

Overview

Governor Taft's budget calls for fundamental tax reform in Ohio. Many of the critical economic and policy challenges that we 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 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 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.

- (i) A broader tax base **simplifies** the tax system by eliminating difficult-to-understand exceptions to the general application of taxes.
- (ii) This also enhances **equity**, because special interest carve-outs – which favor one industry over another or one set of taxpayers over another - are eliminated.
- (iii) The **stability** of the revenue system is improved because a broader base should be less volatile and less prone to dramatic ups and downs in response to the business cycle or to changes in particular industries.
- (iv) Base broadening and rate reduction enhances the **neutrality** of the tax system. By adopting a broader tax base and lower tax rates, the incentive to act in ways that minimize taxes rather than in ways that maximize economic output – for example, firms adopting complex legal structures and engaging in tax-motivated transactions rather than focusing on earning the greatest return regardless of taxes – is greatly reduced.
- (v) Finally, a broader tax base and lower tax rates would improve Ohio **competitiveness** with other states that currently impose lower tax rates.

If the use of broader tax bases and lower tax rates is good tax policy, why hasn't it been more widely adopted by states before now? The answer to this question lies in part in the evolution of state and local tax systems. In the days when more production was local and capital and labor were less mobile, state and local governments could essentially treat their dominant industries as captive and tax them fairly heavily, using relatively easy to measure factors such as the value of their production property. Thus, Midwestern manufacturing states like Ohio could extract most of the revenues needed to pay for state and local services from manufacturing businesses without being overly concerned about the migration of those businesses to other states. Now that the economy has changed, and capital and labor are much more mobile across state borders and even national borders, such assumptions are no longer warranted, and the need for a tax system that minimizes the distortion of economic decisions is of much greater importance.

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 particular 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 both personal income and corporate income. Ohio’s relatively weak economic performance over the past 15 years – a period that includes the two most recent recessions as well as the “New Economy” boom of the 1990s – and the structural problems in its major taxes are discussed in some detail below.

Ohio’s Lagging Economic Performance

Ohio’s recent economic performance has lagged that of the nation. There are numerous indicators that show this lag, a few of which will be discussed below.

Gross State Product

Ohio’s Gross State Product (GSP), the value of all goods and services produced by the Ohio economy, has grown more slowly than national Gross Domestic Product (GDP) over the last 15 years, the last 10 years, and the last 5 years. This is clearly a long-term problem, but the problem has worsened in the last 5 years, as the ratio of Ohio GSP growth to national GDP growth has dropped.

Ohio Economic Production vs. U.S. Economic Production, 1988-2003			
	1988-2003	1993-2003	1998-2003
Ohio GSP Growth	95.4%	56.0%	15.3%
U.S. GDP Growth	115.3%	69.1%	25.7%
Ratio, Ohio growth to U.S. growth	0.827	0.811	0.594

Employment and Labor Force Growth

Ohio’s labor force growth is much slower than that of the U.S., and is projected to remain slower for years to come. As a result, Ohio cannot achieve employment growth rates similar to those of the nation without unrealistic declines in the unemployment rate.¹

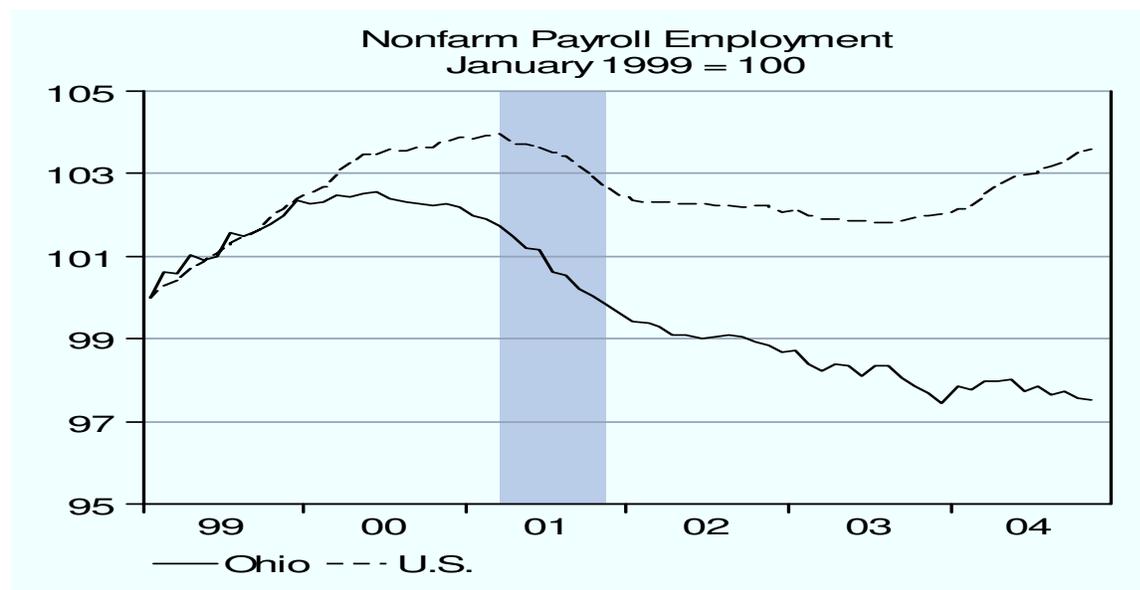
Research into Midwest and Ohio population trends by Global Insight, an economic analysis and forecasting firm, shows that:

- Midwest population generally, including Ohio’s population, is still shifting to the South and West.
- Ohio’s population is relatively older than the nation’s. Ohio has a relatively small population in the 0-13 age group and a significantly larger than average population in the 65 and older group.
- Despite the fact that Ohio has a relatively large older population, it also has significant out-migration in the 65-74 age group. Ohio is picking up population in the 75 and older group. Some of these people are migrating back to Ohio, partly to consume medical care here.
- Much of the population that Ohio is losing to other states is young, single, and college-educated.

This past economic cycle has been particularly unkind to Ohio. Despite the fact that the latest recession officially ended in November 2001, according to data from the federal Bureau of Labor Statistics (BLS), Ohio seasonally

¹ The unemployment rate is the number of unemployed persons divided by the labor force. If the labor force (the denominator of the unemployment rate) is growing slowly, then for employment to grow quickly the number of unemployed must fall, pushing the unemployment rate down.

adjusted employment in November 2004 was still 4.9% less than the June 2000 peak.² Over the same period, national employment has begun to recover, growing by 0.1%.



Slower labor force and employment growth in Ohio is not just a recent phenomenon. The table below shows that Ohio labor force and employment growth has consistently lagged national growth over the past 15 years.

Ohio Employment and Labor Force vs. U.S. Employment and Labor Force, 1988-2003			
	1988-2003	1993-2003	1998-2003
Ohio: total nonfarm employment growth	14.8%	9.7%	-1.6%
U.S.: total nonfarm employment growth	23.3%	17.2%	3.2%
Ratio, Ohio growth to U.S. growth	0.63	0.56	(0.50)
Ohio: labor force growth	11.2%	7.6%	4.0%
U.S.: labor force growth	19.7%	13.1%	5.3%
Ratio, Ohio growth to U.S. growth	0.57	0.58	0.75

Personal Income

If Ohio's GSP and employment growth both lag national growth, it is not hard to deduce that Ohio income must lag national income also. Over the very long term (1948-2002) Ohio's annual personal income growth has lagged U.S. growth by about 1.0%. According to an economist from the Federal Reserve Bank of Cleveland, most of Ohio's deviation from national growth rates over that period is explained by slower growth in the Ohio working age population (see the section above on slow growth of the Ohio labor force).

If Ohio's population was growing relatively slowly, but Ohio's per-capita income was keeping pace with the nation, then while Ohio's total income would be growing more slowly than the nation it would actually not be that much of

² The recession ending date is from the Business Cycle Dating Committee of the National Bureau of Economic Research (NBER).

a problem. While this was true over the 1988-1998 period, since 1998 Ohio's per-capita income growth has been lagging the nation as well.³

Per Capita Personal Income, Ohio vs. U.S. and Great Lakes States, 1988-2003				
Region	1988	1993	1998	2003
United States	\$17,331	\$21,346	\$26,883	\$31,459
Ohio	\$16,634	\$20,634	\$26,017	\$29,953
Great Lakes	\$17,042	\$21,228	\$26,996	\$31,060
Ratio, Ohio to U.S.	0.960	0.967	0.968	0.952
Ratio, Ohio to Great Lakes	0.976	0.972	0.964	0.964

Unfortunately, Ohio's per-capita personal income not only lags the nation but also lags the other states in the Great Lakes region. That divergence has also widened since 1988.⁴

Summary

Many of Ohio's competitive advantages have eroded. There are many factors involved in Ohio's lagging performance:

- (i) Ohio's industry mix is geared more toward an older, commodity-oriented economy and less toward the modern information and knowledge-oriented economy;
- (ii) The general migration of persons, particularly younger persons, from the Midwest to other regions, especially the Sunbelt; and
- (iii) Ohio's relatively low higher education attainment levels have negatively affected our demographics;

A better tax climate will contribute to higher rates of investment, greater employment growth, and higher incomes.

Misalignment of Ohio's Current Tax Structure

There are two basic problems with Ohio's tax structure. First, it places too much burden on capital investment. This reduces capital/labor ratios and thus dampens productivity and per-capita income growth. Second, the tax system relies on relatively narrow tax bases and relatively high tax rates. This distorts economic decisions and puts a premium on tax avoidance behavior rather than on achieving the highest rate of economic return.

³ Census data on Ohio's median household income, both for all households and for families of four, puts Ohio in a somewhat better light. Ohio's median household income in current dollars was slightly above national median household income in 2003.

⁴ The Great Lakes region, as defined by the U.S. Bureau of Economic Analysis (BEA) includes Ohio, Michigan, Indiana, Illinois, and Wisconsin.

Specific Targets for Reform

There are three specific areas that are most in need of reform: the personal income tax, the tangible property tax, and the corporate franchise tax. The sales and use tax would also benefit from base-broadening.

Personal Income Tax

Ohio has relatively high top marginal personal income tax rates, particularly when state and local rates are combined. As the table below shows, the top state marginal tax rate of 7.5% was 13th highest among the states in 2004. Ohio's competitive position is even more unfavorable when one adds municipal income taxes to the comparison.⁵ 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 having the highest combined state and local marginal tax rate. According to data from the Census of Government Finances, Ohio ranked 8th in state and local income taxes per capita and 5th in state and local income taxes as a percentage of income in 2002.⁶

State	Top Marginal Tax Rate	Rank
MONTANA	11.0	1
VERMONT	9.5	2
DIST. OF COLUMBIA	9.5	3
CALIFORNIA	9.3	4
OREGON	9.0	5
IOWA	8.98	6
MAINE	8.5	7
HAWAII	8.25	8
NORTH CAROLINA	8.25	9
MINNESOTA	7.85	10
IDAHO	7.8	11
NEW YORK	7.7	12
OHIO	7.5	13

High marginal income tax rates put Ohio at a competitive disadvantage in attracting and keeping high-paying jobs. This is shown by the economic statistics cited above and by anecdotal accounts of Ohio companies paying executives or highly skilled salaried workers (engineers, biotech researchers, etc.) wage supplements to offset the high income tax burden. High marginal tax rates may be one factor that has reduced Ohio's attractiveness as a location for corporate headquarters (see the section above on Ohio's economy). Additionally, while this claim is more tenuous (owing to crucial non-financial considerations), it is commonly asserted that higher income retirees move their residence from Ohio to a no-income-tax or low-income-tax state in order to avoid the high Ohio income tax rates.

Ohio's high marginal tax rates also act as a disincentive for small business. The number of businesses that are organized as something other than "ordinary" C corporations – S corporations, limited liability companies (LLCs), partnerships, proprietorships – far exceeds the number of C corporations. These businesses do not pay state tax at the company level. Instead, the owners of the company pay tax on their shares of the company's net income. Once

⁵ Ohio also allows school district income taxes, but these do not currently affect a large share of the taxpayer population.

⁶ These rankings are higher than Ohio's overall state and local tax rankings. Based on the same 2002 Census data, Ohio's total state and local taxes per capita were 18th highest, and its state and local taxes as a percentage of personal income were 12th highest.

again, the high combined state and municipal marginal tax rates create a general disincentive for investment and profitability in Ohio for these “flow-through” businesses.

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.

- (i) The TPP tax is not simple. The requirement to track the location and determine the value of each and every piece of equipment a business owns is a very expensive and costly task, especially for larger businesses with multiple locations.
- (ii) The TPP tax is not equitable. The various tax abatement programs create inequities among taxpayers, since some pay less tax under abatement agreements than comparable businesses that do not have such agreements, or whose agreements do not have as favorable terms. It is also the case that larger, more sophisticated taxpayers can take better advantage of abatement programs than smaller, less sophisticated taxpayers. The abatement programs, while considered essential to maintaining Ohio’s competitiveness, create vertical and horizontal equity issues.
- (iii) The biggest problem with the TPP tax is that it hurts Ohio competitiveness.

Every major study of Ohio’s tax system since 1967 has described the anti-competitive aspects of this tax. Each has called for reductions in or elimination of this tax. While significant reductions have been made over time in the assessment percentages applied to TPP, the tax remains a competitive disadvantage for Ohio businesses. In today’s economy – where capital is mobile between states and even between countries and where capital is essential to increasing labor productivity and thus for creating or maintaining high wage jobs – the TPP tax is a direct disincentive to capital investment. Ohio’s tax system rewards businesses that do not have significant operations in Ohio but which utilize the Ohio market (sell into Ohio) 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).

An Ohio Department of Taxation (ODT) study in November 2003 found that Ohio TPP taxes per capita were \$237, significantly higher than any of our neighboring states. The TPP tax thus makes Ohio look uncompetitive, although overall Ohio business taxes per capita were ranked exactly in the middle of our neighboring states.⁷

How should the TPP tax be phased-out? The administration view is that the most important thing to eliminate is the tax on manufacturing machinery and equipment. This is a direct tax on investment. 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).

In the past, inventory has received priority in reducing the TPP tax. Current law phases out the inventory tax by 2% per year, resuming in tax year 2007. Prior emphasis on eliminating the inventory tax has been based mostly on the fact that Ohio is relatively unusual in taxing inventory property, whereas most states still have some form of tangible property tax (the Final Report of the Committee to Study State and Local Taxes stated that as of 2002, only 16 states taxed inventory property while 44 states taxed tangible property in some form). Upon further consideration, the

⁷ Illinois, Michigan, and Indiana impose higher business tax burdens than Ohio while Pennsylvania, West Virginia, and Kentucky impose lower burdens.

administration believes that the biggest economic stimulus will come from eliminating the tax on machinery and equipment first, and then eliminating the remaining tax on inventory.⁸

Corporation Franchise Tax

Ohio’s corporate franchise tax manages to be a tax that is perceived as uncompetitive because the top marginal rate is relatively high (8.5%). However, despite the high top rate, the tax is actually unproductive, in that it does not raise much revenue.

Top State Marginal Corporate Income Tax Rates in 2004		
State	Top Marginal Tax Rate	Rank
IOWA	12.00%	1
NORTH DAKOTA	10.50%	2
PENNSYLVANIA	9.99%	3
DISTRICT OF COLUMBIA	9.98%	4
MINNESOTA	9.80%	5
VERMONT	9.75%	6
MASSACHUSETTS	9.50%	7
ALASKA	9.40%	8
NEW JERSEY	9.00%	9
RHODE ISLAND	9.00%	10
WEST VIRGINIA	9.00%	11
MAINE	8.93%	12
CALIFORNIA	8.84%	13
DELAWARE	8.70%	14
INDIANA	8.50%	15
NEW HAMPSHIRE	8.50%	15
OHIO	8.50%	15

As the table shows, 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 rate becomes close to the highest. The combined 10.2% top marginal rate would be higher than every state except Iowa, North Dakota, and Pennsylvania.

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 \$66.71 per capita, 25th highest of the 46 states that impose a corporate income tax, and almost one-third below the U.S. average of \$97.95 per capita.

