects the state's single largest investment for Ohio's public institutions of higher education from reductions. The Executive Budget recommends $1.56 billion in each year of the biennium to supplement the general operations of the state's 13 four-year universities, 24 regional branch campuses, two free standing medical colleges, 15 community colleges and eight technical colleges.

Challenge Funding: As with the State Share of Instruction, this budget proposal protects state investments for the Access, Jobs and Success Challenges. In each year of the biennium, $63.3 million is provided for Access Challenge to support the efforts of access campuses (includes all public technical and community colleges, university branch campuses, as well as Central State University, Shawnee State University, and the two-year components of the University of Akron, the University of Cincinnati, and Youngstown State University) to keep tuition below the state average, making higher education more affordable for all Ohioans. The Executive Budget includes $9.4 million in each year of the budget to further the Jobs Challenge initiatives aimed to promote the state's economic development goals through employee training, and employer partnership and engagement with participating institutions of higher education. Additionally, funding is provided to promote timely degree completion and support for at-risk students at Ohio's 13 state-assisted universities through the Success Challenge ($52.6 million in each year). (Economic Growth Challenge, which replaces Research Challenge, is in the "Encouraging Economic Development" section of this document.)

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MANAGING LIMITED RESOURCES
FOR A MORE EFFICIENT GOVERNMENT

The recommended General Revenue Fund appropriations in this budget will result in the two slowest growing fiscal years of the last forty years, with GRF growth rates of 1.1% in FY 2006 and 2.3% in FY 2007.

The FY 2006-2007 Executive Budget reduces or flat funds the majority of the state's GRF funded agencies, consolidates functions or activities of several state agencies, and holds down the costs of one of the fastest growing programs in state government—Medicaid. Of the state's 68 GRF funded agencies, 36 will either remain at FY 2005 GRF levels or decrease their reliance on GRF funding.

The FY 2006-2007 Executive Budget was developed through careful scrutiny of state programs and activities. Funding increases reflect investments in key priorities and support for essential state services.

Education

- Governor Taft's highest priority is enabling every child to succeed. This is evident through GRF increases in the Department of Education, Board of Regents, School Facilities Commission, Ohio School for the Blind, and Ohio School for the Deaf.

Economic Development

- The Governor's budget provides support for economic development initiatives through increases in funding for the Department of Development and Public Works Commission (PWC). Increases for PWC support debt service requirements for infrastructure projects throughout the state.

Supporting Seniors and Families

- Providing support for key programs serving seniors and families, the Executive Budget provides increased funding for the Departments of Aging, Alcohol and Drug Addiction Services, and Job and Family Services.

Essential State Services

- The Executive Budget supports increases for services provided through the institutional agencies of Mental Health, Mental Retardation and Developmental Disabilities, and the Ohio Veterans' Home. This budget also supports increases to maintain institutional and community capacity as provided through the Departments of Rehabilitation & Correction and Youth Services.
- Due to their relative size, seven agencies received increases in GRF funding to maintain current or reduced levels of service. These agencies include the Civil Rights Commission, Ethics Commission, Elections Commission, Personnel Board of Review, State Employment Relations Board, Board of Tax Appeals, and Environmental Review Appeals Board.

The FY 2006-2007 Executive Budget continues the sound management practices and fiscal restraint employed throughout this Administration. Most agencies will spend less from the General Revenue Fund in FY 2005 than they spent five years ago. The majority of GRF spending increases over this time period can be attributed to increased spending in primary and secondary education, Medicaid, debt service, and property tax relief programs. Examples of some of the cost management strategies employed during this Administration are outlined below.

- Over the past five years, agencies' General Revenue Fund budgets have been cut by $1.4 billion.
- Since 1999, the number of state employees has been steadily shrinking. In January 1999 there were approximately 62,500 state employees. Today there are approximately 59,300.
- The most conservative state-employee compensation contract in the history of Ohio public sector collective bargaining was negotiated, freezing base wages for state employees.
- The size of the state vehicle fleet has been reduced by nearly 12 percent.
- The closure of six institutions has either taken place or is scheduled to take place. These include: Riverview Juvenile Correctional Facility, Maumee Juvenile Correctional Facility, Orient Correctional Institution, Lima Correctional Institution, Springview Development Center, and Apple Creek Developmental Center.

In addition, the Administration has successfully implemented a number of Medicaid cost management initiatives that will save the state $863 million in the current biennium alone. The FY 2006-2007 Executive Budget continues this trend and proposes a number of additional strategies to rein in Medicaid program expenditures.

Medicaid

The Executive Budget proposes several strategies to control the rate of Medicaid growth. These strategies include increased utilization of managed care, caps on spending for institutional care, and expansion of the preferred drug list with supplemental prescription rebates. Many of these steps are consistent with recommendations of the Ohio Commission to Reform Medicaid. Combined, the impact of these cost management initiatives reduces projected GRF spending (both federal and state shares) by $813 million in FY 2006 and $1.5 billion in FY 2007.

The Executive Budget provides responsible reform initiatives along with immediate cost containment. Proposed reforms are intended to deliver cost effective and preventive care for low-income families and children; provide cost effective, non-institutional residential options and health care for seniors; and improve the information technology used to manage the Medicaid program. Some of the cost containment initiatives included in the Executive Budget are:

- The removal of the nursing home reimbursement formula from state statute;
- A freeze on inpatient hospital and intermediate care facilities for the mentally retarded (ICF/MRs) payments at their FY 2005 levels leaving the payments unchanged in FYs 2006 and 2007;

- The elimination of vision and dental coverage for adults. Coverage for children and pregnant women will not change; and
- The expansion of prescription drug co-payments.

The Executive Budget provides funding for programs to allow individuals to live in a community setting and which reduces nursing home expenses by allowing these individuals to receive care in a more cost efficient environment. These programs include:

- Implementing an assisted living waiver;
- Expanding the PASSPORT and Choices waiver programs; and
- Continuing to fund the Success Project, which allows individuals to move out of a nursing home and into a community setting.