The current corporate tax system, particularly the net income base, is full of loopholes. These create both horizontal and vertical inequities between taxpayers, reduce the tax’s revenue production, and distort economic decisions. The most egregious problem is the proliferation of techniques that artificially reduce Ohio taxable income by shifting income from Ohio taxpayers to affiliated companies located overseas or in other states. These techniques, together with the considerable flexibility provided to taxpayers in determining their filing status (either on a “combined” or “separate entity” basis), result in cases where very large and profitable multistate taxpayers pay little or no Ohio corporate tax, while competitors of similar size and profitability not utilizing these techniques pay considerably

⁸ 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.

more. Companies that are smaller and less sophisticated also pay greater Ohio tax because they are not as focused on tax minimization.

Another long-term trend is to organize business as a pass-through entity (S corporation, limited liability company, partnership, or sole proprietor), and avoid corporate franchise tax altogether. Although income generated by the pass-through entity is taxed at the shareholder/investor/owner level, the oft-cited “double taxation” of certain income is avoided. This pass-through entity trend has been a source of corporate franchise tax erosion since the late 1980’s.

There are two paths for dealing with Ohio’s corporate tax. One is to broaden the tax base by tightening the law to reduce tax avoidance opportunities, particularly the shifting of income, while at the same time reducing marginal tax rates. This can be done in such a way as to actually produce more revenue while charging lower rates and therefore causing fewer economic distortions. This would also make the tax much fairer, addressing both horizontal and vertical inequities within the system.

The second path – in response to increasingly sophisticated state and local tax planning – 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 already has 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 (where activity can be tied to presence or to use of the state market) would rely more on the “benefit principle” of taxation. Under this principle, a business would pay tax to the state based on the benefits that it receives, whether the business is nominally profitable or not, and the benefits received would be measured by the business’s activity in the state.

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,” those businesses that sell to customers through catalogues or over the Internet rather than through retail stores.

The lack of a broad 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. As noted in the Final Report of Ohio’s Committee to Study State and Local Taxes, the federal Bureau of Economic Analysis, in a March 2001 study, found that services’ share of U.S. consumer spending rose from only 40% in 1959 to 58% in 2000. It is also likely that services’ share of consumption spending has continued to increase since 2000. Failing to address the omission of services from the tax base increases the likelihood that in order to raise sufficient revenue, the General Assembly will have to increase the sales and use tax rate, which increases the inequity between taxes on goods and taxes on services.

The General Assembly already has considered including additional services in the Ohio sales and use tax base, but currently the tax is still imposed on a small portion of Ohio services.⁹ The disparity between the taxation of goods and services could be addressed directly by subjecting most or all Ohio services to taxation, perhaps through a broad, low-rate tax. The disparity could be addressed indirectly through a broad-based, low-rate business tax that included services industries, where at least in some cases the tax would be passed through to the consumers of the services.

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. The SSTP seeks to simplify and unify state and local sales tax systems to the point that either remote sellers would voluntarily agree to collect and remit state and local sales tax or Congress would decide 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.

⁹ ODT estimates that, even if one were to exclude all health care and education services from the potential tax base, Ohio currently subjects only about 20% of the potential services tax base to the sales and use tax.

Reform Proposals

The administration 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.

Business Taxes – Reduce TPP Tax and Eliminate Franchise Tax (Except for Banks) and Replace with Commercial Activity Tax (CAT)

The administration 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 over a five-year period, beginning with tax year 2006 (FY 2006) and ending with tax year 2010 (FY 2010). At the same time, the administration 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. Unlike the elimination of the franchise tax, the elimination of the TPP tax is not a simple 20% per year phase-down. Instead, the administration proposes that the tax be reduced by eliminating the taxes on certain types of property in order of their economic priority (see the preceding section). The tax on manufacturing machinery and equipment will be reduced by 50% in tax year 2006 and eliminated entirely in tax year 2007.¹⁰ After that, the inventory tax – which already is 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.

The tangible property that is currently reported on Schedule 4 of the TPP tax return, also known as furniture, fixtures, and all other property, would remain subject to tax at the current 25% assessment rate. The administration believes that this piece of the TPP tax does not negatively influence investment decisions, a belief buoyed by conversations with business people over the past several months.

The tangible property of public utilities will also remain subject to the public utility property tax. The administration believes that, as with the furniture and fixtures portion of the general business TPP tax, the revenue loss from eliminating this tax is not justified by the relatively small economic stimulus that it might provide.

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? A very broad-based, very low-rate tax that 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.

This new **Commercial Activity Tax (CAT)** is a bold proposal to implement the sort of tax that has been championed by academic economists but that currently has no real counterpart in the United States. The CAT is not projected to quite replace all of the lost TPP tax revenues and corporate franchise tax revenues. The projected CAT revenue in FY 2010 is about \$1.55 billion.

Just as the TPP tax and the corporate franchise tax will be phased out over five years, the CAT will be phased in over five years. This will allow the administration and the General Assembly to gain experience with this new tax. It will provide an opportunity to adjust the tax rate, if necessary, so that it does not produce too much or too little revenue, and to monitor whether the tax has any unexpected consequences for particular industries or sectors and to make structural adjustments if needed.

The theoretical basis for the CAT was discussed in some detail in the earlier section that dealt with the problems with the existing corporate franchise tax. To briefly recap those arguments, the franchise tax has been seriously compromised by state and local tax planning, and no longer functions well as a tax that varies with a corporation's true ability to pay. The CAT is an explicit move away from an "ability to pay" tax to a tax based on the benefit

¹⁰ 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.

principle, where the idea is that a business should pay taxes based on the benefits it receives from state and local government services, whether the business is nominally profitable or not. The CAT essentially assumes that such benefits are proportional to the business's activity, where activity means the use of the state market in making sales.

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%. 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.

In general, if a 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, which currently pay the corporate franchise tax, will continue to do so. Financial institutions operate under special circumstances. They do not pay the corporate franchise tax on the same tax base as other general business taxpayers. The net income base of the franchise tax does not apply to banks as they pay the tax only on a net worth base. Some of the rules on apportionment of net worth are different for banks than for general businesses, as well. The tax rate for banks is also different. Banks also do not pay the tangible personal property tax, except for property that they own and lease to others. In sum, because banks are not currently taxed like general businesses, the tradeoffs resulting from the elimination of the franchise tax and the tangible property tax and the imposition of the CAT would not be the same for banks as for general businesses. For the time being, they will continue to be taxed under their existing regime.

The table below shows what taxes certain categories of taxpayers currently pay and whether they will continue to pay those taxes or migrate to the new CAT.

Type Of Entity	Business Tax Currently Paid	Business Tax Paid Under Tax Reform Proposal
Financial Institutions	corporate franchise tax	corporate franchise tax
Financial Institution affiliates (unless dealers in intangibles)	corporate franchise tax	New CAT
Dealers in intangibles	special dealers in intangibles tax (8 mills on net worth)	special dealers in intangibles tax (8 mills on net worth)
Insurance companies	gross premiums tax	gross premiums tax
Non-profit companies	none	New CAT only on for-profit activities:"i.e. unrelated business income"
"Ordinary" C Corporations	corporate franchise tax	New CAT
"Ordinary" Pass Through Entities (S-corporations, LLCs, partnerships, sole proprietorships)	personal income tax	personal income tax and new CAT
Utilities		
electric companies	corporate franchise tax	New CAT
local telephone companies	corporate franchise tax	New CAT
interexchange telephone companies (long-distance carriers)	corporate franchise tax	New CAT
interexchange telephone companies (cellular, paging, and Internet providers)	corporate franchise tax	New CAT
railroad companies	corporate franchise tax	New CAT
natural gas distribution companies	public utility gross receipts tax	public utility gross receipts tax
pipeline companies	public utility gross receipts tax	public utility gross receipts tax
water transportation companies	public utility gross receipts tax	public utility gross receipts tax
water works companies	public utility gross receipts tax	public utility gross receipts tax
heating companies	public utility gross receipts tax	public utility gross receipts tax

The administration expects that there will be objections raised to the CAT by high-volume/low-profit margin industries, and perhaps by other types of companies such as utilities.¹¹ The administration feels that there is no good philosophical reason that there should be any exemptions from the CAT other than those for banks, insurance companies, non-profit entities, and companies paying the dealers in intangibles tax or the public utility gross receipts tax. Exempting additional classes of entities from the CAT will prompt a host of additional industries or types of

¹¹ One response to complaints from low-margin businesses about paying the CAT is that their in-state competitors will also pay the CAT, and that furthermore the CAT is replacing taxes that they pay now, namely the TPP tax and the corporate franchise tax.

businesses to clamor for their own exemption, thus limiting the CAT's ability to raise the revenue necessary to make the tax reform package feasible. Beyond that, creating additional exemptions to the CAT strikes at the very philosophical foundations of the tax: that the CAT should be a broad-based, low-rate tax that applies to everyone (or almost everyone) and that therefore minimizes the impact that the tax has on economic decisions and does not favor any sector, industry, or type of business over another.

Taxes That Fall on Both Individuals and Businesses – Cut Income Tax Rates 21% and Reduce the State Sales Tax Rate by 0.5%, Eliminate Additional Estate Tax

There are two sweeping proposals that impact both businesses and individuals. First, all personal income tax rates would be cut by 21% over five years, with the cuts evenly phased in at 4.2% per year. Preceding sections of this analysis identified Ohio's high top marginal tax rates as being an impediment to competitiveness. The administration chose to pursue a tax-cutting strategy that not only reduced the current top rate from 7.5% to below 6% – the 21% cut would make the top rate 5.925% – but cut all tax rates in the same proportion. This gives all Ohio taxpayers a break and provides a benefit to small businesses, which are mostly organized as pass-through entities (and which should offset the imposition of the new CAT). It also maintains the progressivity of the current income tax structure.

A companion proposal of the administration actually 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 zero out 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. Beginning with tax year 2010, once the rate cuts were all phased in, the tax brackets would be indexed annually for inflation.

The current state sales tax rate is 6.0%. The administration proposes to reduce the tax rate to 5.5%, i.e., move to a point halfway between the old state tax rate of 5.0% and the current state tax rate of 6.0%. The administration has heard from a number of business groups that the additional 1.0% sales tax rate that was imposed for FY 2004-2005 is not a significant impediment to Ohio competitiveness, and that taxing consumption is preferable to taxing investment and income.¹² In addition, 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 balance the state budget.

Reducing the state sales tax rate from 6.0% to 5.5% reduces revenues by about \$0.85 billion by FY 2010.

Finally, the administration proposes eliminating the portion of the Ohio estate tax that under former federal law allowed Ohio to obtain some additional estate tax revenue from high-value estates at the expense of the federal government. Now that the federal government has completely phased out the credit for state death taxes, the Ohio "additional" estate tax is no longer neutral to the taxpayer but instead represents an added burden, and the administration believes that it should be eliminated. This will result in an annual reduction in revenue of about \$40 million, with \$8 million (20%) of the loss falling on the state and the other \$32 million (80%) falling on townships, cities, and villages.

Other Proposals – Sin Taxes, KWH Tax, Real Property Taxes

The administration is proposing state and local tax cuts that start at about \$0.5 billion in FY 2006 and increase to \$3.7 billion by FY 2010. With such large tax cuts being made in order to improve competitiveness and to spur the Ohio economy, there must be some tax increases in order to raise revenue to balance the budget (particularly since the administration proposes to compensate schools and local governments for the cuts in local taxes). The administration has chosen a set of tax increases that will not harm Ohio competitiveness.

¹² Economic modeling supports the conclusion that the additional 1.0% sales tax does not harm Ohio competitiveness.

The administration proposes increasing the cigarette tax by \$0.45 per pack to \$1.00 per pack, increasing the tax on other tobacco products from 17% to 30%, and doubling taxes on alcoholic beverages other than spirituous liquor. These changes are projected to bring in about \$350 million a year by FY 2010 (the annual revenue gains actually decline rather than grow because of long-term declines in smoking).

The administration also proposes increasing all kilowatt-hour (kwh) tax rates by 30%. The administration believes that this proposal can generate \$160 million to \$170 million annually without harming Ohio competitiveness, as the additional annual cost to any particular business or household will be relatively small.

The administration proposes imposing a 1 mill state real property transfer tax in addition to the existing county transfer taxes (which vary from 1 mill to 4 mills). Currently, the Ohio state tax structure does very little to tap the fast-growing real estate wealth of households and businesses. This modest transactions tax will provide about \$40 million annually for the state, and the administration believes that the impact on the real estate market and on the economy generally will be negligible.

Along the same line, the administration proposes eliminating the 10% rollback (tax credit) for commercial and industrial real property. As mentioned above, currently the state tax system gains little or nothing from increases in real property wealth. Perversely, the state pays more in real property tax relief as real property wealth rises, for the following reasons:

- (i) Although the H.B. 920 tax reduction factors limit increases in real property taxes due to increases in property value, because more than half of all school districts are at the “20 mill floor” and thus the H.B. 920 tax credits no longer operate there, local property taxes are in fact rising across the state as values rise.
- (ii) Since the state pays 12.5% of the local property tax bill for homeowners and 10% of the local property tax bill for commercial and industrial property, this means that state tax relief expenditures also are rising as values rise.
- (iii) So, as taxpayers get wealthier, the state pays more of their real property tax bills.

Although the administration supports continuing this tax relief for homeowners, it feels that it can no longer afford to provide this relief for businesses as well, particularly in light of the tax cuts being provided to business through the elimination of the corporate franchise tax, the drastic reductions in the TPP tax, and the reduction in personal income tax rates.

The proposed elimination of the 10% credit for commercial and industrial real property is estimated to save the state \$365 million per year by FY 2010.

Summary

The administration 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, at first gradually, but then more steeply as the major changes are phased in 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 under current law with the sales tax rate at 6.0% (even if the standard of comparison is current law with the sales tax rate at 5.0%, state and local taxes would still be reduced by \$0.4 billion by the reform plan).

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, even without overall reductions in the level of taxes, the tax system 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.

The benefits of tax reduction are not delayed until FY 2010, when changes are fully phased in. State and local taxes collected in FY 2006, the very first year of the plan, will be lower than they would be under the laws in place in FY 2005 (including the 6.0% state sales tax rate), and the cuts become larger as the various changes in the plan are phased in over the next four years, through FY 2010.

Education, the Cornerstone of Success

Education continues to be a top priority for Governor Taft. Significant investments have been made in primary, secondary and higher education funding, increasing 52.3% during this administration¹ (using fiscal year 1998 as the base). While the economy has continued to struggle, limited resources have been streamlined and targeted to those initiatives deemed most critical. Governor Taft recognizes that success in education provides the foundation for a successful workforce and citizenry in general. Student access and achievement, therefore, have become the common thread to all educational investments. General Revenue Fund (GRF) investments proposed through the budgets of the Department of Education and the Board of Regents (including tax relief) total \$9.94 billion in fiscal year 2006 (0.7% above fiscal year 2005) and \$10.10 billion in fiscal year 2007 (1.6% above fiscal year 2006).

Primary and Secondary Education

GRF funding provided through the Department of Education's budget (including tax relief) totals \$7.48 billion in fiscal year 2006 (0.6% above fiscal year 2005) and \$7.58 billion in fiscal year 2007 (1.4% above fiscal year 2006). Guiding these critical investments have been the recommendations of two commissions established by Governor Taft: The [Governor's Commission for Student Success](#) and the [Governor's Commission on Teaching Success](#). Implementation of these recommendations has aligned Ohio's academic efforts helping to improve the quality of school districts as evidenced in the table below.

Ranking	Number of Districts		
	2001-2002 School year	2002-2003 School year	2003-2004 School year
Excellent	109	85	117
Effective	191	177	229
Continuous Improvement	257	278	224
Academic Watch	33	52	34
Academic Emergency	18	16	4
* Note that four of Ohio's 613 districts do not receive district report cards and one is newly created and did not yet have a report card in the 2003-2004 school year. * Academic emergency districts have decreased by 14 and excellent and effective districts have increased by 46.			