Additional information on the Medicaid budget and what it buys is located in the Supporting Seniors and Families section.

Consolidation of the Office of Criminal Justice Services within the Department of Public Safety

The role of the Office of Criminal Justice Services (CJS) is to manage criminal justice information systems and databases, administer state and federal grants, and develop educational resources based on criminal justice trends and needs. The services provided by CJS are valuable to the safety of Ohio citizens and are an important asset to Ohio law enforcement agencies and officers. In an effort to streamline the functions of CJS and realize significant cost savings, the Executive Budget proposes converting the agency to a division of the Department of Public Safety. Services are enhanced by both agencies benefiting from the expertise of each and by increasing the statewide capacity for criminal justice research and development.

Consolidation of the SchoolNet and the Educational Telecommunications Network Commissions

Governor Taft's FY 2006-2007 biennial budget streamlines government through the consolidation of the Ohio SchoolNet Commission and the Ohio Educational Telecommunications Network Commission. Certain functions and responsibilities currently performed by these agencies will be maintained by a newly created agency, while others will be shifted to more appropriate agencies or discontinued. To fund the resulting change, appropriations are recommended in the Controlling Board's budget for future transfer. Costs will be reduced as duplicative services are discontinued, while continued support will be provided to constituents with the expected or an enhanced level of service and support.

Consolidation of Regulatory Boards

Ohio has 27 independent boards that set standards for licensure and registration of members of various professions and occupations. The boards then enforce these standards through examination, inspection, investigation, and continuing education. The sizes of these agencies range from the State Board of Orthotics, Prosthetics, and Pedorthics, with one full time employee and an annual budget of approximately $100,000, to the State Medical Board, with 77 full time employees and an annual budget of $7.5 million. Fiscal year 2005 funding for the regulatory boards combined totals $32 million. The agencies employ over 330 staff members and have 200 board members or commissioners.

The Executive Budget proposes to streamline the operations and improve the efficiencies of the regulatory boards by grouping them within umbrella agencies: the Department of Commerce, the Department of Health, and the Department of Public Safety. The appointed boards and commissions will continue to provide oversight of their professions, but the Departments of Commerce, Health, and Public Safety, as appropriate, will provide staffing and support services. In addition, the directors of the Departments of Commerce, Health, and Public Safety, or their designees, will be appointed to serve on each of the boards and commissions consolidated within their agencies. The goal of this initiative is to ensure management accountability for all the regulatory boards and to realize management and budget efficiencies. The administration is committed to meeting this goal by maintaining an integrated, high quality, accountable, and efficient system of regulatory boards and commissions.

The Executive Budget includes funding for FY 2006 for each of the regulatory boards and commissions; however, no appropriations are included for FY 2007. The Executive Budget will also contain temporary law establishing a task force to implement the transfer. The task force will include representatives from the Departments of Commerce, Health, Public Safety, and Administrative Services, as well as OBM. The task force will be charged with preparing the necessary statutory changes and working with OBM to develop FY 2007 budgets for the consolidated boards. The task force also may recommend additional regulatory boards to be consolidated as well as modifications to the consolidation proposal.

Worker Safety Program Transfer
Two worker safety programs currently housed in the Department of Commerce, the Public Employment Risk Reduction Program and the Occupational Safety and Health Administration On-Site Consultation Program, will be moved to the Bureau of Workers' Compensation. These transfers are proposed due to the alignment of the programs' objectives to those of the bureau. In addition, the portion of the programs previously supported by the General Revenue Fund, approximately $1.4 million per year, will be supported by non-GRF sources.

Environmental Protection Fee
The Executive Budget proposes to assess an environmental protection fee of $2.75 per ton on solid waste that is disposed of in Ohio landfills. The $1.75 per ton of the fee will replace the use of the GRF to support the operations of the Environmental Protection Agency (EPA). The revenue generated by this fee will eliminate EPA's reliance on the General Revenue Fund by FY 2007. The combined fiscal year 2006 GRF and environmental protection fee appropriations are flat from fiscal year 2005, except for an increase to the Air Pollution Control line item to implement new federal air pollution control mandates. The fiscal year 2007 appropriations from environmental protection fee line items are flat as compared to fiscal year 2006 total appropriations, with the exception of the air pollution control mandates.

The remaining $1.00 per ton of the proposed environmental protection fee will be used by the Department of Natural Resources (DNR) for the Division of Recycling and Litter Prevention. A portion of the corporate franchise tax currently funds the division, but as a result of tax reform, this revenue source is being eliminated. The programs of this division fund grants to local solid waste districts and local government entities across the state as well as supporting marketing and research programs. With the new assessment, the average cost of waste disposal to landfills in Ohio is comparable to that of other Midwestern states.

Fees to Support State Services

The Executive Budget includes proposals for new or increased fees for nine agencies. These fees are needed to meet operating costs of providing the service or to reduce the agency's dependence on GRF. Activities that are generally of a regulatory nature, or activities that deliver something of value for which the recipient reasonably can be expected to pay the cost of the service received should be funded from revenues generated from those directly benefiting from the activity. As a policy, the fee imposed generally should be sufficient to generate the necessary revenues to perform the activity. The proposed fees range from the Department of Agriculture's proposal to implement fees for the inspection of large meters and vehicle scales to the Department of Health's increased fees for nursing home licensure and x-ray inspection. These fees are discussed in detail in the Fee Special Analysis of the Executive Budget.

Not included in the above, but assumed in the Executive Budget, is the Department of Natural Resources' (ODNR) Parks Pride Pass program. In early January 2005, ODNR filed rules with the Joint Committee on Agency Rule Review (JCARR) to implement a parking fee at state parks. If the rules are approved, they will allow ODNR to collect $5 for the purchase of a daily parking pass at state parks. An annual pass, good for unlimited park visits for 12 months from the date of purchase, will cost $25. These rates are competitive with user fees in other states, such as Indiana and Michigan. Revenue from the Parks Pride Pass program will be used to increase funding for operations and maintenance at Ohio's parks.