While the recommendations regarding student and teaching success have been the driving force behind a newly aligned educational system, the entire school funding system required a thorough review. In order to implement changes that drive student success for all Ohio's students and provide a stable, predictable source of revenue, Governor Taft called for the creation of the [Governor's Blue Ribbon Task Force on Financing Student Success](#). Before describing its work over the course of 17 months, a brief description of the work of the student and teaching commissions and funding recommendations to continue these efforts are outlined below.

Governor's Commission for Student Success

Before investments supporting academic success could be initiated, success first had to be clearly delineated and defined. For this reason in January 2000 Governor Taft called for the creation of the Governor's Commission for Student Success. In June 2001, Governor Taft signed Amended Substitute Senate Bill 1 (124th General Assembly), marking the critical first step in his quest to reform education in Ohio. Senate Bill 1, based primarily on the recommendations of the Student Success Commission, put in place a new educational system based on clear expectations (academic content standards), aligned instruction (curriculum models), measurements to identify achievement (assessments) and assistance necessary at the student, school, and district level (accountability and intervention). Amended Substitute House Bill 3 (125th General Assembly) further refined this system of standards

¹ This increase represents funding provided through the Department of Education (including tax relief and lottery profits), the Ohio Schools for the Deaf and Blind, the Ohio School Facilities Commission, and the Board of Regents. SchoolNet funding is not included for the purposes of this comparison.

and accountability to comply with the federal *No Child Left Behind Act*. The fiscal year 2006-2007 budget continues to support the work begun by the Governor's Commission for Student Success.

Fiscal Year 2006-2007 Implementation

Academic Content Standards and Curriculum Models

- Funding of \$2.5 million in fiscal year 2006 and \$2.6 million in fiscal year 2007 allows for further development of academic content standards and the continued training for educators on standards already developed.
- Funding of \$4.6 million in fiscal year 2006 and \$4.7 million in fiscal year 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 language arts, mathematics, science, and social studies.
- Dissemination of the standards and model curricula receive relatively large funding increases as the Department gradually moves away from the development of standards and curricula, to the communication of these items. Communication through the Instructional Management System's database of lessons and tools, as well as face-to-face and online training, is funded at \$1.0 million in each year of the biennium (73.3% above FY 2005).

Assessments

- Funding of \$63.5 million in fiscal year 2006 (38.1% above fiscal year 2005) and \$69.0 million in fiscal year 2007 (8.8% above fiscal year 2006) will allow for the continuation of achievement and diagnostic tests, the Ohio Graduation Test (OGT), and the development of new tests in mathematics for grades 4-6, reading for grades 6-7, social studies for grades 5 and 8, and writing for grade 7.
- Included in the above figure is the development and field-testing of 11 new diagnostic assessments, and the implementation of the Kindergarten Readiness Assessment. These assessments are implemented as mandated by House Bill 3 of the 125th General Assembly and the federal legislation, *No Child Left Behind*.

Accountability and Intervention

- 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.
- Beginning in fiscal year 2006, the value-added methodology to track and measure individual student growth over time will be added to performance ratings for schools and districts. Funding of \$200,000 in fiscal year 2006 and \$2.8 million in fiscal year 2007 is provided to support this effort.
- Based on the local report card findings, intervention is provided to the lowest-performing districts and school buildings in the form of contracts with regional service providers to assist with improvement plans and to monitor progress. This technical assistance is funded at \$15.0 million in fiscal year 2006 (46.5% above fiscal year 2005) and \$15.1 million in fiscal year 2007 (1.0% above fiscal year 2006).
- Beginning in fiscal year 2007, the Executive Budget will provide \$3,500 scholarships to parents of students who attend persistently failing schools. These scholarships are not only intended to offer another route for student success, but to also impel the administration and teaching staff of a failing school building to improve upon their students' academic performance. Parents will be able to choose to send their children to a more successful chartered, nonpublic school. \$9.0 million is provided in fiscal year 2007 for this new initiative.
- Efforts proposed for student intervention are described in the section titled "*Governor's Blue Ribbon Task Force on Financing Student Success*" under the subheading of *Fiscal Year 2006-2007 Implementation*.

Governor's Commission on Teaching Success

The next step toward education reform was the creation of the Governor's Commission on Teaching Success. In November 2001, Governor Taft appointed the Teaching Success Commission to develop recommendations regarding teacher recruitment and preparation, teacher induction, support and retention, professional development, and school leadership. The final recommendations, released in February 2002, served as the basis for the adoption of Senate Bill 2 (125th General Assembly) that was signed by Governor Taft in March 2004. Funding recommended in the 2006-2007 budget continues implementation of these recommendations.

Fiscal Year 2006-2007 Implementation

Teacher Recruitment and Preparation

- The Educator Standards Board, established by Senate Bill 2, is funded at \$1.6 million in each fiscal year for the development of standards for educator training and school leadership positions.
- Funding is included at \$200,000 in each fiscal year through the budgets of the Department of Education and the Board of Regents for the Teacher Quality Partnership, a longitudinal study on the preparation, in-school support and effectiveness of Ohio teachers.
- New funding of \$375,000 in each fiscal year is included for the recruitment of highly qualified teachers for mathematics and science in hard-to-staff schools via \$2,500 stipends.

Teacher Induction, Support and Retention

- The proposed operating budget includes \$7.9 million in fiscal year 2006 (9.2% above fiscal year 2005) and \$8.3 million in fiscal year 2007 (5.1% above fiscal year 2006) for the continuation of the National Board Certification initiative. Funding at this level provides for the continuation of stipends for all teachers previously certified and provides \$2,000 of the \$2,300 application fee for 400 new applicants in each fiscal year.
- Funding for the Teacher Advancement Program (TAP) is proposed at \$250,000 in each fiscal year (32.9% above FY 2005) to attract, retain, and motivate talented teachers through a compensation system based on knowledge and skill level.
- The Teacher-on-Loan program is expanded from 12 to 24 teachers from classrooms around the state to serve as master teachers who understand and implement standards-based education and support and train their peers.

Professional Development

- Funding of \$4.4 million in each fiscal year is proposed to maintain the support of additional professional days in low-performing school districts.
- The Ohio Mathematics Academy Program (OMAP) is supported at \$2.6 million in each fiscal year to provide professional development in mathematics.
- The State Institutes for Reading Instruction (SIRI) is supported at \$10.1 million in each fiscal year to provide professional development in reading instruction.

School Leadership to Support Teaching

- As directed by Senate Bill 2, a program for an alternative route to licensure for principals and other administrators is created, combined with special needs educator recruitment, with funding of \$1.1 million in each fiscal year.
- Funding of \$500,000 in each fiscal year is provided for administrator training academies designed to enhance the management and leadership skills of school administrators.

Governor's Blue Ribbon Task Force on Financing Student Success

With the end of 12 years of school funding litigation in Ohio, Governor Taft recognized an opportunity for stakeholders to come together and propose a system to allocate funds for basic support to schools. The Governor's Blue Ribbon Task Force on Financing Student Success was appointed in July 2003. The 35-member Task Force, made up of representatives from the business and educational community as well as representatives from both the executive and legislative branches of state government, began its work one month later.

The Task Force was charged to recommend a funding 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 and affordable within the context of the state's economy, and includes features that promote the effective use of resources.

The fiscal year 2006-2007 budget begins implementation of the funding recommendations made by the Task Force. It should be noted that the description of the work by members does not represent complete unanimity but does represent broad consensus on major principles and will help to guide educational funding in the future.

The Work of the Task Force

While the Blue Ribbon Task Force was not able to address all issues, it did recognize the importance of continuing the work begun. For this reason, the Task Force recommended the establishment of an ongoing work group to develop a stronger correlation of resources and results. The Task Force separated its work into three major areas of focus: funding for success, revenue and taxation, and operations and efficiency.

Funding for Success

The work in this area focused on learning what constitutes success and analysis of those districts that achieved the identified measures. Through these efforts, it became evident that a common characteristic of low-performing districts was a high concentration of students in poverty. As a result, members looked at examples of successful high poverty schools – or those making progress toward meeting state standards – with the goal to determine how their investments yielded positive educational results.

This analysis led the Task Force to recommend a building-blocks approach to school funding which focuses on the inputs or evidence-based initiatives necessary for the academic success of students. An inputs-based approach to school funding allows for relevant conversations about what can be bought with different levels of funding. The ability to discuss what can be bought becomes critical for stakeholders to justify the need for additional funding and for policymakers to make sound decisions. (While parts of the current school funding system are inputs-based, others are not.)

The key input identified by the Task Force for student success is the use of data to inform how resources are and should be directed and how educators use data to inform their teaching practices. This notion is supported by the acknowledgement that most districts spend at least some of their resources on these critical inputs but the extent to which successful results are achieved depends on how those resources are deployed. Other identified inputs that yield success include professional development (particularly in the use of data), intervention, class size reduction, early learning programs, and community engagement.

The Task Force recommended that most of the critical inputs identified be provided in increasing levels for students faced with economic challenges. Members also recognized, however, the need for the base cost per pupil for all students to grow appropriately and that some additional base inputs should be provided.

Revenue and Taxation

Members identified a number of principles to guide their work in this area. They are:

- **Simplicity** – The tax system should facilitate taxpayer compliance by being easy to understand and easy to administer.
- **Equity** (horizontal and vertical) – Horizontal equity exists when the tax system imposes similar burdens on similarly situated taxpayers. Vertical equity exists when the tax system recognizes differing abilities of various taxpayers to pay.
- **Stability** – The tax system exists to fund essential government services and should provide adequate revenue to fund those services in both good and bad economic times.
- **Neutrality** – The tax system should not unduly influence economic behavior.
- **Competitiveness** – How the tax system compares to other states' tax systems affects the decisions of businesses to locate in Ohio.

The members then identified what they believed were the key problems with the tax system related to Ohio's school finance system. Through much deliberation, two main problems were identified as key to improving the overall school funding system:

- **Reappraisal phantom revenue** – Members believe that correcting this phenomenon was the most effective means to provide a system that meets the principles outlined above. Reappraisal phantom revenue is a concept to explain when a district's local margin above basic aid funding is assumed over time to be part of the local share of basic aid. This occurs when the state's formula assumes more valuation growth at the local level than is actually realized when districts' property valuations increase through reappraisal or update.

- **Personal tangible property taxes** – Task Force members believe that the use of this tax as a significant funding source for schools causes inequity between individual districts in raising local tax dollars and hurts Ohio’s competitiveness in attracting businesses to the state.

To address these two issues, the Task Force recommended local taxes be allowed to grow, but not without restriction. The state would then make up for any additional variance (in valuation growth) between what is assumed by the state and the actual growth by assuming a lower local share of basic aid by rolling back the millage rate used in the state formula to calculate the local share. The Task Force also recommended that meaningful reform of tangible personal property take place but school districts be protected from negative financial impacts through another revenue source.

Operations and Efficiencies

The basic premise of this work is that operational efficiencies are gained through data-based decision-making and resource deployment. In addition, work in this area also focused on efficiencies that could be gained in health care and general school district operations.

Fiscal Year 2006-2007 Implementation

The Executive Budget proposal begins phasing in the recommendations of the Task Force by putting in place a new funding system that promotes higher levels of student achievement.

Most Task Force recommendations require changes to be made to the Foundation Program, the formula by which general funding is provided to school districts. The Executive Budget proposes funding for Foundation Program line items totaling \$6.15 billion in fiscal year 2006 (2.5% above fiscal year 2005) and \$6.29 billion in fiscal year 2007 (2.3% above FY 2006). Following are the key funding proposals supported by the Task Force.

Base Cost Funding

- **Base Cost Per Pupil** – The proposed operating budget supports the recommendations of the Task Force and increases the fiscal year 2005 base cost per pupil by appropriate inflationary measures. The Task Force did not arrive at an inputs-based per-pupil amount as sufficient data were not yet available but did recommend that additional base inputs be provided as outlined in the second bullet. (As previously noted, a successor group will analyze an input-based methodology for the per-pupil amount prior to the development of the fiscal year 2008-2009 biennial budget.) Increases, therefore, reflect a base cost per pupil of \$5,328 in fiscal year 2006 (3.1% above fiscal year 2005) and \$5,489 in fiscal year 2007 (3.0% above fiscal year 2006). The following table demonstrates how the amounts were calculated:

	FY05 Base Cost Per Pupil	FY06 Projected Inflatons	FY06 Base Cost Per Pupil	FY07 Projected Inflatons	FY07 Base Cost Per Pupil
Salaries and non-health benefits: Represents 71.2% of base cost; inflated by the Employment Cost Index - all civilian workers, wages only	\$ 3,681	2.5%	\$ 3,773	2.9%	\$ 3,882
Health benefits: Represents 13.8% of base cost; inflated by Employment Cost Index - all civilian workers, benefits only	\$ 713	7.2%	\$ 764	4.9%	\$ 802
Other: Represents 15.0% of base cost; inflated by the Gross Domestic Product Deflator - all items	\$ 775	2.0%	\$ 791	1.8%	\$ 805
Total Base Cost Per Pupil	\$ 5,169	3.1%	\$ 5,328	3.0%	\$ 5,489

- **Additional base inputs** – As recommended by the Task Force, additional base inputs are provided on top of the base cost per pupil for data-based decision making, professional development for the implementation of data-based decision making, general professional development and intervention. Funding for data-based

decision making supplements is funded at 100% and the general funding for intervention and professional development are funded at 40% in fiscal year 2006 and 60% in fiscal year 2007. State and local shares of the phase-in amounts total \$48.4 million in fiscal year 2006 and \$63.6 million in fiscal year 2007 and are represented as percentages of the base cost per pupil so that growth is realized into the future.

- **Targeting resources to those in greatest need:** The Task Force recommended that current funding initiatives that do not align with the principle that state resources be distributed to districts and students who are most in need of additional support to reach state academic content standards should be considered for reallocation. One such funding stream mentioned by the Task Force for consideration was the Cost of Doing Business (CODB) factor, which provides up to an additional 7.5% of base cost per-pupil funding for districts in counties with high costs of doing business. The counties with the highest CODB factors are those with large urban districts and the lowest are those in rural, poor counties. The concern is that the suburban districts that surround the large urban areas also benefit from these high CODB factors but have a greater local capacity to raise revenue. The impact is that state resources are not being targeted to districts with the greatest need and struggling districts increasingly cannot compete with the richer suburban districts. For this reason, the Executive Budget proposes that the CODB factor be eliminated but that a base cost guarantee be implemented for those districts severely impacted by its removal. In addition, Transitional Aid is proposed that guarantees that districts receive 100% of prior year total funding in fiscal year 2006 and 98% of prior year total funding in fiscal year 2007. The Task Force recommended that transitional funding be provided for initiatives being considered for elimination or phase-out.
- **ADM** – The Task Force analyzed the current method of counting only current-year students for calculating basic aid and recommended that the state return to using the greater of the current year or three-year average for the basic aid calculation. The Executive Budget proposal supports this recommendation, which will allow districts with declining enrollment more time to adjust for decreases in funding.

Poverty-Based Assistance

Except for the phase-in of certain elements, funding for poverty-based assistance is proposed as recommended by the Task Force. Proposed funding for poverty-based assistance totals \$434.1 million in fiscal year 2006 (27.6% above fiscal year 2005 support for Disadvantage Pupil Impact Aid) and \$481.0 million in fiscal year 2007 (10.8% above fiscal year 2006).

The Task Force recommended the provision of specific building blocks in the areas outlined below for students and districts facing the challenges associated with poverty. The poverty indicators used to support the following funding supplements include 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. The Task Force believed that the unduplicated count of these poverty indicators best represent poverty levels in school districts.