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SUPPORTING SENIORS AND FAMILIES

Supporting seniors and families has been a priority of Governor Taft throughout his administration. The following initiatives continue this support.

PASSPORT
Total funding for the PASSPORT program is $344.9 million in FY 2006 and $373.3 million in FY 2007, which represents growth of 10.7% and 8.3% respectively. PASSPORT GRF funding is $112 million in FY 2006 (8.0% above FY 2005) and $121 million in FY 2007 (8.0% above FY 2006). Funding levels enable approximately 26,000 older Ohioans to receive home care assistance in the next biennium and support an average of 675 new enrollees per month. Home care assistance includes personal care, adult day services, home-delivered meals, medical equipment and supplies, independent living assistance, nutrition consultation, and transportation. This program enables people to receive the care they need where they prefer to live, in their own homes, and saves the state money by delaying unnecessary and unwanted institutional long-term care in nursing facilities.

Assisted Living Waiver
The Executive Budget includes $20.8 million in FY 2007 to fund an assisted living waiver that will offer another option to institutional nursing home care. Assisted living is less costly than nursing home care and is a popular option for people not on Medicaid who are paying for their own care. The waiver will be open to enrollment in FY 2007 and will serve up to 1,800 people. The waiver will be available statewide to eligible Medicaid recipients who would be moving from a nursing home, the PASSPORT or Choices waiver, or the Home Care waiver.

Access to Better Care - Improving Behavioral Health Services for Children
Through a variety of funding sources, Governor Taft's proposed budget includes $25.8 million in FY 2006 and $26.9 million in FY 2007 to improve access to and the quality of behavioral health services to children in Ohio. Recommendations include prevention, early intervention, and treatment strategies. The proposed budget includes the following:

Prevention

- $1.5 million in each fiscal year for the expansion of the evidence-based community-planning model, Partnerships for Success (PfS) to additional counties.
- $2.7 million in each year of the biennium to support Early Childhood Mental Health Professionals (ECMHP) and target their efforts to school districts in academic watch or academic watch status. ECMHPs work to improve the ability of early childhood staff, programs, and systems to prevent, identify, and reduce the impact of behavioral health problems among young children.
- $225,000 over the biennium to broaden the understanding, prevention, and intervention with Fetal Alcohol Spectrum Disorder.

Early Intervention

- $500,000 over the biennium to expand effective parent and caregiver training and education.

- $300,000 over the biennium to increase awareness on the effects of maternal depression and pilot, through the Help Me Grow program, identification and linkages to services for at-risk families.
- $192,500 over the biennium to support, in early childhood settings, the identification of children at risk for behavioral problems and link them to early intervention services.
- $2.7 million in each fiscal year to expand effective collaborative approaches for behavioral health professionals working in and with schools to identify at-risk students and intervene early. Efforts will be focused on districts in academic watch and academic emergency status.
- $200,000 over the biennium to expand school-based suicide prevention activities.

Treatment

- $4.8 million in each fiscal year to continue FAST 05', funds dedicated to improving community behavioral health treatment and developing a parent advocacy network.
- $5 million in FY 2006 and $6 million in FY 2007 to build upon FAST 05' by providing flexible local funds for effective, family-centered community behavioral health treatment and support services.
- $3 million in each year of the biennium to support at least three demonstration projects in select areas of the state that focus on improving behavioral health services for the child welfare and juvenile justice populations. At least one of these demonstration projects will focus on adolescent girls involved with or at risk for involvement with the juvenile justice system.
- $5 million in each fiscal year for alcohol and other drug treatment services for families involved in the child welfare system.
- Continued funding for RECLAIM OHIO, which provides flexibility to county juvenile courts to develop community-based programs for juvenile offenders.

TANF Spending Plan

Ohio will spend approximately $1.3 billion in FY 2006 and $1.4 billion in FY 2007 for TANF eligible activities. Some of the TANF program initiatives supported in the 2006-2007 biennium include:

- $344 million in FY 2006 and $353.6 million in FY 2007 to support the Ohio Works First program, Ohio's cash assistance program. Cash assistance grants will be increased by 10%, which is the first increase since FY 2000;
- $326 million per year for county TANF allocations for local programs that assist low-income families;
- $183.7 million in FY 2006 and $197.4 million in FY 2007 for subsidized child care (see Child Care section below for more detail);
- $97.4 million in FY 2006 and $116.3 million in FY 2007 for the Early Learning Initiative that will serve 10,000 children in FY 2006 and 12,000 children in FY 2007 with access to full-day, full-year programming to meet the child care needs of their working families and provide an early learning program to help prepare them for school;

- $35 million per year to support innovative demonstration programs, including a Student Intervention demonstration project funded at $15 million per year and other state and county demonstration projects;
- $31.6 million in FY 2006 and $32.2 million in FY 2007 for the child care provider rate reimbursement ceiling increase. See Child Care below for additional information on child care initiatives; and
- $11 million per year for faith based – strengthening families initiatives.

Child Care
Child Care is supported at $545.6 million in FY 2006 and $570.6 million in FY 2007. The proposal includes provisions to increase access to child care for working families. Governor Taft's proposal includes:
- Increasing the intake eligibility level for child care assistance from 150% to 185% of the federal poverty level beginning on July 1, 2005;
- Reducing co-payments for most families by at least 10%. Some families with incomes below the federal poverty line will experience reductions in co-payments of up to 60%; and
- Restructuring provider reimbursements to better reflect the costs of providing care in different regions around the state.

Alcohol and Drug Addiction Prevention and Treatment
Total funding for the Department of Alcohol and Drug Addiction Services will be $182.0 million in FY06 and $187.6 million in FY07. GRF funding is $37.7 million in FY 2006 and $38.8 million in FY 2007. GRF funding levels include an additional $1.1 million per year to expand prevention programming and alcohol and other drug treatment services.