- **Intervention** – The new subsidy for intervention provides districts increasing levels of funding for intervention as their poverty concentration increases. Funding is phased in at 40% in fiscal year 2006 totaling \$78.3 million and 60% in fiscal year 2007 totaling \$121.2 million. When fully phased in, districts will receive from 0.5% to 16.0% of the basic aid per-pupil amount for each student in poverty. If the basic aid per-pupil amount continues to increase by 3.0% and this program is funded at 100% in fiscal year 2009, districts that qualify will receive an additional per-pupil allocation for each poverty student ranging from \$29 to \$930 based on the district's poverty concentration.
- **Large urban district subsidies** – Large urban districts face unique challenges that other districts with high concentrations of poverty do not. For this reason, the Task Force believed that additional funding should be provided to such districts for dropout prevention and community liaisons and/or attendance officers. Again, these funding initiatives are being phased in at 40% in fiscal year 2006 totaling \$14.6 million and at 60% in fiscal year 2007 totaling \$22.6 million.
- **Professional development** – This new subsidy is also being phased in at 40% in fiscal year 2006 and 60% in fiscal year 2007. Districts with a concentration of poverty greater than the statewide average will receive

\$2.3 million in fiscal year 2006 and \$3.5 million in fiscal year 2007. It is proposed that school districts be given the flexibility to use this funding for intervention in fiscal year 2006-2007.

- **Limited English Proficient (LEP) Intervention** – In recognition that some districts face tremendous challenges because of the migration of large numbers of limited- or non-English speaking students, the Task Force recommended additional intervention funding for districts whose limited-English population exceeds 2.0% of their entire student population and whose poverty concentration is greater than the statewide average. Again, this initiative is being phased in at 40% in fiscal year 2006 totaling \$4.9 million and at 60% in fiscal year 2007 totaling \$7.6 million.
- **Class size reduction** – With a few modifications, the Task Force recommended continuation of funding for class size reduction. The first change increases the minimum threshold for qualification from a poverty index of 0.6 to 1.0 so that funding is better targeted to districts with the highest poverty concentrations. Tax Force analysis revealed that the base cost per pupil actually allows districts to fund class sizes of 20 to 1 on average rather than 23 to 1. These modifications are proposed in the Executive Budget at total funding levels of \$155.9 million in fiscal year 2006 (13.3% above fiscal year 2005) and \$161.3 million in fiscal year 2007 (3.4% above fiscal year 2006).
- **All-day kindergarten** – The Executive Budget proposes to continue funding totaling \$147.9 million in fiscal year 2006 (39.0% above fiscal year 2005) and \$151.8 million in fiscal year 2007 (2.6% above fiscal year 2006). The large increase in fiscal year 2006 results from an additional 52 districts qualifying for this subsidy as a result of using of the new poverty indicator.
- **Transitional aid funding for poverty** – Previously, a guarantee was provided at fiscal year 1998 funding levels. The Executive Budget proposes a new transitional aid guarantee to be provided at fiscal year 2005 funding levels. This funding is necessary since most of the poverty-based components are being phased in. Total funding equals \$30.3 million in fiscal year 2006 and \$13.1 million in fiscal year 2007 and can be used for any of the inputs, including intervention, deemed critical for a population facing the challenges of poverty.

Intervention

Previously, intervention funding was allocated through line item 200-513, Student Intervention Services, and through line item 200-520, Disadvantaged Pupil Impact Aid (DPIA). In the Executive Budget proposal, intervention is partially funded as an additional base input and partially allocated to districts through a new formula in Poverty-Based Assistance (outlined above). In addition, the Executive Budget includes \$15 million in TANF (Temporary Assistance to Needy Families through the budget of the Department of Job and Family Services) funding in each year of the biennium for intervention for students that meet TANF eligibility requirements.

The Executive Budget provides flexibility to allow districts to use new funding initiatives provided through Poverty-Based Assistance for a variety of intervention activities. This flexibility is offered as new subsidies are phased in and spending policies recommended by the Task Force are implemented. New spending policies will allow districts meeting adequate progress standards more flexibility in how they spend their state resources. The result is that proposed funding from all state sources that can be used by districts for intervention equals \$153.5 million in fiscal year 2006 (11.6% above fiscal year 2005) and \$195.1 million in fiscal year 2007 (27.1% above fiscal year 2006).

Parity Aid

The Task Force recommended this supplement be funded at 100%. The Executive Budget proposal supports continued movement toward 100% by increasing the phase-in percentage from 76% in fiscal year 2005 to 80% in fiscal year 2006 and 85% in fiscal year 2007. Parity Aid is provided to the poorest 80% of Ohio's school districts on a sliding scale and is an allocation above basic aid funding. This supplement is different from poverty-based assistance because a district can be poor in its ability to raise local dollars for education but not necessarily have high concentrations of poverty. Each qualifying district receives the difference between what 9.5 mills raise in the 490th wealthiest district and what 9.5 mills raise in the given district. The 9.5 mills are calculated on a wealth indicator that is 1/3 income and 2/3 property valuation. Funding is increased by \$30.2 million in fiscal year 2006 (7.1% above fiscal year 2005) and by \$59.5 million in fiscal year 2007 (13.1% above fiscal year 2006).

Special Education

Special education is funded primarily through six weights representing different types of disabilities depending on the degree of severity. This cost-based funding methodology is supported through both state and local support. While special education weighted funding was not discussed in great depth by the Task Force, recommendations did support full funding of the weights. The Executive Budget proposes, however, that funding of 90% of the weights be maintained. Increasing federal allocations for special education will be more than sufficient to cover the funding gap. Based on recent trends federal special education allocations have increased on average by 35% per year. Taking such federal allocations into account results in total funding from all resources being more than 30% above what the cost-based methodology requires at 100%. Due to increases in the base cost per pupil, state support for weighted special education (funded at 90%) increases by \$9.5 million in fiscal year 2006 (2.1% above fiscal year 2005) and by \$11.6 million in fiscal year 2007 (2.6% above fiscal year 2006).

Charge-Off Supplement

This supplement (sometimes referred to as Gap Aid) provides districts that have less actual local revenue than what is assumed by the state as a district's local share for basic aid, special education weighted funding, career-technical weighted funding, and transportation. Continued funding of this supplement is supported by the Task Force as long as assumed local shares in the Foundation Program continue to be greater than what districts actually raise. Proposed funding is increased by \$19.0 million in fiscal year 2006 (32.6% above FY 2005) and by \$6.8 million in fiscal year 2007 (8.8% above fiscal year 2006).

Excess Cost Supplement

The state employs a 3.3-mill cap on each district's local share of special education weighted funding, career-technical weighted funding, and pupil transportation. If the assumed local share in these three areas is greater than 3.3 mills, the state pays for the excess above the cap. The Task Force supported continued funding of this supplement. Proposed funding is increased by \$18.3 million in fiscal year 2006 (47.2% above fiscal year 2005) and by \$16.8 million in fiscal year 2007 (29.4% above fiscal year 2006).

Restructuring of State Funding Inputs

To more accurately reflect critical educational inputs for success, the Executive Budget proposes the consolidation of line items 200-501, Base Cost Funding; 200-520, Disadvantaged Pupil Impact Aid; 200-525, Parity Aid; and 200-546, Charge-Off Supplement into a new line item, 200-550, Foundation Funding. Currently, line item 200-501, Base Cost Funding, includes both base funding and supplemental funding for special education and career-technical education students. As described previously, Charge-Off Supplement funding represents base funding and Disadvantaged Pupil Impact Aid and Parity Aid both represent critical supplemental funding initiatives.

Revenue and Taxation

- **Phantom Revenue Fix** – The method outlined by the Task Force in its report to address phantom revenue will require an amendment to the Ohio Constitution. Since passage of this amendment will require legislative support, voter support, and time for the tax changes to take effect, the earliest timeframe for implementation will be the beginning of the FY 2008-2009 biennium.
- **Personal Tangible Property** – Due to the inequities created by personal tangible property tax assessments between school districts, the Task Force recommended the tangible personal property tax be reformed once another source of revenue is identified. Tax revenue on personal tangible property currently provides districts with approximately \$1.17 billion annually. It is proposed that two of the three tangible personal property components (machinery and equipment and inventory representing 73% of tangible personal property) be eliminated gradually from tax year 2006 through tax year 2010. Districts will be 100% held harmless through fiscal year 2011 through a combination of increased Foundation Program funding and direct payments out of a new commercial activity tax. Beginning in fiscal year 2012, districts will begin to have their direct hold harmless payments phased out. The savings the state would realize as a result of the hold harmless phase-out is proposed for reallocation in a more equitable manner that accounts for school district wealth differences.
- **Half-Mill Maintenance Equalization** – School districts that participate in an Ohio School Facilities Commission (SFC) construction program are required to pass a one-half mill levy, or set aside equivalent

revenue, to support the maintenance costs associated with a newly constructed or renovated school facility. The Administration recommends providing financial assistance to enhance the ability of school districts to maintain their new facilities. While not a topic discussed by the Task Force, this proposal aligns with the principle that state resources should be targeted to those districts with the greatest need. To that end, the Executive Budget provides \$10.7 million in fiscal year 2007 for a provision to equalize a school district's one-half mill maintenance set-aside to the statewide per-pupil average.

Operations and Efficiency

While most efficiencies will be gained through a system that deploys resources based on student progress data, the Task Force also supports the following changes:

- **Performance Audits** – \$1.0 million is included in each year of the biennium for the Auditor of State to provide approximately ten additional financial or approximately five comprehensive performance audits of school districts per year. Such audits provide recommendations for savings in the areas of financial systems, human resources, facilities maintenance, transportation, and technology utilization.
- **Health Care Proposal** – The Task Force recommends that the Department of Education study and make recommendations relative to potential efficiencies of consolidating health care insurance purchasing for public school employees. Work has begun in fiscal year 2005 toward this end and a work group will conduct an inventory of Ohio-based health care purchasing consortiums, review Ohio-based research and analysis already completed, and define research and policy development needs. A plan will be provided by December 2005 to the State Board, the Governor's Office, and the General Assembly for their consideration.

Higher Education

The Next Step – Aligning Preschool-Grade 12 to Higher Education

GRF funding provided through the Board of Regents' budget totals \$2.47 billion in fiscal year 2006 (0.9% above fiscal year 2005) and \$2.52 billion in fiscal year 2007 (2.0% above fiscal year 2006). The State of Ohio has convened various commissions, over the past five years, with representatives of private industry, government, public sector interests, and policymakers studying important issues regarding primary and secondary education and higher education as it relates to the state's economy. These studies have yielded vital information and recommendations that serve as the roadmap to improve components of the state's educational systems. The next logical step is to create a recognized link between the primary/secondary and higher education systems and develop a comprehensive and seamless continuum of education opportunity that supports success and economic opportunity. The following initiatives proposed for the fiscal year 2006-2007 biennium support the creation of this link.

Ohio Partnership for Continued Education (P-16 Council)

Ohio's Partnership for Continued Education (P-16 Council), a recommendation of the [Commission on Higher Education and the Economy](#) (CHEE), will be created as the statewide advisory board responsible to promote and facilitate a continuous learning system at the state and community level. This partnership, chaired by the Governor, will focus on the preparation of all Ohioans for success in Ohio's emerging knowledge-driven economy. Funding of \$300,000 in each fiscal year is provided through the budgets of the Department of Education and the Board of Regents to promote collaboration in this effort.

This comprehensive education system will prepare and sustain a world-class workforce, responsive to business and industry through an integrated system of education, which will be readily accessible. This will be accomplished through extensive collaboration and communication among educators (primary, secondary and higher education) at the state and local levels, as well as employers, students, policymakers and community leaders.

Ohio's Partnership for Continued Education (P-16 Council) will advise and make policy recommendations to promote coherence among relevant state entities (for example, the Ohio Department of Education and the Board of Regents) in an effort to help local communities develop successful P-16 learning systems. The statewide learning system will promote a common set of outcomes at the local, regional, and statewide levels, remove barriers and support work in tandem with local and regional efforts already in place or in development.

Teacher Quality Partnership Study

The Teacher Quality Partnership (TQP), launched in 2003, is a comprehensive, longitudinal study of the preparation, in-school support and effectiveness of Ohio teachers. The Partnership is comprised of a research consortium of Ohio's 50 colleges and universities that administer teacher preparation programs. The participating schools work collaboratively to identify how the preparation and development of new teachers impact their success in the classroom as measured by the academic performance of their students. This collaboration is designed to inform future public policy decisions, change the way teachers are prepared for the classroom, and ensure that all students have highly-qualified teachers.

In addition to funding of \$200,000 through the budgets of the Department of Education and the Board of Regents, the Teacher Quality Partnership receives support from The Carnegie Corporation of New York, The Joyce Foundation, The Proctor & Gamble Fund, Martha Holden Jennings Foundation, The George Gund Foundation, and the federal government's Fund for the Improvement of Postsecondary Education.

P-16 Preparation and Access

Ohio High School Transformation Initiative

The [State Board of Education's Task Force on Quality High Schools](#) recommends state support for the continued development of small learning communities. Funding of \$3.0 million in fiscal year 2006 and \$5.0 million in fiscal year 2007 is proposed through the budgets of the Department of Education and the Board of Regents for the Ohio High School Transformation Initiative (OHSTI), in conjunction with support by the Knowledge Works Foundation and the Bill & Melinda Gates Foundation. Small learning communities are created within existing large, urban high

schools for a more personalized learning experience. The number of students for which teachers are responsible is lowered, and greater ties to the surrounding community are encouraged. Currently, 42 schools serving nearly 55,000 students in 17 urban districts are participating in this innovative initiative.

Early College High Schools

Both CHEE and the Task Force on Quality High Schools recommended that the state pilot Early College High Schools, an effort that provides a challenging option for high achieving high school students to attend an institution of higher education, many of whom may not have such an opportunity otherwise. Students participating in Early College High School will earn their high school diploma in four years as well as an associate's degree or college credit, both of which can be transferred to a four-year institution. Currently, there are three Early College High Schools operating in Ohio that are funded by participating school districts, partnering institutions of higher education, a grant from the Bill and Melinda Gates Foundation and the KnowledgeWorks Foundation. Additional funding of \$3.1 million in fiscal year 2006 and \$5.5 million in fiscal year 2007 is provided in the budgets of the Department of Education and the Board of Regents.

The Ohio College Access Network (OCAN)

OCAN (a Board of Regents administered program) works to establish college access programs across Ohio by building and supporting local college access programs throughout the state. OCAN has established 34 college access programs serving nearly 300 of Ohio's 613 school districts, and 17 private/parochial schools in 46 counties to promote and encourage college attendance. These access programs operate as non-profit organizations to provide financial counseling, last dollar scholarships, college visitation opportunities, career guidance, tutoring and test preparation courses to primary and secondary students. This budget provides continued support of \$500,000 in each fiscal year for the above purposes. Additional funding of \$600,000 in fiscal year 2006 and \$700,000 in fiscal year 2007 is proposed to support the creation of regional pilot sites in areas of the state that are currently underserved or not served at all.

Student Access and Higher Education Collaborations

Ohio College Opportunity Grant (OCOG): Ohio's New Need-Based Financial Aid Program

Following the recommendations of both the CHEE and the Higher Education Funding Commission, significant changes to Ohio's need-based grant program for low-income students will be implemented in fiscal year 2007. The Executive Budget provides \$58.1 million in fiscal year 2007, the first year of the phase-in for the new program, the Ohio College Opportunity Grant. The new program will increase the maximum grant awards to students attending public institutions of higher education, update Ohio's method for determination of financial need, merge the part-time student program with the full-time grant program, and expand eligibility by raising the income cap for need-based aid from \$39,000 under the current Ohio Instructional Grant program to \$75,000.

The Ohio College Opportunity Grant will increase maximum grant amounts to students attending public colleges and universities from \$2,190 to \$2,496, a 14% increase in support. This increase in the maximum grant will help the most needy students gain access to higher education. The new state grant, when paired with the federal Pell award, will cover most, if not all, tuition costs at every state-supported four-year, branch campus, community and technical college throughout Ohio.

As recommended in the CHEE report, the state will align its eligibility criteria with the federal Expected Family Contribution (EFC) methodology. This measure is more accurate than the current Ohio Instructional Grant methodology based only upon the household income and number of dependents. The new method considers additional factors such as the number of children in college, family assets, and student income in the determination of the family's ability to support the costs of higher education.