Medicaid
The Medicaid budget continues to make high quality care the number one goal while seeking to expand alternative forms of care. Notwithstanding the Administration's cost containment initiatives (for additional information on these see "Managing Limited Resources"), Medicaid will continue to be the largest single state program. Medicaid spending totals $10.9 billion in FY 2006 and $11.1 billion in FY 2007, all funds. GRF spending will be $9.6 billion in FY 2006 and $9.9 billion in FY 2007. At these funding levels, Medicaid will:

- Provide health care coverage for approximately 1.8 million Ohioans;
- Provide health care coverage for one in four children;
- Provide health care coverage for one in four seniors over the age of 85;
- Cover 70 percent of all nursing facility care in the state; and
- Cover 33% of all births in the state.

Medicare Part D
In 2003, the federal government enacted the Medicare Prescription Drug, Improvement and Modernization Act (MMA). The part of the MMA that impacts Ohio is a change in how prescription drugs are funded for dual-eligible individuals, those who qualify for both Medicare and Medicaid. This part of the MMA is referred to as Medicare Part D. Currently, Ohio Medicaid pays for drugs for these individuals and receives federal reimbursement like most other

Medicaid services. When Medicare Part D becomes effective in January 2006, Medicare will pay for these drugs directly and will charge the state a premium based on what it calculates as the state share of these costs. A new line item, 600-526 Medicare Part D, has been created to make this payment. Appropriations for this line item are $155.3 million in fiscal year 2006 and $340.0 million in fiscal year 2007.

ESSENTIAL STATE SERVICES

Among the fundamental purposes of state government is a responsibility to provide for the health, safety, and public welfare of citizens. Highlights of Ohio's initiatives that support this purpose are listed below.

Department of Rehabilitation and Correction
GRF funding for the Department of Rehabilitation and Correction is $1.48 billion in FY 2006 (2.6% above FY 2005) and $1.50 billion in FY 2007 (1.7% above FY 2006). Executive Budget recommendations fund 32 institutions including inmate medical and mental health services, as well as parole operations and community correction programs. All community programs remain at FY 2005 levels to support increases in legally mandated medical care and mental health services. Currently no institution closures are planned, however recommended appropriation levels will likely result in the attrition of several hundred employees over the biennium.

Department of Youth Services
GRF funding for the Department of Youth Services is $244.5 million in FY 2006 (4.0% above FY 2005) and $252.3 million in FY 2007 (3.2% above FY 2006). The Executive Budget recommendation for RECLAIM Ohio provides over $132.2 million per year to operate eight state juvenile correctional facilities (JCF) and one private facility, funds $30 million per year in subsidies to 88 county juvenile courts for diversion programs, and supports the operation of 12 community correctional facilities. Increased funding recommendations for RECLAIM are targeted to specific initiatives in Scioto JCF, to address the female population, and in Ohio River Valley JCF, to address the sex offender population transfer from Circleville JCF. Funding for local subsidies remains at FY 2005 levels with the exception of an increase in RECLAIM subsidy to activate 18 new community corrections beds to divert male and female offenders from institutions. Currently, no institution closures are planned for this biennium.

Mental Retardation and Developmental Disabilities
GRF funding for the Department of Mental Retardation and Developmental Disabilities is $353.1 million in FY 2006 and $353.7 million in FY 2007. GRF funding levels support ten institutions as well as waiver services for approximately 11,300 individuals with MRDD. Growth rates (0.0% and 0.2% respectively) are lower than those for the state's other institutional agencies because they reflect savings from the closure of two developmental centers, Springview in June 2005 and Apple Creek in June 2006.

Department of Mental Health
GRF funding for the Department of Mental Health is $556.7 million in FY 2006 (3.3% above FY 2005) and $573.1 million (3.0% above FY 2007). This funding enables the department to maintain state hospitals at nine sites for Ohioans with severe mental illness by providing an additional $4.8 million in FY 2006 and $14.7 million in FY 2007. An additional $5 million in FY 2006 and $10 million in FY 2007 is provided for local board subsidies to maintain community services such as medication treatment, temporary housing, consumer-to-consumer support, and emergency outpatient care.

Ohio State School for the Blind
GRF funding for the Ohio State School for the Blind is $7.3 million in FY 2006 (1.3% above FY 2005) and $7.4 million in FY 2007 (1.7% above FY 2006). Increased funding recommendations maintain the current number of employees for the continuation of current programs.

Ohio School for the Deaf
GRF funding for the Ohio School for the Deaf is $9.7 million in FY 2006 (0.6% increase above FY 2005) and flat in FY 2007. Increased funding recommendations allow maintenance of the current staff level for the continuation of current programs.

Ohio Veterans' Home Facility Support
Total funding for the Ohio Veterans' Home is $51.0 million in FY 2006 and $51.9 million in FY 2007, and GRF funding totals $26.1 million in FY 2006 and $26.4 million in FY 2007. Funding will support the Ohio Veterans' Home in Georgetown as it fills to capacity, while continuing to support the existing facilities in Sandusky.

County Entitlement Administration
GRF appropriations totaling $151.2 million per year are provided to fund the state's share of county administration expenditures for the Food Stamp, Disability Assistance, and Medicaid programs. This increase of over 100% above FY 2005 appropriated levels is necessary to cover county expenditures that had previously been supplemented with federal TANF dollars, an inappropriate use of this revenue source.

To correct this error, $30 million per year is provided to pay back the state's obligation to Ohio's federal TANF grant of roughly $150 million that has not been resolved to date. The budget assumes that this obligation will be paid back over five years.

Disaster Assistance
Weather has caused a number of natural disasters in fiscal year 2005, during which all but ten counties in the state have had at least one Governor-declared emergency. The Governor's declarations allow state resources to be used to assist local governments and allow counties to be eligible for potential federal assistance. A total of $12.15 million in FY 2006 and $7 million in FY 2007 is provided in the Controlling Board's budget for the Emergency Purposes line item. Of this amount, $7.15 million in FY 2006 and $2 million in FY 2007 will be used by the Emergency Management Agency to cover the state share of the known costs of disasters that occurred prior to the introduction of the budget. The remaining $5 million per year is available, as needed, for future disasters, emergencies, or other purposes.

In addition, the Department of Job and Family Services' budget provides a total of $5 million per year in TANF funds provided for disaster assistance for TANF-eligible families and $1 million per year from the GRF for disaster assistance to low-income residents who are not eligible for TANF benefits.

Maintaining Essential Services

More than half of all agencies supported by general revenues are either flat funded or receive decreases in the Executive Budget. Following close scrutiny of agency budget requests, it was determined that certain agencies required growth in GRF funding to enable the fulfillment of their missions. Increased GRF funding is provided for seven small agencies in recognition of their inability to continue to provide adequate service within the tight budget levels of the past five years and the inability to shift significant costs to non-GRF sources. The impacted agencies are the Board of Tax Appeals, Civil Rights Commission, Elections Commission, Ethics Commission, Environmental Board of Review, Personnel Board of Review, and State Employment Relations Board.

As an example, the Executive Budget recommends a GRF increase of $116,766 (or 39.6%) in FY 2006 for the Elections Commission; however, the agency's total budget is only slightly increased by $20,000 (or 3.2%) in that fiscal year and flat funded in FY 2007. Over the past few biennia, the commission has exhausted cash balances in its non-GRF operating fund. While this budget continues some reliance on this revenue source, the previous level of funding from this source is no longer sustainable. The Elections Commission's experience is representative of the other six small agencies for which increased GRF recommendations are also provided.

Table 1

Actual and Estimated Revenues for the General Revenue Fund
Fiscal Years 2004 to 2007

(Dollars in Millions)

	Actual	Estimated					
Revenue Source	**FY 2004**	**FY 2005**	**% Chg**	**FY 2006**	**% Chg**	**FY 2007**	**% Chg**
Tax Revenue							
Auto Sales and Use	1,122.9	1,100.0	-2.0%	1,019.2	-7.3%	1,013.8	-0.5%
Non-Auto Sales and Use	6,407.7	6,780.0	5.8%	6,585.1	-2.9%	6,944.1	5.5%
Subtotal Sales and Use	7,530.6	7,880.0	4.6%	7,604.3	-3.5%	7,957.9	4.7%
Personal Income	7,696.9	8,153.2	5.9%	8,291.0	1.7%	8,400.4	1.3%
Corporate Franchise	809.2	820.0	1.3%	734.0	-10.5%	604.9	-17.6%
Commercial Activity Tax	0.0	0.0	N/A	220.0	N/A	205.0	-6.8%
Public Utility	226.4	110.0	-51.4%	138.6	26.0%	143.7	3.7%
Kilowatt Hour Tax	339.0	341.0	0.0%	489.4	43.5%	497.2	1.6%
Foreign Insurance	230.5	244.0	5.9%	255.0	4.5%	265.0	3.9%
Domestic Insurance	165.9	174.0	4.9%	182.0	4.6%	190.0	4.4%
Business and Property	29.9	30.0	0.4%	70.0	133.3%	70.5	0.7%
Cigarette	557.5	548.0	-1.7%	907.0	65.5%	844.0	-6.9%
Alcoholic Beverage	56.5	57.0	1.0%	107.5	88.6%	108.0	0.5%
Liquor Gallonage	30.9	31.5	2.0%	32.5	3.2%	33.0	1.5%
Estate	64.2	56.0	-12.8%	58.0	3.6%	54.0	-6.9%
Total of Tax Revenue	17,737.5	18,444.7	4.0%	19,089.3	3.5%	19,373.6	1.5%
Non-Tax Revenue							
Earnings on Investments	18.0	24.0	33.6%	65.0	170.8%	95.0	46.2%
Licenses and Fees	50.2	62.4	24.4%	74.4	19.2%	74.4	0.0%
Other Income	119.1	82.0	-31.1%	132.0	61.0%	132.0	0.0%
Interagency Transfers	68.9	75.0	8.9%	67.0	-10.7%	67.0	0.0%
Total of Non-Tax Revenue	256.1	243.4	-4.9%	338.4	39.0%	368.4	8.9%
Transfers							
BSF Transfer	0.0	0.0	0.0%	0.0	0.0%	0.0	0.0%
Liquor Transfers	118.0	117.0	-0.8%	128.0	9.4%	125.0	-2.3%
Transfer In - Other	380.6	416.8	9.5%	128.0	-69.3%	128.0	0.0%
Transfers In - Temporary	22.3	19.6	-12.1%	13.3	-32.1%	0.0	-100.0%
Total Transfers	520.9	553.4	6.2%	269.3	-51.3%	253.0	-6.1%
Total Sources Excluding Federal Grants	18,514.4	19,241.5	3.9%	19,697.0	2.4%	19,995.0	1.5%
Federal Grants Deposited in the GRF	5,516.4	5,773.6	4.7%	5,760.5	-0.2%	5,878.1	2.0%
Total Sources	24,030.8	25,015.1	4.1%	25,457.5	1.8%	25,873.1	1.6%

Source: Ohio Office of Budget and Management, January 2005

Table 2

Estimated Expenditures and Recommended Appropriations by Agency
General Revenue Fund, FYs 2005, 2006, 2007