The current part-time student grant program will be merged into the new program beginning in fiscal year 2007 to utilize the same distribution methodology as the full-time student program. This consolidation is crucial in ensuring that students with need are treated fairly and equitably in regards to the determination of eligibility and grant awards amounts received. Maintenance of the existing part-time program during the four-year phase-in is supported by a recommendation of \$14.5 million in fiscal year 2006 and \$10.5 million in fiscal year 2007.

Finally, the new program will also expand access to need-based financial aid for low- and middle-income families by increasing the eligibility income cap to \$75,000, which nearly doubles the current income cap of the Ohio Instructional Grant (OIG).

As mentioned previously, the new need-based program will be phased-in over four years, beginning in fiscal year 2007 (or academic year 2006-2007). First-time, first-year students will be eligible for the new program in fiscal year 2007 while current students will maintain eligibility for the current Ohio Instructional Grant program. The program will start in the second year of the operating biennium for several reasons: financial aid forms for the 2005-2006 academic year (fiscal year 2006) have already been processed; and the additional year will allow time to market and develop program implementation details for students and financial aid administrators.

No students currently eligible for the existing OIG financial aid program will be disenfranchised as a result of phasing in the new program. That is, they may continue to receive OIG grants as long as they meet the current eligibility requirements for the program. Recommended funding of \$121.2 million in FY 2006 and \$92.5 million in FY 2007 is proposed to support the phase-out of the existing OIG program.

Articulation and Transfer

A major recommendation of the CHEE report was the full implementation of the state's system of course applicability and transfer, which will ensure that credits earned for similar coursework is transferable among the state-supported colleges and universities. The next step in this effort is to include coursework that would apply towards a major or minor degree program, and also explore expansion of course applicability for coursework completed at adult career centers and career-technical education institutions for credit at Ohio's two and four year institutions. These efforts are supported with an investment of \$2.9 million in each year of the biennium.

Conclusion

Much has been accomplished during the Taft Administration to reform the educational system in Ohio. With student success as the guide for proposed investments, Ohio now has in place a system that:

- Has clearly defined academic standards and curriculum modes for students;
- Includes an accountability system that measures student achievement and progress;
- Provides intervention systems for students and buildings not meeting state standards;
- Provides a funding system that targets funding to those students and districts who need it most;
- Establishes a coherent system to align the academic, workforce and economic goals from pre-school through college graduation; and
- Provides increasing levels of funding to those who need it most to improve student access and success in higher education.

While great strides have been made there is still much to be achieved in the coming biennium. For example, standards still need to be defined for teachers and will be accomplished through the Educator Standards Board. General funding for schools needs to be even more stable so that districts can better plan. This will be achieved through continued phase-in of the proposed funding recommendations in the Executive Budget as well as through pursuit of stable growth of combined state and local resources. Finally, better alignment needs to be achieved between primary/secondary education and higher education, which will begin through the work of Ohio's Partnership for Continued Education (P-16 Council).

Education is the cornerstone of success – both individual success and that of the state. Ohio cannot continue to prosper unless its educational system continues to progress to enable all children to succeed. The Executive Budget recommendations for both primary/secondary education and higher education promote the development of a productive and prospering workforce and citizenry through greater access to a quality educational system that focuses on and supports the achievement of every Ohio resident.

Overview

Governor Taft's budget proposal continues his strong commitment to developing Ohio's economy. Good jobs and a robust economy provide the foundation for strong families, strong communities, and a solid tax base to support essential services for Ohioans – like schools for our children and services for our seniors.

In February 2004, Ohio was awarded *Site Selection Magazine's* prestigious Governor's Cup, leading the nation with 587 new or expanded plant projects. These projects include private investment exceeding \$4.6 billion, and when completed and fully operational, are projected to create 17,880 jobs. In addition, Ohio finished eighth in the magazine's November 2004 ranking of states' business climates. Significant investments have been made in technology in such varied fields as propulsion, information technology, fuel cells, and biomedical research to treat Parkinson's disease, lung cancer and childhood diseases. The Executive Budget builds on these successes and expands funding in certain targeted areas.

I. The Third Frontier Project

The [Third Frontier Project](#) launched by Governor Taft in February 2002 is a \$1.1 billion, ten-year program of investment in new research, new product and process innovation, and new job creation. To receive consideration for Third Frontier funding, projects must focus on one of the five core competency areas: power and propulsion; bioscience; advanced materials; information technology; and instruments, controls, and electronics. Ohio's funding will be matched by billions of dollars in federal and private sector investments, providing opportunities that will play key roles in transforming Ohio's economy for the 21st century and beyond.

The Third Frontier Commission, comprised of state government officials, and the Third Frontier Advisory Board, comprised of Ohio business, higher education, and legislative leaders, jointly govern the project. This governance structure allows business leaders serving on the board to assure the project's relevance to the state's economy, and places responsibility and accountability for expenditures with a commission of state officials. The commission is composed of the Director of the Department of Development, the Chancellor of the Board of Regents, and the Science and Technology Advisor to the Governor. The Third Frontier Advisory Board consists of 16 members, with 14 appointed by the Governor (nine representatives from business and five from university or non-profit research institutions) and one each appointed by the Speaker of the House and the Senate President. The board provides general advice to the commission on various items including strategic planning, funding, requests-for-proposals, metrics and methods of measuring the progress and impact of programs administered by the commission, and studies to be conducted to collect and analyze data relevant to advancing the goals of programs administered by the commission.

The Third Frontier Project involves core programs and related initiatives that are designed to provide state leadership in areas that have special importance to Ohio's economy, and the alignment of existing technology-related activities across varied funding sources. These programs and activities are highlighted below, and information regarding the specific location of funding for each item is available in Table 1 at the end of this document.

Third Frontier Core Programs

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 and early stage growth companies and on creating new fuel cell technologies and products. Grants totaling more than \$42 million have been awarded during the 2002-2005 period. Funding for the 2006-2007 biennium is continued at \$16.79 million per year.

Biomedical Research & Technology Transfer Trust Fund: Governor Taft and the legislature committed \$350 million over ten years from the tobacco settlement revenues to support biomedical research and technology commercialization. To date, awards totaling more than \$79.7 million have been made for projects that are advancing cures for cancer, accelerating drug discovery, and improving medical imaging. In addition, \$23.9 million was appropriated for fiscal year 2005 and is expected to be awarded in March,

and another \$23.9 million was appropriated for fiscal year 2006 in the Tobacco Budget (Sub. H.B. 434, 125th General Assembly).

Wright Brothers Capital Fund: Governor Taft proposes that the Wright Brothers Capital Fund receive \$50 million per year for ten years to award competitive grants for capital assets to strengthen Ohio's research and commercialization capacity. The fund is used to support Wright Centers of Innovation and Wright Capital Projects. Funded projects are developing the next generation of propulsion systems, advancing the application of data management solutions, supporting the research, development, and commercialization of fuel cells, developing individualized treatments linked to a patient's genetic makeup, researching adult stem cell transplantation to cure cancer and degenerative diseases, and improving medical imaging. As of January 2005, \$150 million has been appropriated to the Wright Brothers Capital Fund; an additional \$50 million appropriation is under consideration in the fiscal years 2005-2006 capital bill (House Bill 16). Current Wright Centers of Innovation proposals are under review by the National Academy of Sciences, with awards expected to be made in March 2005.

Innovation Ohio Loan Fund: In creating the Innovation Ohio Loan Fund, the legislature approved provisions allowing the Ohio Department of Development to assist companies with below-market financing for investments in fixed assets necessary to develop new commercial products. This \$100 million revolving loan fund will be financed through obligations supported by liquor profits. Innovation Ohio loans are subject to approval by the Development Financing Advisory Council (DFAC) and the State Controlling Board. To date, the DFAC has approved four loans totaling \$4.7 million, resulting in total investments of \$6.3 million. These four projects will result in the retention of 129 jobs and the creation of 277 new jobs. The guidelines of the program have been revised recently to better address the needs of the marketplace. As a result, the activity level of the program is expected to grow considerably in the 2006-2007 biennium.

Third Frontier Ballot Initiative: On November 8, 2005, voters will be asked to approve a proposal to amend the Ohio Constitution to allow a special bond issue. The proceeds from this initiative will be used to create, preserve, and enhance employment opportunities; to foster economic development to improve the general and economic well-being of the people and business economy in the state; to provide fuller utilization of research organizations and institutions; and to enhance and expand Ohio's private and public science and technology-based research, development, and commercialization capacity and workforce capabilities.

Third Frontier Special Initiatives

Fuel Cell Initiative: Third Frontier Project plans allocated \$103 million for the Fuel Cell Initiative, a program to invest in research, demonstration projects, and job creation. This initiative focuses on three core areas: expanding Ohio's research capabilities by building on the work at research universities and federal laboratories; participating in demonstration projects including hydrogen infrastructure; and investing in the expansion of the fuel cell industry in Ohio to attract companies and jobs. Ohio has substantial business and research assets related to fuel cell technologies and a critical stake in making the most of this technology.

Economic and Workforce Development Initiatives: These initiatives are a series of business development programs that will further position Ohio as an attractive location for high-paying jobs in high-growth industries. As part of this initiative, the Technology Investment Tax Credit was re-authorized to provide a limited tax credit to Ohio investors for investing in qualified small Ohio technology companies. Other programs include:

- **Ohio Research Commercialization Grant Program**, which will support Ohio's small technology companies with additional financial support for final commercialization and pilot production.
- **Research and Development Investment Loan Fund**, which will attract new research and development operations/facilities to Ohio by providing low interest loans partnered with tax credits

equal to the interest and principal paid, up to \$150,000. Loans from this program are subject to approval by the Development Financing Advisory Council (DFAC) and the State Controlling Board. Through January 2005, the DFAC has approved five loans for \$10.8 million, with another \$25 million under review by Department of Development staff. The approved projects will result in total investments of \$33.2 million, thus retaining 4,072 jobs and creating 74 new jobs.

- **Research Park Infrastructure Assistance Fund**, in which the Roadwork Development Fund provides enhanced assistance to communities developing research or technology parks for the purpose of attracting high tech companies and businesses conducting research and development on-site. The program can provide up to 80 percent of the total roadwork infrastructure cost, with a maximum grant of \$500,000. Since the program's inception in fiscal year 2003, 12 communities have received a total of \$6.9 million in grants, generating over \$46 million in investments.
- **Third Frontier Internship Program**, which provides grants to partner organizations such as economic development agencies, chambers of commerce, and One-Stop Centers to develop college internships and educator awareness externships with Ohio companies. Businesses, students and educators working or studying in the areas of advanced manufacturing, advanced materials, power and propulsion, instruments controls and electronics, bioscience, and information technology may benefit from this program. The state will provide up to \$3,000 per year, for no more than two years, for student internship opportunities and \$2,000 total for educator awareness opportunities. Performance reports through September 30, 2004, indicate that 552 internships have been made available for eligible students. This program is funded by federal discretionary Workforce Investment Act dollars.

Broadband: The Broadband Initiative is designed to encourage the use of broadband internet access. Governor Taft created the Broadband Coordinating Council to coordinate and review all state-related broadband activities. In addition to the council's efforts, the initiative's programs include:

- **Third Frontier Network**, which directly links Ohio colleges and research facilities and ensures that key players can collaborate on state-of-the-art research and education projects. As of March 1, 2005, a total of 19 higher education and research institutions will be connected to the network.
- **eVantage Ohio**, an existing comprehensive effort to train small businesses in the use of e-commerce. This program results in small businesses becoming increasingly proficient in the use of e-commerce to sell goods and services over the Internet, while also reducing costs by communicating electronically with suppliers. Experienced instructors provide instruction to small business owners to outline specifications for eBusiness solutions for their companies' short and long-term needs, to understand best practices for vendor selection and negotiations, and to implement eBusiness plans. The training also addresses marketing, sales, service, customer management, production, security, finance, supply chain, website design, and operations management.

Commission for Higher Education and the Economy: Supporting Economic Development Through Program Alignment

On June 3, 2003, the Governor convened the [Commission on Higher Education and the Economy \(CHEE\)](#), consisting of 33 leaders representing the private sector, government, and institutions of higher education, including public, private, and proprietary schools, to consider and make recommendations regarding how Ohio can achieve higher education's full potential to create more and better jobs for the state's citizens, increase economic competitiveness, and fuel economic growth statewide. The Governor requested that the commission consider three issues in its work: making Ohio competitive in the knowledge economy; promoting access and creating opportunities for all students; and delivering results for public investments.

Governor Taft's budget builds upon the final recommendations of the commission, which completed its work in April 2004. Long-term economic growth will be driven by the ability of Ohio's major research institutions to apply new ideas and to create and improve products. 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.

Temporary law provisions of the Executive Budget include authority for the Third Frontier Commission to review certain programs in the Department of Development, the Board of Regents, and the Air Quality Development Authority to facilitate alignment of science and technology programs and activities. The purpose of these provisions is to assure that program objectives and grantee activities are aligned with the objectives of the Third Frontier Project, as appropriate, so that new and existing Third Frontier Project programs work together productively. These programs are described below. Please refer to Table 2 at the end of this document regarding the specific location of funding for each item.

- **Economic Growth Challenge:** To achieve Ohio's goal to maximize the world-class research, innovation, and technology commercialization capacities of Ohio's public and private institutions of higher education to drive economic growth and create jobs, the CHEE report recommended creating the Economic Growth Challenge. The challenge is made up of three independent but related programs: Research Incentive (formerly Research Challenge), Innovation Incentive, and Technology Commercialization Incentive. This performance-based challenge is created to spur the development of academic research infrastructure by attracting preeminent researchers, and, through enhanced sponsored program funding, attracting external funding from non-state sources. Research Incentive, which will benefit from a five percent increase in state investment, has leveraged an average of \$183 million in research and development investments each year in Ohio from the federal government and private industry. To ensure that this program is aligned with the Third Frontier Project, institutional plans for Research Incentive must demonstrate a significant investment in Third Frontier activities funded at the institution. As much as 10 percent of an institution's Research Incentive program funding could be invested in Third Frontier Project-related activities.
- **Hayes Investment Funds:** The Hayes Investment Fund was created in 1990 and provides capital funds to state assisted colleges and universities and Case Western Reserve University and University of Dayton for research infrastructure (facilities and/or instrumentation). Matching funds (in the form of an interest-free loan or grant) are provided to universities to make their proposals for research grants more competitive by demonstrating additional state support that will help to ensure projects' success. Faculty and graduate students generally apply for these awards, which range in size between \$60,000 and \$3,000,000 each. Every research consortium applying for Investment Fund support must have at least one Third Frontier awardee as a participating research center.
- **Eminent Scholars:** The Eminent Scholars Initiative provides 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. A component of the capital budget provides recipient institutions with additional funds for related capital expenses for research in high-priority fields. Temporary law in the executive budget requires that all new Eminent Scholars be associated with a Wright Center of Innovation, a Biomedical Research and Technology Transfer Partnership Award, or a Wright Capital Project.
- **Priorities in Collaborative Graduate Education (formerly Computer Science Graduate Education):** This program's goals are to make Ohio nationally competitive in graduate study areas that are identified as critical to the state's economy, to increase the amount of federal and industrial funding in research and development in those identified areas, and to increase the number of individuals with expertise in those areas available in Ohio. Identified programs at individual institutions will work collaboratively with the Board of Regents to plan the joint development and operation of programs needed to support Third Frontier Project grant recipients and their collaborators.
- **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 grant proposals for

- external non-state funding more competitive on a national level. As such, the need for high-performance computing facilities and services, including both hardware and software, will be specifically addressed in all Third Frontier Project proposals. Where such facilities and services individually or collectively exceed \$100,000, the center shall convene an independent panel of experts to review the proposal to determine whether the proposed project requirements should be met through its facilities or through other means. OSC also works with private industry to identify business solutions through high-performance computing and modeling, and charges a cost-recovery fee for such services.
- **Ohio Agricultural Research & Development Center (OARDC):** The goal of the OARDC is to enhance Ohio's agricultural industries in terms of competitiveness and profitability. The OARDC, which is 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. Language included in temporary law will ensure that additional funding is distributed through performance-based mechanisms.
 - **Ohio Aerospace Institute (OAI):** OAI advances Ohio's aerospace-related capabilities in research, education, and workforce through industry, university, and government collaboration. This program is a non-profit consortium of nine Ohio universities, the NASA Glenn Research Center in Cleveland, Wright-Patterson Air Force Base in Dayton, and a number of private Ohio companies. Third Frontier Commission staff will encourage the participation of the institute in Wright Center and Biomedical Research and Technology Transfer Partnership Award proposals and in the evolution of funded projects.
 - **Ohio Academic Resources (OARnet):** OARnet, established in 1987, provides Internet access to 88 Ohio higher education institutions and two million Ohioans. Since its founding, OARnet backbone usage has grown more than 100 percent per year. OARnet provides network connectivity between researchers and the Ohio Supercomputer Center. The OARnet appropriation supported the development of the Third Frontier Network during the fiscal year 2004-2005 biennium. On November 30, 2004, Ohio marked its national prominence in computing and connectivity by officially launching the Third Frontier Network, 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.
 - **Coal Research & Development:** This initiative was designed specifically as a large-scale demonstration program with fundamental/applied research as a secondary focus. Its purpose is to develop and deploy near-to-commercial technologies that can use Ohio coal in an economical, environmentally sound manner while supporting the jobs associated with coal production and use.
 - **Thomas Edison Program:** The Edison Program bridges industry and academia to modernize manufacturing and to diversify the economy by growing emerging technology sectors and emphasizes collaborative research and development. The staff of the Ohio Department of Development will encourage collaboration among Edison Centers and institutions seeking Wright Center and Biomedical Research and Technology Transfer Partnership Awards, and in the evolution of funded projects. In addition, Edison Centers and Incubators will provide for the connection of the centers, incubators, and clients, as appropriate, to the Third Frontier Network.