State Agency	FY 2005 Estimate	FY 2006 Recommendation	% Change	FY 2007 Recommendation	% Change
Education					
Arts Council	11,375,734	10,238,161	-10.0%	10,238,161	0.0%
Education, Department of	6,556,180,144	6,668,981,563	1.7%	6,822,677,026	2.3%
Educational Telecommunications Network Comm [a]	8,538,880	0	-100.0%	0	0.0%
Historical Society	14,778,574	12,972,155	-12.2%	12,972,155	0.0%
Library Board	13,587,462	13,005,191	-4.3%	13,005,191	0.0%
Ohioana Library Association	202,134	202,134	0.0%	202,134	0.0%
Regents, Board of	2,445,213,376	2,467,237,448	0.9%	2,516,038,717	2.0%
School Facilities Commission	173,417,190	220,416,400	27.1%	256,514,700	16.4%
SchoolNet Commission [a]	19,403,813	0	-100.0%	0	0.0%
State School for The Blind	7,190,595	7,287,292	1.3%	7,411,712	1.7%
State School for The Deaf	9,596,955	9,656,955	0.6%	9,656,955	0.0%
Health and Human Services					
African American Males, Commission on	282,000	282,000	0.0%	282,000	0.0%
Aging, Department of	132,159,560	151,682,653	14.8%	159,585,711	5.2%
Alcohol and Drug Addition Services, Dept. of	36,676,574	37,743,023	2.9%	38,841,465	2.9%
Health, Department of	70,391,565	69,205,206	-1.7%	69,205,206	0.0%
Hispanic-Latino Affairs, Commission on	181,781	181,781	0.0%	181,781	0.0%
Job and Family Services, Department of	10,471,482,735	10,591,726,243	1.1%	10,939,543,040	3.3%
Legal Rights Service	489,322	489,322	0.0%	489,322	0.0%
Mental Health, Department of	538,664,745	556,679,460	3.3%	573,116,860	3.0%
Mental Retardation/DD, Department of	353,039,161	353,128,610	0.0%	353,666,007	0.2%
Minority Health, Commission on	1,346,410	1,346,410	0.0%	1,346,410	0.0%
Rehabilitation Services Commission	24,296,832	24,296,832	0.0%	24,296,832	0.0%
Veterans' Home	25,169,800	26,081,207	3.6%	26,385,367	1.2%
Veterans' Organizations	1,404,619	1,404,619	0.0%	1,404,619	0.0%
Justice and Public Protection					
Adjutant General	10,043,735	10,043,735	0.0%	10,043,735	0.0%
Civil Rights Commission	7,041,820	7,253,075	3.0%	7,470,667	3.0%
Criminal Justice Services, Office of [b]	2,534,037	0	-100.0%	0	0.0%
Ethics Commission	1,351,213	1,476,213	9.3%	1,476,213	0.0%
Inspector General, Office of	763,280	763,280	0.0%	763,280	0.0%
Public Defender Commission	39,948,782	38,151,495	-4.5%	38,077,880	-0.2%
Public Safety, Department of	8,082,356	6,532,596	-19.2%	6,842,889	4.7%
Rehabilitation and Correction, Department of	1,438,603,821	1,475,869,973	2.6%	1,501,312,169	1.7%
Youth Services, Department of	235,182,108	244,491,259	4.0%	252,293,166	3.2%
General Government/Tax Relief					
Administrative Services, Department of	143,114,213	160,847,507	12.4%	161,361,940	0.3%
Budget and Management, Office of	2,559,609	2,226,875	-13.0%	2,480,759	11.4%
Capital Square Review and Advisory Commission	2,852,269	2,852,269	0.0%	2,852,269	0.0%
Commerce, Department of	4,110,613	2,086,477	-49.2%	2,032,397	-2.6%
Controlling Board [a]	2,339,516	41,042,693	1654.3%	35,892,693	-12.5%
Cultural Facilities Commission	38,113,406	38,325,006	0.6%	38,442,207	0.3%
Dispute Resolution and Conflict Mgmt, Comm. On	470,000	470,000	0.0%	470,000	0.0%
Elections Commission	294,857	411,623	39.6%	411,623	0.0%
Personnel Review Board	1,077,170	1,116,170	3.6%	1,148,000	2.9%
State Employment Relations Board	3,170,288	3,265,397	3.0%	3,363,359	3.0%
Tax Appeals, Board of	2,117,466	2,155,055	1.8%	2,211,035	2.6%
Tax Relief Programs	1,361,483,013	1,255,916,077	-7.8%	1,184,629,366	-5.7%
Taxation, Department of	91,511,742	91,511,742	0.0%	91,511,742	0.0%

Table 2

Estimated Expenditures and Recommended Appropriations by Agency
General Revenue Fund, FYs 2005, 2006, 2007

State Agency	FY 2005 Estimate	FY 2006 Recommendation	% Change	FY 2007 Recommendation	% Change
Executive, Legislative, and Judicial Branches					
Attorney General	54,148,887	54,148,887	0.0%	54,148,887	0.0%
Auditor of State	31,876,155	31,876,156	0.0%	31,876,156	0.0%
Court of Claims	2,477,000	2,598,040	4.9%	2,678,331	3.1%
Governor, Office of the	4,728,905	4,672,265	-1.2%	4,672,265	0.0%
House of Representatives	19,969,473	20,169,168	1.0%	20,370,859	1.0%
Joint Committee on Agency Rule Review	379,769	379,769	0.0%	387,364	2.0%
Joint Legislative Ethics Committee	550,000	550,000	0.0%	550,000	0.0%
Judicial Conference	957,000	957,000	0.0%	957,000	0.0%
Judiciary/Supreme Court	118,973,796	122,891,787	3.3%	128,136,572	4.3%
Legislative Service Commission	21,401,627	21,483,427	0.4%	21,509,427	0.1%
Secretary of State	2,971,585	2,971,585	0.0%	2,971,585	0.0%
Senate	11,432,037	11,546,357	1.0%	11,661,821	1.0%
Treasurer of State	37,719,283	31,304,283	-17.0%	31,169,283	-0.4%
Transportation and Development					
Agriculture, Department of	20,056,904	17,430,289	-13.1%	17,089,073	-2.0%
Development, Department of	97,184,206	97,209,946	0.0%	101,119,946	4.0%
Expositions Commission	437,487	400,000	-8.6%	400,000	0.0%
Public Works Commission	163,305,400	174,418,700	6.8%	189,313,900	8.5%
Transportation, Department of	24,289,037	22,178,085	-8.7%	21,903,885	-1.2%
Environment and Natural Resouces					
Air Quality Development Authority	9,748,914	7,639,914	-21.6%	9,554,614	25.1%
Environmental Protection Agency	19,797,340	5,000,000	-74.7%	0	-100.0%
Environmental Review Appeals	439,109	479,161	9.1%	483,859	1.0%
Natural Resources, Department of	124,597,336	122,235,534	-1.9%	123,059,034	0.7%
Cancelled and Reissued Warrants	272,376	0	-100.0%	0	0.0%
Grand Total	**25,079,548,901**	**25,363,593,535**	**1.1%**	**25,956,162,621**	**2.3%**

Source: Ohio Office of Budget and Management, January 2005

[a] Appropriations for the SchoolNet Commission and the Educational Telecommunications Network Commission are contained in the Controlling Board.
[b] The Office of Criminal Justice Services is merged with the Department of Public Safety.