II. The Jobs Cabinet

In his 2004 State of the State Address, Governor Taft announced the formation of the Jobs Cabinet to ensure that every decision made in state government considers the impact on jobs and Ohio's economy. The Jobs Cabinet is focusing on helping those who have lost jobs, enabling employers to find the skilled workers they need to succeed, and cutting red tape through regulatory reform.

The Cabinet's first phase of recommendations included the following elements:

- The Ohio SkillsLink initiative to efficiently and effectively match laid-off workers with jobs opening throughout the State;
- The Hire Smart, Train Smart initiative to assist employers in finding the right employees;
- The Certified for Success initiative to give a stamp of approval to workforce training programs. This initiative will enable Ohio business owners to know that a program's graduates have the skills most needed by the employers;
- Expansion of the quantity and quality of government services available for Ohio businesses on the Internet through the creation of a business services Website, www.Business.Ohio.gov;
- Creation of a Universal Business ID that will simplify interaction between businesses and state regulatory agencies;
- Streamlining of the Ohio EPA permit process for businesses and providing programs to assist companies with compliance; and
- Creation of a coordinated plan for federal priorities to increase the coordination between state agencies to respond to federal regulatory mandates that have potential impact on Ohio business development.

A majority of these initiatives have been implemented and are now providing assistance to Ohio businesses and workers. The remainder of the initiatives will be phased in during 2005. Success stories have already emerged. An expansion project by DaimlerChrysler in Toledo will invest \$535 million in a supplier park, creating 702 new jobs and retaining 2,990 jobs. The project came to fruition with financial incentives from the Department of Development and expedited environmental permits from the Environmental Protection Agency. DHL will expand its facility near Wilmington, thanks to incentives from Development and the Department of Transportation's commitment to build a by-pass. The project will invest \$295 million and create or retain 4,100 full-time jobs. The Bureau of Workers' Compensation will invest \$30.5 million in venture capital firms to help attract high-tech companies to the state. Charter Manufacturing in Cuyahoga Heights received assistance from Development and timely permit reviews by EPA and invested \$90 million to expand its steel manufacturing plant. This project created 106 new jobs and retained 94 existing jobs.

The Jobs Cabinet has also published a resource guide titled *The Department Strategies to Help Ohio's Communities Be Great Places to Live, Work and Raise Families in the 21st Century* to show how each agency is working with communities and businesses and promoting economic opportunities that improve company profits and the prosperity of Ohio's citizens. This information will also be available on the Jobs Cabinet Website, which will be online early in 2005.

The Cabinet is also developing a *Business Resource Directory* to provide concise printed information about state programs that are designed to assist Ohio businesses and Ohio workers. This printed material will provide similar information to that provided at www.Business.Ohio.gov. The *Business Resource Directory* will be available for distribution and use by March 2005.

III. The Ohio Business Development Coalition (OBDC)

In recent years, the competition between states to attract business has intensified. Governor Taft announced the creation of the Ohio Business Development Coalition in 2004 to respond to national and regional trends, as well as dynamic changes occurring within Ohio.

The Coalition is a non-profit organization established to handle the marketing and sales function for Ohio. The legal structure is a 501(c)(6) with a combination of public and private sector funds. This organization will have a self-appointed board of directors with representation from regional economic development professionals, the Ohio Economic Development Association, the business community, and marketing communications professionals. An executive director, hired by the board of directors, will lead the organization and hire a limited number of administrative, sales, research, and marketing communications staff.

The organization is charged with conducting market research to identify targeted industries and sales messages, developing a brand and messages to aggressively sell Ohio as a profitable location for business investment, developing the sales tools and collateral information for Ohio and for targeted industries, marketing the state in coordination with other state agencies and local/regional development organizations, conducting business recruitment and attraction activities, and generating and coordinating the lead generation and intake process. It will also support regional marketing efforts and assist in the development of messages consistent with state efforts, and administer the First Frontier program to ensure that those messages are consistent with state and regional messages.

The 46-member coalition received start-up state funding in 2004, and the state will continue to be an active partner by providing \$5 million per fiscal year to supplement private contributions. Please see Table 3 for additional budget information.

IV. Strengthening the Workforce

Governor Taft recognizes that a strong factor in companies' location decisions is the ability of the workforce to meet the demands of employers. As such, the Governor's 2004 Jobs Bill created the Worker Guarantee Program, which provides state match funding to assess, screen, and train employees for companies creating 100 or more new jobs. This program is continued in the Executive Budget. In addition, the Jobs Bill doubled the Ohio Investment in Training Program, which provides customized training to new and expanding businesses. The Executive Budget provides substantial resources for this program. Finally, Ohio college students are being prepared for jobs in Third Frontier industries with internships in the areas of advanced manufacturing, advanced materials, power and propulsion, instruments controls and electronics, bioscience and information technology.

The state is also making sizable investments in offering affordable workforce training and development through Ohio's system of higher education. The EnterpriseOhio Network, which is made up of 53 technical, community, and branch campuses, works with local employers to provide affordable training, education, and human resource needs that will improve efficiency, competitiveness, and business retention in the state. Jobs Challenge, a Board of Regents initiative, works in tandem with EnterpriseOhio campuses by facilitating partnerships between campuses and employers. Grants provided by these programs support training for employees of new and expanding businesses in information technology and manufacturing. Grants support up to 50 percent of instructional costs, materials, and training-related activities or can cover up to 75 percent of training costs for eligible companies with 100 employees or less. Services offered through EnterpriseOhio Network campuses include: pre-employment screening, job-profiling, employment selection, training needs analysis, employee development and training, and succession planning. Since 1999, EnterpriseOhio campuses have helped 950,000 Ohio workers receive customized job-related training in partnership with their employers, and campuses have served an average of 3,895 companies per year over the last six fiscal years. State funding is continued in the Executive Budget.

Please refer to Table 3 for additional information regarding the specific location of funding for these workforce development activities.

V. Business Development Grants

Business Development Grants, also known as 412 Grants, have long been one of the state's strongest incentives for companies making capital investments that create and/or retain jobs. In fiscal year 2004, 45 companies/communities received \$8.9 million in grants, generating over \$926 million in capital investments. These investments are expected to create nearly 3,700 new jobs with an average hourly wage over \$21.00, and retain over 11,000 jobs. Fiscal year 2005 grants of \$8.7 million have already been awarded to 34 companies/communities, generating over \$1.1 billion in capital investments. As a result, nearly 3,900 jobs are expected to be created with average hourly wages of \$20.35, and over 13,000 jobs are expected to be retained in Ohio. Governor Taft recognizes the value of this funding source and has increased funding significantly, recommending appropriations of \$11.75 million per fiscal year. Please refer to Table 3 for information regarding the specific location of funding for these grants.

Table 1: Funding Information
Third Frontier Project Core Programs

	Agency	Fund	Line Item	Budget Bill
Third Frontier Action Fund	Development	General Revenue Fund	Third Frontier Action Fund (195-422)	Main Operating
Biomedical Research and Technology Transfer Trust Fund	Development	Biomedical Research and Technology Transfer Trust Fund (M87)	Biomedical Research and Technology Transfer (195-435)	Tobacco Revenue
Wright Brothers Capital Fund	Regents	Higher Education Improvement Fund (034)	Third Frontier (CAP-068)	Capital
Innovation Ohio Loan Fund	Development	Innovation Ohio Fund (009)	Innovation Ohio (195-664)	Main Operating
Third Frontier Ballot Initiative	Development	General Revenue Fund (debt service only); other appropriations to follow in implementing legislation	Third Frontier Research & Commercialization Debt Service (195-905); others to be determined	Main Operating/ forthcoming implementing legislation

Table 2: Funding Information
Third Frontier Project Alignment Programs*

	Agency	Fund	Line Item	Budget Bill
Economic Growth Challenge	Regents	General Revenue Fund	Economic Growth Challenge (235-433)	Main Operating
Hayes Investment Funds	Regents	Higher Education Improvement Fund (034)	Hayes Investment Fund (CAP-032)	Capital
Eminent Scholars Initiative	Regents	General Revenue Fund	Eminent Scholars (235-451)	Main Operating
Eminent Scholars Initiative	Regents	Higher Education Improvement Fund (034)	Eminent Scholars (CAP-064)	Capital
Priorities in Collaborative Graduate Education	Regents	General Revenue Fund	Priorities in Collaborative Graduate Education (235-554)	Main Operating
Ohio Supercomputer Center (OSC)	Regents	General Revenue Fund	Ohio Supercomputer Center (235-510)	Main Operating
Ohio Supercomputer Center (OSC)	Regents	Higher Education Improvement Fund (034)	Ohio Supercomputer Center (CAP-030)	Capital
Ohio Agricultural Research & Development Center (OARDC)	Regents	General Revenue Fund	OARDC (235-535)	Main Operating
Ohio Aerospace Institute (OAI)	Regents	General Revenue Fund	OAI (235-527)	Main Operating
Ohio Academic Resource Network (OARnet)	Regents	General Revenue Fund	OARnet (235-556)	Main Operating
Ohio Academic Resource Network (OARnet)	Regents	Higher Education Improvement Fund (034)	OARnet (CAP-070)	Capital
Coal Research & Development	Air Quality Development Authority	Coal Research and Development (046)	Coal Research and Development (898-604)	Main Operating
Thomas Edison Program	Development	General Revenue Fund	Thomas Edison Program (195-401)	Main Operating

*This list shows all appropriation line items for Alignment Programs. It should be noted that not all of the appropriations to these line items will be used entirely for Third Frontier Project activities.

Table 3: Funding Information:
Economic Development Programs

	Agency	Fund	Line Item	Budget Bill
Ohio Business Development Coalition (OBDC)	Development	State Special Projects (4F2)	Promote Ohio (195-676)	Main Operating
Worker Guarantee Program	Development	Job Development Initiatives (5AD)	Worker Guarantee Program (195-668)	Main Operating
Ohio Investment in Training Program (OITP)	Development	General Revenue Fund; Job Development Initiatives (5AD)	OITP (195-434); OITP Expansion (195-667)	Main Operating
Third Frontier Internship	Development	Workforce Development Initiatives (3AE)	Workforce Development Initiatives (195-643)	Main Operating
EnterpriseOhio Network	Regents	General Revenue Fund	EnterpriseOhio Network (235-455)	Main Operating
Jobs Challenge	Regents	General Revenue Fund	Jobs Challenge (235-415)	Main Operating
Business Development Grants	Development	General Revenue Fund	Business Development (195-412)	Main Operating

The Ohio Children's Budget

Overview

In spite of Ohio's serious fiscal challenges, Governor Taft's Executive Budget reflects a significant investment of resources and demonstrates a clear commitment to his highest priority of enabling every child to succeed. More than \$33.7 billion from the fiscal year 2006-2007 budget supports programs and activities for children and their families.

In the fall of 2000, Governor Taft engaged state and local partners to identify a common set of commitments to child well being. These commitments, outlined below, are now part of the state's common language. They guide policy development, align program efforts, and provide the foundation for tracking progress in improving the lives of Ohio's children. Ohio's Commitments to Child Well Being are:

- Expectant Parents and Newborns Thrive
- Infants and Toddlers Thrive
- Children are Ready for School
- Children and Youth Succeed in School
- Youth Engage in Healthy Behaviors
- Youth Successfully Transition into Adulthood

Governor Taft's budget for the fiscal year 2006-2007 biennium sets the stage for meeting long-term commitments by investing now in those areas that leverage the most progress in improving the lives of children and families. Investing in early care and education, addressing barriers to success for children – such as behavioral health issues – and advancing recommendations for primary and secondary education that support students, teachers, and schools are investments that will make a difference for Ohio's future.

Ohio's Early Learning Initiative

The research is clear: high quality early care and education experiences matter. Quality experiences enable young children to build their language and literacy skills in order to enter school ready to read and learn. In an effort to ensure success for the state's most vulnerable children, the state departments of Job and Family Services and Education have worked over the course of the last two years on the Head Start Plus initiative. Part of the fiscal year 2004-2005 Executive Budget, Head Start Plus was designed to:

- Meet the child care needs of working families through full-day, full-year services; and
- Provide children, identified at risk for school failure, with educational experiences to help them enter kindergarten ready for success.

The shift to Head Start Plus presented many implementation challenges, but also an opportunity to move toward an integrated system of early education and care. A variety of factors contributed to lower than expected enrollment in the initiative, and many of those factors, including eligibility, co-payments, and administrative simplification, are addressed in the context of Governor Taft's fiscal year 2006-2007 budget proposal. Even with these implementation challenges, Head Start Plus made progress in integrating systems of early education and care. Specifically, the state departments have worked to:

- Ensure children in subsidized early education and care settings are in programs that meet criteria to help them attain their educational goals;
- Ensure children who need health, development, and support services receive them;
- Increase opportunities for regional professional development; and
- Provide regional early language and literacy specialists to assist teachers and programs in meeting the language and literacy needs of young learners.

To build upon this progress, Governor Taft's budget proposal contains funding of \$213.6 million over the biennium for Ohio's Early Learning Initiative. This initiative will:

- Provide 10,000 children in fiscal year 2006 and 12,000 children in fiscal year 2007 with access to full-day, full-year programming that meets the child care needs of their working families and provides an early learning program to help prepare them for school;
- Support early learning environments for these children based upon early learning program guidelines around children and learning, families and communities, accountability, and evaluation;
- Offer services to TANF eligible families whose income is at or below 185 percent of the federal poverty level;
- Include a public awareness campaign aimed at informing parents about available care options and the importance of early learning experiences for young children; and
- Include a streamlined provider payment process.

Access to Quality Care for Working Families

In fiscal year 2004, the State of Ohio spent over \$410 million on child care for more than 94,000 low-income children of working families. Some of these young children, however, do not have access to child care services that offer the early educational programming young children need to ensure school readiness. In addition to providing early learning services through Ohio's Early Learning Initiative, Governor Taft's budget proposal for the upcoming biennium invests in a number of other initiatives aimed at improving the quality of care for children in out-of-home care, with particular attention to those children being served through the subsidized child care program. These initiatives include:

- First Steps – Ohio's Infant Toddler Initiative – Through an investment of \$2.5 million over the biennium, the state will provide resources, technical assistance, and professional development to providers working with children under age three in areas with school districts classified in academic emergency or academic watch status.
- Early Literacy Initiative – \$6 million over the biennium will be used to provide early literacy professional development and technical assistance to early care and education providers in all settings.
- Step Up To Quality – \$8 million over the biennium will be used to implement a voluntary quality rating system for 1,000 licensed child care providers in six pilot counties across the state. This three-star rating system will assist parents in choosing higher quality centers for their children and will motivate providers to achieve higher standards.