Table 3

Estimated Expenditures and Recommended Appropriations by Agency
All Funds, FYs 2005, 2006, 2007

State Agency	FY 2005 Estimate	FY 2006 Recommendation	% Change	FY 2007 Recommendation	% Change
Education					
Arts Council	13,548,725	12,261,727	-9.5%	12,261,727	0.0%
Education, Department of	9,080,643,400	9,295,643,846	2.4%	9,780,602,830	5.2%
Educational Telecommunications Network Comm [a]	11,856,327	0	-100.0%	0	0.0%
Higher Education Facilities Commission	16,819	16,819	0.0%	16,819	0.0%
Historical Society	14,778,574	12,972,155	-12.2%	12,972,155	0.0%
Library Board	23,097,770	24,128,021	4.5%	24,366,188	1.0%
Ohioana Library Association	202,134	202,134	0.0%	202,134	0.0%
Career Colleges and Schools, Board of	431,525	486,700	12.8%	508,600	4.5%
Regents, Board of	2,468,401,149	2,490,743,332	0.9%	2,539,744,601	2.0%
School Facilities Commission	187,538,118	229,736,017	22.5%	266,206,185	15.9%
SchoolNet Commission [a]	24,798,438	0	-100.0%	0	0.0%
State School for The Blind	8,938,349	9,345,309	4.6%	9,499,729	1.7%
State School for The Deaf	12,125,218	12,124,444	0.0%	12,124,444	0.0%
Tuition Trust Authority	5,218,930	5,715,986	9.5%	6,114,606	7.0%
Health and Human Services					
African American Males, Commission on	292,000	292,000	0.0%	292,000	0.0%
Aging, Department of	422,060,854	480,904,243	13.9%	518,484,661	7.8%
Alcohol and Drug Addition Services, Dept. of	176,334,649	181,971,098	3.2%	187,569,540	3.1%
Health, Department of	543,533,790	556,600,053	2.4%	568,720,421	2.2%
Hispanic-Latino Affairs, Commission on	190,266	186,781	-1.8%	186,781	0.0%
Industrial Commission	59,999,383	59,999,383	0.0%	59,999,383	0.0%
Job and Family Services, Department of	16,331,968,737	16,953,655,393	3.8%	17,304,366,302	2.1%
Legal Rights Service	4,501,716	4,578,330	1.7%	4,578,330	0.0%
Mental Health, Department of	959,073,643	989,129,519	3.1%	1,028,190,844	3.9%
Mental Retardation/DD, Department of	1,163,499,738	1,122,644,265	-3.5%	1,100,781,093	-1.9%
Minority Health, Commission on	1,857,210	1,746,410	-6.0%	1,646,410	-5.7%
Rehabilitation Services Commission	270,282,832	268,976,949	-0.5%	268,212,924	-0.3%
Veterans' Home	46,979,994	51,047,281	8.7%	51,859,320	1.6%
Veterans' Organizations	1,404,619	1,404,619	0.0%	1,404,619	0.0%
Workers' Compensation, Bureau of	319,537,073	321,561,811	0.6%	322,027,501	0.1%
Justice and Public Protection					
Adjutant General	39,739,065	35,420,306	-10.9%	35,424,628	0.0%
Civil Rights Commission	10,852,770	11,064,026	1.9%	11,081,618	0.2%
Criminal Justice Services, Office of [b]	32,932,407	0	-100.0%	0	0.0%
Ethics Commission	1,778,756	1,978,756	11.2%	1,908,756	-3.5%
Inspector General, Office of	863,280	863,280	0.0%	863,280	0.0%
Public Defender Commission	58,904,319	58,646,653	-0.4%	63,462,648	8.2%
Public Safety, Department of [b]	644,530,731	672,631,497	4.4%	673,393,319	0.1%
Rehabilitation and Correction, Department of	1,642,077,430	1,688,560,530	2.8%	1,714,002,726	1.5%
Youth Services, Department of	267,001,592	276,336,857	3.5%	283,188,131	2.5%
General Government/Tax Relief					
Accrued Leave Liability Fund Group	508,356,144	614,569,377	20.9%	701,112,486	14.1%
Administrative Services, Department of	2,410,222,069	2,427,306,981	0.7%	2,427,030,226	0.0%
Budget and Management, Office of	14,292,616	14,270,401	-0.2%	14,730,043	3.2%
Capital Square Review and Advisory Commission	6,597,474	6,597,474	0.0%	6,597,474	0.0%
Commerce, Department of	555,959,699	580,320,066	4.4%	608,795,528	4.9%
Consumers' Counsel, Office of	9,277,519	8,594,735	-7.4%	8,771,940	2.1%
Controlling Board [a]	2,339,516	46,032,056	1867.6%	40,307,056	-12.4%
Deposit, Board of	1,676,000	1,676,000	0.0%	1,676,000	0.0%
Medical Transportation Board [c]	406,354	388,450	-4.4%	0	-100.0%
Cultural Facilities Commission	39,210,939	39,326,454	0.3%	39,506,502	0.5%
Dispute Resolution and Conflict Mgmt, Comm. On	750,000	750,000	0.0%	750,000	0.0%
Elections Commission	616,623	636,623	3.2%	636,623	0.0%

Table 3

Estimated Expenditures and Recommended Appropriations by Agency
All Funds, FYs 2005, 2006, 2007

State Agency	FY 2005 Estimate	FY 2006 Recommendation	% Change	FY 2007 Recommendation	% Change
Insurance, Department of	42,733,704	31,938,567	-25.3%	32,123,567	0.6%
Liquor Control Commission	794,387	818,219	3.0%	842,765	3.0%
Lottery Commission	423,636,389	416,821,346	-1.6%	404,099,733	-3.1%
Personnel Review Board	1,089,170	1,128,170	3.6%	1,163,000	3.1%
Petrol. Undergd Storage Tank Release Comp. Bd.	1,075,158	1,075,158	0.0%	1,116,658	3.9%
Professional Licensing Boards [c]	32,294,374	33,127,268	2.6%	0	-100.0%
Public Utilities Commission	55,657,709	53,717,608	-3.5%	53,717,608	0.0%
Racing Commission	29,139,784	29,080,442	-0.2%	29,082,901	0.0%
Revenue Distribution Funds	4,193,467,986	4,225,502,740	0.8%	4,384,691,010	3.8%
Sinking Fund, Commissioners of	686,465,800	733,001,400	6.8%	817,344,300	11.5%
State Employment Relations Board	3,245,829	3,340,938	2.9%	3,438,900	2.9%
Tax Appeals, Board of	2,117,466	2,155,055	1.8%	2,211,035	2.6%
Tax Relief Programs	1,361,483,013	1,255,916,077	-7.8%	1,184,629,366	-5.7%
Taxation, Department of	1,493,474,971	1,645,842,893	10.2%	1,744,994,162	6.0%
Executive, Legislative, and Judicial Branches					
Attorney General	178,627,498	172,006,677	-3.7%	172,006,677	0.0%
Auditor of State	75,201,575	75,764,582	0.7%	75,764,582	0.0%
Court of Claims	4,059,684	4,180,724	3.0%	4,261,015	1.9%
Governor, Office of the	5,083,419	5,026,779	-1.1%	5,026,779	0.0%
House of Representatives	21,426,416	21,626,111	0.9%	21,827,802	0.9%
Joint Committee on Agency Rule Review	379,769	379,769	0.0%	387,364	2.0%
Joint Legislative Ethics Committee	550,000	550,000	0.0%	550,000	0.0%
Judicial Conference	1,157,000	1,182,000	2.2%	1,182,000	0.0%
Judiciary/Supreme Court	125,485,055	129,029,552	2.8%	134,442,124	4.2%
Legislative Service Commission	21,578,964	21,660,427	0.4%	21,686,927	0.1%
Secretary of State	130,048,187	55,423,203	-57.4%	17,987,000	-67.5%
Senate	11,910,217	12,024,537	1.0%	12,140,001	1.0%
Treasurer of State	72,204,283	66,411,083	-8.0%	66,368,283	-0.1%
Transportation and Development					
Agriculture, Department of	46,762,537	47,303,811	1.2%	47,407,666	0.2%
Development, Department of	912,316,152	865,663,768	-5.1%	881,663,454	1.8%
Expositions Commission	14,600,802	14,563,315	-0.3%	14,563,315	0.0%
Housing Finance Agency [d]	0	8,100,000	0.0%	8,100,000	0.0%
Public Works Commission	247,124,359	241,902,514	-2.1%	256,851,315	6.2%
Transportation, Department of	2,334,268,964	2,857,686,385	22.4%	2,897,671,685	1.4%
Environment and Natural Resouces					
Air Quality Development Authority	18,810,779	18,231,041	-3.1%	20,153,590	10.5%
Environmental Protection Agency	175,193,156	181,847,877	3.8%	185,211,609	1.8%
Environmental Review Appeals Commission	439,109	479,161	9.1%	483,859	1.0%
Lake Erie Commission	1,518,975	1,361,072	-10.4%	1,367,794	0.5%
Natural Resources, Department of	331,826,662	331,380,894	-0.1%	330,189,372	-0.4%
Cancelled and Reissued Warrants	532,143	0	-100.0%	0	0.0%
Grand Total	**51,459,278,728**	**53,141,296,310**	**3.3%**	**54,552,928,349**	**2.7%**

Source: Ohio Office of Budget and Management, January 2005

[a] Appropriations for the SchoolNet Commission and the Educational Telecommunications Network Commission are contained in the Controlling Board.
[b] The Office of Criminal Justice Services is merged with the Department of Public Safety.
[c] The Professional Licensing Boards will be combined with the Department of Commerce and the Department of Health in Fiscal Year 2007. The Medical Transportation Board will be merged into Department of Public Safety. Fiscal Year 2007 appropriations for all affected boards will be established in future legislation.
[d] The Housing Finance Agency was created as a separate agency effective FY06. It formerly operated as a division within the Department of Development.

Table 4

Estimated General Revenue Fund Balances
For Fiscal Years 2006 and 2007
(Dollars in Millions)

FY 2006	
Estimated FY 2006 Beginning Balance	**120.2**
Plus Estimated FY 2006 Revenues and Transfers to the GRF	25,457.5
Total Sources Available for Expenditure and Transfer	25,577.7
Less Recommended FY 2006 Appropriations	25,363.6
Less GRF Transfers	16.5
Adjustment for Estimated GRF Debt Service Lapses	(7.7)
Total Uses	25,372.4
Estimated FY 2006 Ending Balance	**205.3**
FY 2007	
Estimated FY 2007 Beginning Balance	205.3
Plus Estimated FY 2007 Revenues and Transfers to the GRF	25,873.1
Total Sources Available for Expenditure and Transfer	26,078.4
Less Recommended FY 2007 Appropriations	25,956.2
Less GRF Transfers	2.7
Adjustment for Estimated GRF Debt Service Lapses	(7.7)
Total Uses	25,951.1
Net Estimated Unreserved, Undesignated FY 2007 Ending Balance	**127.3**

Source: Ohio Office of Budget and Mangement, January 2005