In response to dramatic expenditure growth in the subsidized child care program, a number of cost containment measures were implemented in the fiscal year 2004-2005 biennium. These initiatives limited eligibility and increased parental co-payments to curb expenditures to a level that could be sustained in future years. The state is now in a position to ease some of these cost containment measures. Governor Taft's budget proposal for the fiscal year 2006-2007 biennium includes provisions to increase access to child care for working families. Governor Taft's proposal includes:

- A reduction in co-payments: In February 2005, co-payments for most families will be reduced by at least 10 percent. Some families with incomes below the federal poverty line will experience reductions in co-payments of up to 60 percent;
- An increase in eligibility: On July 1, 2005, intake eligibility for child care assistance will be raised from 150 percent to 185 percent of the federal poverty level; and
- A restructuring in provider reimbursements: This will reflect the costs of providing care in different regions around the state.

Access to Better Care (ABC) Initiative: Improving Behavioral Health Services for Children

Children's behavioral health problems (including mental illness, substance abuse, trauma due to child abuse, and developmental problems) are growing in urgency and impact. These problems are the top adolescent health care challenge (and the top priority of pediatricians), a leading cause of school failure, the major factor in youth suicide, and a growing challenge for Ohio's foster care and juvenile justice systems.

Because of these growing concerns, the members of Governor Taft's Ohio Family and Children First Cabinet Council have been working with advocates, parents, and local officials to assess Ohio's approach to serving children with behavioral problems and supporting their families. This work, commonly referred to as the Access to Better Care (ABC) Initiative, culminated in a set of recommendations for improvements to the behavioral health system for children. After careful review of children's behavioral health care, it is clear that major changes and improvements in the state's approach to at-risk children can be launched with limited – but essential – funding.

Most of the funding proposed to support the ABC Initiative comes from existing resources, redeployed to permit the carefully evaluated testing of solutions that have a track record in communities and other states. Providing limited additional funding to all counties contingent on a collaborative plan that is developed by local officials and parents is essential to assure the most effective and efficient use of allocated funds.

Through a variety of funding sources, Governor Taft's proposed budget includes \$25.8 million in fiscal year 2006 and \$26.9 million in fiscal year 2007 to improve access to and the quality of behavioral health services to children in Ohio.

Through collaboration among parents, advocates, and state and local leaders, the ABC Initiative proposes a carefully designed approach emphasizing three strategies. First, many children's behavioral problems can be prevented if, and only if, parents and other personnel working with young children have the skills to identify and correct potential problems early. Second, when it comes to children's behavioral problems, early intervention in settings where children are most at risk (including foster care and low-performing school districts) is more effective and less costly than waiting for children to "grow out of" serious problem behaviors. Third, effective, collaborative community care can reduce the levels of expensive, and often ineffective, out-of-home and institutional care.

1. Prevention

In the past five years a strong body of research has emerged regarding effective prevention practices. Based upon risk and protective factors, and building upon the strengths of young people, this research demonstrates that prevention programs can assist children and adolescents in avoiding initiation of alcohol, tobacco, and other drug (ATOD) use, reducing ATOD use by those who already have started, managing various mental health disorders, and promoting effective coping skills. This research can be applied to prevention efforts in multiple systems to individuals of all ages. Governor Taft's budget recommendations for the upcoming biennium provide support to communities and schools to focus on prevention and early detection of behavioral health issues in children.

The proposed budget includes:

- \$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 emergency 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; and
- \$225,000 over the biennium to broaden the understanding of, prevention of, and intervention with Fetal Alcohol Spectrum Disorder.

2. Early Intervention

Early childhood is a critical period for the onset of emotional and behavioral impairments. Empirically supported parent training programs help families to identify and address problem behaviors early. Depression among mothers has been shown to negatively influence the mental health of their young children. Collaboration between pediatricians, Help Me Grow, and mental health providers is essential to recognize the signs of behavioral health impairments and provide supports and services to families and children in their homes and in child care settings.

Many Ohio communities are successfully collaborating to support teams that are working to reduce school violence and discipline problems. These school-based approaches have increased academic achievement, improved the school climate, and reduced problem behaviors and school failure. Promoting the early

detection of problems associated with suicide, trauma, and seriously disturbed behavior, especially in settings where children are most at risk (including foster care and low-performing school districts), has proven to be effective, increasing positive school and family outcomes.

Governor Taft's budget recommendations support a number of early intervention activities. These include:

- \$500,000 over the biennium to expand effective parent and caregiver training and education;
- \$300,000 over the biennium to increase awareness regarding 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; and
- \$200,000 over the biennium to expand school-based suicide prevention activities.

3. Treatment

Research shows that a majority of children involved in the juvenile justice system and one in five incarcerated youth is suffering with a major psychiatric disorder. A majority of children in the child welfare system have a behavioral disorder, including serious emotional disturbances that often go undiagnosed. Ohio's child welfare system was cited by the federal government for inadequate mental health services to children in foster care. In some communities in Ohio, parents are forced to relinquish custody of their children in order to obtain needed mental health services.

Collaborative community care can reduce expensive – and often ineffective – out-of-home and institutional care. Many Ohio communities successfully provide such alternatives, and in these communities there is no evidence that parents must resort to “trading custody for care.” Proposed legislative changes will require collaborative and family-centered approaches to care, and limited additional funding will help local communities offer treatment and support services that have proven to be effective. The proposed budget includes:

- \$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 fiscal year 2006 and \$6 million in fiscal year 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; and
- Continued funding for RECLAIM OHIO, which provides flexibility to county juvenile courts to develop community-based programs for juvenile offenders.

Education, the Cornerstone of Success

A number of budget initiatives have been proposed that are related to primary and secondary education. For an in depth explanation of these initiatives, please see Education, the Cornerstone of Success, for the Education Special Analysis.

Children's Budget Inventory

In addition to the investments highlighted in the previous sections, the state continues to make investments in many other programs that improve the lives of Ohio children. The following inventory provides a comprehensive list of

programs, including a description and aggregate funding levels. Programs may impact more than one of the state's commitments to child well being but for this analysis are only listed once.

EXPECTANT PARENTS AND NEWBORNS THRIVE			
		PROPOSED INVESTMENT	
PROGRAM TITLE	PROGRAM DESCRIPTION	FY 2006	FY 2007
Adoption Services	Provides subsidies, services, and reimbursements to support parents who adopt special needs children.	\$ 213,672,985	\$ 219,227,636
Birth Defects Information System	Identifies children with birth defects to ensure they are linked with medical and support services.	\$ 209,129	\$ 209,129
Child Abuse Prevention and Protection Services	Supports investigation and prevention activities to reduce child abuse and neglect.	\$ 102,329,738	\$ 102,268,227
Child and Family Health Services (CFHS)	Provides direct health care and enabling services including perinatal, child health, and family planning, and service coordination to pregnant women and children who are uninsured/underinsured to reduce infant mortality and to improve the health status of women and children.	\$ 11,670,480	\$ 11,670,480
Child Fatality Review (CFR)	Reviews the deaths of all children under 18 years old; collaborates among all groups that serve children to maintain a database of child deaths, and makes recommendations for service or program changes to reduce the incidence of preventable child deaths in Ohio.	\$ 6,500	\$ 6,500
Child Passenger Safety	Provides child passenger safety seats and training on the appropriate use and installation.	\$ 265,894	\$ 265,894
Child Support	Funds child support activities in the state that ensure every child's right to the financial support of both parents.	\$ 444,196,378	\$ 444,010,968
Childhood Lead Poisoning Prevention Program	Screens blood lead levels of children under age six, collects data on all blood lead analyses performed, initiates public health lead investigations for children with elevated blood lead levels, controls lead hazards impacting children under the age of six, and initiates primary prevention activities to eliminate lead hazards.	\$ 2,169,623	\$ 2,169,623
Early Intervention Support	Targets wrap-around services that identify children, birth through age two, who are at risk for or have developmental delays. Service providers and the family work together to develop a service plan that includes language stimulation, physical development, cognitive and sensory development, transportation, family support, and other services.	\$ 7,901,495	\$ 7,916,298

EXPECTANT PARENTS AND NEWBORNS THRIVE			
		PROPOSED INVESTMENT	
PROGRAM TITLE	PROGRAM DESCRIPTION	FY 2006	FY 2007
Family Stability	Supports low-income working families and families that need basic assistance including cash assistance, food assistance programs, subsidized child care, and refugee services.	\$ 918,548,795	\$ 921,162,837
Family Support Services	Provides respite services, home modifications, adaptive equipment, special diets, parent education/counseling, and other specialized support for families to enable children with mental retardation or a developmental disability (MR/DD) to continue to live at home with their families.	\$ 11,949,965	\$ 11,951,749
Foster Care	Supports child welfare costs, including placement of children into foster care, investigation of complaints of child abuse and neglect, and training programs for child welfare workers and foster parents.	\$ 343,440,104	\$ 342,217,273
Genetic Services Program	Provides medical evaluation, counseling, and education to those with or at risk for genetic disorders.	\$ 1,498,873	\$ 1,498,873
Health Care	Provides managed care, care within institutional settings, and care within community settings.	Funding for this program has been included in the Infants and Toddlers Thrive.	
Help Me Grow	Supports home visits by registered nurses to first-time and teen parents to provide information on community resources, and conducts newborn and maternal assessments.	\$ 67,086,876	\$ 67,101,399
Metabolic Formula Program	Provides metabolic formula to Ohioans with phenylketonuria (PKU) or homocystinuria.	\$ 606,369	\$ 606,370
Ohio Infant Mortality Reduction Initiative (OIMRI)	Targets census tracts or neighborhoods with high-risk, low-income pregnant women for first trimester prenatal care, and utilizes the community care coordination model to empower communities to eliminate health disparities. Professional community care coordinators (CCC) provide a cultural link to community resources through family-centered services to achieve success in health, education, and self-sufficiency. The CCCs make regular home visits during pregnancy and through the baby's second year of life to identify and reinforce risk reduction behavior and make appropriate referrals to assure positive pregnancy and infant health outcomes.	\$ 1,241,418	\$ 1,241,418

EXPECTANT PARENTS AND NEWBORNS THRIVE			
		PROPOSED INVESTMENT	
PROGRAM TITLE	PROGRAM DESCRIPTION	FY 2006	FY 2007
Pregnancy Risk Assessment Monitoring System (PRAMS)	Provides a survey of Ohio women giving birth to live infants.	\$ 174,141	\$ 174,141
Prenatal Smoking Cessation Program	Partners with the March of Dimes, American Cancer Society, the Smoke-Free Families National Dissemination Office, and American College of Obstetricians and Gynecologists to reduce the rate of smoking among pregnant women by designing and building systems necessary to support both prenatal care providers and pregnant and postpartum women to make changes. Women, Infant, and Children program (WIC) and Help Me Grow will provide access to their existing systems, services, and materials for prenatal and postpartum tobacco treatment.	\$ 80,000	\$ 80,000
Primary Care Safety Net Program	Provides health care service to uninsured children through federally qualified health centers (FQHCs).	\$ 443,252	\$ 443,252
Regional Perinatal Center Program	Promotes access to evidence-based and risk-appropriate perinatal care to women and their infants through regional activities to reduce perinatal mortality and morbidity. The program provides funding to support regional perinatal system development, including the coordination of resources for prenatal, delivery/birth, postpartum, and newborn care.	\$ 452,327	\$ 452,327
Sickle Cell Services	Provides newborn screening follow-up, hemoglobin counseling, education, and referrals for services.	\$ 853,238	\$ 853,238
Specialty Medical Services Program (SMS)	Provides a "safety net" of diagnostic specialty services provided to low-income children in medically underserved areas; provides services for children referred for developmental delays, hearing, neurology, orthopedic, and vision; also oversees hearing and vision screenings for pre-kindergarten and school-aged children.	\$ 370,002	\$ 370,004
Sudden Infant Death Syndrome (SIDS) Program	Reports on all SIDS deaths and provides bereavement services as well as prevention activities targeted to the African American community.	\$ 704,646	\$ 704,647
Title X Family Planning Program	Provides preventive health services, increases inter-pregnancy intervals, and increases intended pregnancies in order to reduce poor birth outcomes.	\$ 3,585,234	\$ 3,585,234

EXPECTANT PARENTS AND NEWBORNS THRIVE			
		PROPOSED INVESTMENT	
PROGRAM TITLE	PROGRAM DESCRIPTION	FY 2006	FY 2007
Tobacco Risk Reduction	Provides assessment, training, and technical assistance for prenatal smoking cessation program.	\$ 89,400	\$ 89,400
Universal Newborn Hearing Screening	Supports birthing hospitals and freestanding birthing centers that perform hearing screenings on infants.	\$ 131,365	\$ 131,365
Women, Infants, and Children (WIC)	Provides nutrition education, breastfeeding education and support, highly nutritious food items, and referral to health and human services programs.	\$ 219,157,154	\$ 219,157,154
Women's Grants for Alcohol and other Drug Treatment	Provides residential and outpatient treatment, as well as education, outreach, interim and prevention services to women with dependent children, pregnant women, and adolescent women.	\$ 16,558,385	\$ 16,558,385
TOTAL EXPECTANT PARENTS AND NEWBORNS THRIVE		\$ 2,369,393,766	\$ 2,376,123,821

INFANTS AND TODDLERS THRIVE			
		PROPOSED INVESTMENT	
PROGRAM TITLE	PROGRAM DESCRIPTION	FY 2006	FY 2007
Bureau for Children with Medical Handicaps (BCMh)	Provides treatment, diagnostic services, and service coordination to children with medically handicapping conditions.	\$ 32,249,732	\$ 32,312,010
Child Care	Provides child care subsidies to working families, funds projects and programs to improve the quality of child care and promote early literacy, licenses and regulates child care settings, and administers the child care subsidy program.	\$ 545,633,009	\$ 570,608,864
Health Care	Provides managed care, care within institutional settings, and care within community settings.	\$ 2,480,814,388	\$ 2,807,272,596
Immunization	Reduces or eliminates vaccine-preventable diseases through timely immunizations and disease control; provides vaccines to local health departments and private providers; conducts immunization assessments; provides education and materials, and operates an immunization registry.	\$ 16,870,553	\$ 17,697,591
Infant Hearing Program	Funds nine regional programs that provide follow-up on all newborns who do not pass hearing tests. Infants with confirmed hearing loss receive weekly home visits and continued information.	\$ 1,828,251	\$ 1,828,251
TOTAL INFANTS AND TODDLERS THRIVE		\$ 3,077,395,933	\$ 3,429,719,312

CHILDREN ARE READY FOR SCHOOL			
		PROPOSED INVESTMENT	
PROGRAM TITLE	PROGRAM DESCRIPTION	FY 2006	FY 2007
Academic Content Standards	Describes what Ohio expects all of its students to know and be able to do as they progress from preschool through elementary, middle, and high school. The State Board of Education has adopted academic content standards in English language arts, mathematics, science, social studies, technology, fine arts, and foreign languages.	\$ 2,737,928	\$ 2,763,730
Child Care Licensing	Licenses and inspects more than 1,900 preschool and school-age childcare programs operated by school districts, chartered nonpublic schools, and county boards of Mental Retardation and Developmental Disabilities (MR/DD).	\$ 1,302,495	\$ 1,302,495
Community Alternative Funding Sources Program (CAFS)	Enables county boards of MR/DD and school districts to access federal Medicaid matching dollars for certain habilitative services provided to Medicaid-eligible children with MR/DD. Eligible services include physical and occupational therapy, psychology services, nursing, social work/counseling, speech, language pathology, and transportation.	\$ 67,532,212	\$ 56,239,949
Dentist Training Program	Development of a training program for dentists working in clinics that treat high-risk children.	\$ 441,946	\$ 441,946
Early Childhood Mental Health	Funds consultation and training for early childhood programs, such as Head Start, child care, or public and private pre-schools, to help caregivers address behavioral healthcare needs.	\$ 1,400,000	\$ 1,400,000
Early Learning Programs	Provides comprehensive developmental and educational services for low-income preschool children from ages three to five years. This includes the Early Childhood Education programs, the Early Learning Initiative, and Even Start programs.	\$ 123,475,686	\$ 142,351,686
Education Clinic	Provides assessment services for blind or visually impaired students to local school districts as requested.	\$ 398,354	\$ 405,034
Foster Grandparent	Provides individual support in various educational settings between Ohioans age 60 and older with exceptional and special needs children.	\$ 2,117,191	\$ 2,124,763
Health Care	Provides managed care, care within institutional settings, and care within community settings.	Funding for this program has been included in Infants and Toddlers Thrive.	
Injury Prevention	Provides surveillance of morbidity and mortality data relative to children's injuries.	\$ 186,600	\$ 191,430

CHILDREN ARE READY FOR SCHOOL			
		PROPOSED INVESTMENT	
PROGRAM TITLE	PROGRAM DESCRIPTION	FY 2006	FY 2007
Model Curricula	Creates model lesson plans at the state level for use by school districts to develop local courses of study. The models, developed by committees of educators, parents, business, and community leaders, reflect Ohio's academic content standards.	\$ 8,328,276	\$ 8,375,850
Observation and School Visits	Allows for the observation of blind and visually impaired children in order to develop and recommend the optimal education plan to suit their individual needs.	\$ 5,049	\$ 5,049
Olweus Bullying Prevention Program	Implements a prevention pilot program designed to reduce and prevent bully/victim problems among students at school.	\$ 15,000	\$ 15,000
Pre-Kindergarten Special Education	Provides preschool special education services to meet the needs of children with disabilities, ages three through five. Districts are mandated under federal law to provide a free and appropriate public education to these children.	\$ 95,678,739	\$ 96,470,680
Preschool Services for the Deaf	Provides preschool education to deaf, hard-of-hearing, and hearing students.	\$ 513,500	\$ 513,500
Save Our Sight – Children's Vision and Protective Eyewear Program	Provides training, certification, and equipment for vision screeners; provides protective eyewear for youth sports and school activities; develops and provides eye health and safety programs for schools.	\$ 1,468,406	\$ 1,468,406
TOTAL CHILDREN ARE READY FOR SCHOOL		\$ 305,601,382	\$ 314,069,518

CHILDREN AND YOUTH SUCCEED IN SCHOOL			
		PROPOSED INVESTMENT	
PROGRAM TITLE	PROGRAM DESCRIPTION	FY 2006	FY 2007
Access to Better Care (ABC) Initiative	New GRF funding for children's behavioral health, other ABC funding is included in other agency budgets from a variety of funding sources.	\$ 6,365,265	\$ 7,365,265
Access to Dental Care Grants	Provides financial assistance for start-up or significant expansion of safety net dental clinics.	\$ 1,095,000	\$ 1,095,000
Alternative Education Mental Health Grants	Provides mental health assessment, prevention, early intervention, and treatment services for at-risk youth in alternative education settings.	\$ 1,300,000	\$ 1,300,000
Alternative Education Programs	Brings districts and community partners together to develop alternative education strategies for at-risk children and youth who have been suspended or expelled, dropped out of school or are at risk of dropping out, habitually or chronically truant, disruptive in class, on probation from the juvenile court, and/or on parole from a Department of Youth Services (DYS) facility.	\$ 13,391,162	\$ 13,391,162
Basic Education for the Disadvantaged (Title I)	Enables schools to provide opportunities for disadvantaged children to acquire the knowledge and skills in the state's academic content standards. Nearly all districts receive basic grants based on the state's per-pupil expenditure for education and the number of school-age children from low-income families.	\$ 440,260,178	\$ 461,026,070
Bus Purchase	Provides funds to assist districts in purchasing school buses to provide safe transportation for school-age students. Funding is based on the number of pupils transported, total mileage, road quality and district wealth, as measured by district income and property value.	\$ 8,600,000	\$ -
Center for Learning Excellence	Enhances students' academic performance by implementing effective strategies that address the educational, social, emotional, and behavioral needs of children through statewide technical assistance.	\$ 295,000	\$ 295,000
Certification and Licensure	Ensures through licensing standards that each student is served by caring, competent, and qualified education professionals who meet the highest academic and ethical standards of the profession.	\$ 3,160,417	\$ 3,230,503

CHILDREN AND YOUTH SUCCEED IN SCHOOL			
		PROPOSED INVESTMENT	
PROGRAM TITLE	PROGRAM DESCRIPTION	FY 2006	FY 2007
Classroom Facilities Assistance Program	Allocates matching funds and provides oversight and technical assistance to school districts for a "full-district fix" to build new or renovate existing facilities.	\$ 197,644,182	\$ 228,827,084
Cleveland Scholarship and Tutoring	Provides scholarships and tutoring for students residing in the Cleveland Municipal School District to attend private schools or public schools in adjacent school districts.	\$ 19,201,887	\$ 20,501,887
Community School Loan Guarantee Program	The Guaranteed Loan Program provides community schools with a state guarantee for a loan to make facilities improvements.	\$ 31,201	\$ 31,201
Community Schools	Supports community schools with start-up grants and provides sponsor training, monitoring, and oversight. Also referred to as charter schools, these are independent public schools operated according to a contract negotiated with a sponsor.	\$ 17,442,094	\$ 16,942,094
Developmentally Handicapped Education Program	Provides classroom instruction at OSB for children who are visually impaired and cognitively handicapped. To support their ability to learn, children are provided speech, occupational, and physical therapy, orientation and mobility, and adaptive physical education.	\$ 689,025	\$ 690,570
Education Accountability	Creates and operates an effective education accountability system including a standard Local Report Card for all public schools and districts that compiles student performance indicators and a State Report Card that contains the results and specific education improvement priorities.	\$ 4,535,537	\$ 7,113,977
Education Management Information System	Collects student, staff, course, program, and financial data from Ohio's public schools.	\$ 15,674,805	\$ 15,674,805
Educational Technology State Grants	Helps districts and schools integrate technology into the English language arts and mathematics academic content standards for grades K-8.	\$ 20,800,000	\$ 20,800,000
Educator Preparation	Supports colleges and universities to ensure that teachers understand Ohio's academic content standards and are able to increase student achievement. Prospective teachers are tested in professional knowledge and teaching content area prior to licensure.	\$ 2,826,738	\$ 2,834,198

CHILDREN AND YOUTH SUCCEED IN SCHOOL			
		PROPOSED INVESTMENT	
PROGRAM TITLE	PROGRAM DESCRIPTION	FY 2006	FY 2007
Educator Recruitment	Provides a statewide recruiting plan that will build a quality workforce and reduce critical shortages and turnover of highly qualified educators, especially in areas of greatest need (e.g., high-poverty rural and urban districts).	\$ 2,126,740	\$ 2,126,740
Educator Retention	Creates a quality workforce and reduces critical shortages and turnover. This program includes National Board Certification, which rewards teachers for achieving high levels of expertise, and knowledge/skill-based compensation programs to support reforms that restructure schools in an effort to retain and motivate talented teachers.	\$ 8,100,000	\$ 8,500,000
Educator Training in Schools	Provides funding for educator training at the school district/building level, targeted toward increasing teacher knowledge of the academic content standards and building the capacity of educators to implement best practice instructional strategies and techniques.	\$ 111,689,000	\$ 111,689,000
Energy Conservation Program	Allows school districts to borrow funds for making energy efficiency improvements to their buildings.	\$ 35,049	\$ 34,472
English Language Readiness	Provides assistance to school districts to meet the special language needs limited-English proficient (LEP) students.	\$ 8,133,498	\$ 8,633,498
Entry Year	Provides a yearlong professional growth experience for newly licensed teachers and principals.	\$ 9,515,817	\$ 9,515,817
Exceptional Needs Program	Provides funding and oversight to low-wealth school districts to renovate or replace individual buildings.	\$ 16,016,269	\$ 18,926,294
Expedited Local Partnership Program	Provides funding and oversight to school districts not yet eligible for the Classroom Facilities Assistance Program to move forward with the renovation or construction of their school facilities; funds spent locally on this program will be credited to districts.	\$ 1,345,940	\$ 1,333,973
Family and Children First Council	Supports local Family and Children's First Councils.	\$ 1,760,000	\$ 1,760,000

CHILDREN AND YOUTH SUCCEED IN SCHOOL			
		PROPOSED INVESTMENT	
PROGRAM TITLE	PROGRAM DESCRIPTION	FY 2006	FY 2007
Formula Aid	Provides the main source of state foundation payments to all public school districts in the state. This funding helps support the general operating expenses of school districts and other educational entities. Allocations are based on the formula aid methodology, which promotes funding equity among districts and includes a required local share.	\$ 5,041,795,777	\$ 5,111,567,880
General School Facilities Assistance Program	Programs supported by this request include the Emergency Assistance Program and the Big Eight Program.	\$ 12,537,594	\$ 14,928,821
Gifted Pupil	Focuses on identifying and serving students who perform or show potential for performing, at remarkably high levels of accomplishment compared to others of their age, experience, or environment. Services include resource rooms, self-contained classrooms, and accelerated coursework.	\$ 47,999,668	\$ 48,246,893
Hand to Hand	Assists families who have children with multiple behavioral health needs in navigating child-serving systems to access needed services.	\$ 50,000	\$ 50,000
Health Care	Provides managed care, care within institutional settings, and care within community settings.	Funding for this program has been included in Infants and Toddlers Thrive.	
Health Care Services for the School for the Blind (OSB)	Provides direct nursing and medical services to all students attending OSB to support their learning potential.	\$ 440,396	\$ 440,396
High School Improvement	Assists districts in high school transformation projects including High Schools That Work (HSTW), with the goal to raise the academic and technical achievement of students pursuing a career-technical education program.	\$ 8,202,050	\$ 11,381,682
Individual Option Waiver program	Provides community-based support to children with MR/DD who otherwise would need more expensive institutional services in an Intermediate Care Facility/Mental Retardation (ICF/MR) facility. Services include homemaker/personal care, respite care, supported employment services, environmental accessibility adaptations, transportation, specialized services, assistive, equipment, social work, and interpreting services.	\$ 5,803,553	\$ 5,803,553

CHILDREN AND YOUTH SUCCEED IN SCHOOL			
		PROPOSED INVESTMENT	
PROGRAM TITLE	PROGRAM DESCRIPTION	FY 2006	FY 2007
Innovative Education Program Strategies	Provides funding to enable state and local educational agencies to implement promising educational reform programs to meet the special educational needs of at-risk and high-cost students.	\$ 11,800,000	\$ 11,800,000
Joint Vocational Facilities Assistance Program	Provides funding and oversight to joint vocational school districts for the acquisition of classroom facilities suitable to their vocational education programs.	\$ 125,782	\$ 124,340
Literacy Educator Training	Provides teachers with training in effective instructional methods, including research-based techniques, standards-based approaches, diagnostic assessments, and interventions. The program includes the State Institutes for Reading Instruction (SIRI), which provides intensive, year-round training opportunities for teachers statewide.	\$ 18,086,194	\$ 18,086,194
Literacy Intervention	Strives to ensure that every child in Ohio reads at his or her grade level or higher. Students benefit from research-based prevention and intervention services, being in a literature-rich environment that includes age-appropriate books and materials, the services of tutors and paraprofessionals, and support in the community and at home.	\$ 45,176,533	\$ 45,176,533
Local Tax Supplement	Provides statutory payments to school districts to reimburse them for reductions in local taxpayers' tax bills and for hold harmless payments during the phase out of certain tangible property taxes.	\$ 950,254,509	\$ 1,077,980,840
Mathematics Educator Training	Provides intensive teacher training in mathematics through the Ohio Mathematics Academy Program (OMAP).	\$ 7,713,028	\$ 7,732,142
Mental Health Network for School Success	Supports six regionally based organizations providing consultation, training and technical assistance to schools and community systems.	\$ 100,000	\$ 100,000
Multi-Handicapped Education Program	Provides classroom instruction at the Ohio School for the Blind for children with multiple handicaps in addition to visual impairment. The main focus is to maximize communication skills, orientation and mobility, and daily living skills.	\$ 1,173,900	\$ 1,179,472

CHILDREN AND YOUTH SUCCEED IN SCHOOL			
		PROPOSED INVESTMENT	
PROGRAM TITLE	PROGRAM DESCRIPTION	FY 2006	FY 2007
Nonpublic School Payments	Provides financial assistance to chartered nonpublic schools for required administrative activities, secular materials and services on the same basis as those provided to public school students, and for the replacement of mobile units.	\$ 188,195,120	\$ 192,493,042
Observation and School Visits	Provides for the Ohio School for the Blind personnel to observe visually impaired students in classrooms at local school districts to make instructional and program recommendations for the optimal learning plan.	\$ 20,147	\$ 22,147
Ohio Choice Scholarships	Provides scholarships for students attending urban schools (Cleveland has a separate program) where two-thirds of students have been failing math and reading assessments for the past three years, to attend chartered, nonpublic schools.	\$ -	\$ 9,000,000
Ohio Educational Computer Network	Consists of 23 data acquisition sites that provide services to facilitate the use of computers and information in both administrative and instructional settings for member school districts.	\$ 29,676,964	\$ 29,676,964
Poverty-Based Assistance	Provides funds to school districts that incur higher educational costs because of a high concentration of economically disadvantaged students. For qualifying districts, the program includes funding for intervention, dropout prevention, community engagement, professional development, limited-English proficiency (LEP) assistance, class size reduction, and all day kindergarten.	\$ 422,226,289	\$ 469,100,571
Preparing Tomorrow's Teachers to Use Technology (PT3)	Provides resources to ensure that higher education faculty understand the International Society for Technology in Education (ISTE) standards for teachers and K-12 students and have the tools/resources necessary to ensure that students in teacher preparation programs have the ability to use technology as a learning tool. The teacher technology funds focus primarily on professional development and on the development of relevant skill modules housed on the Math and Science Resource Center Website.	\$ 523,129	\$ 523,129

CHILDREN AND YOUTH SUCCEED IN SCHOOL			
		PROPOSED INVESTMENT	
PROGRAM TITLE	PROGRAM DESCRIPTION	FY 2006	FY 2007
Professional Conduct	Supports activities that are designed to eliminate conduct considered unbecoming of a professional.	\$ 1,776,139	\$ 1,824,274
Professional Development	Supports training to teachers in local school districts working with blind, deaf-blind, and visually impaired students.	\$ 80,510	\$ 73,932
Regional Services and Technical Assistance	Builds partnerships with school districts and buildings most in need. Regional specialists help districts develop and implement Continuous Improvement Plans that result in increased student achievement. Intervention is provided to the lowest-performing districts and school buildings in the state based on the results of the Local Report Card.	\$ 27,229,511	\$ 27,379,240
Residential Facilities Waiver Program	Provides community-based residential support to children with MR/DD who need an ICF/MR level of care. Services provided include direct supervision, skill development, transportation, and adaptive equipment.	\$ 21,071,288	\$ 18,462,575
Safety Net Dental Clinic Grants	Supports public health dental clinics serving children without access to dental care.	\$ 539,856	\$ 539,856
School District Fiscal Management Services	Distributes funds to school districts and other educational providers and provides financial information and technical assistance to help school districts, community schools, and nonpublic schools manage their fiscal resources.	\$ 55,018,081	\$ 54,220,185
School Nursing Services	Provides school nursing consultation and training. Assists with school nursing policy development and recommendations including, but not limited to, medication administration, disease reporting, and management of chronic illnesses such as asthma, diabetes, and injury prevention.	\$ 630,788	\$ 630,788
School Safety	Reduces drug, alcohol, and tobacco use and violence in Ohio's schools to improve indicators that reflect safe and supportive learning environments and supports a state and regional network of resources to coordinate training and provide technical assistance.	\$ 15,398,521	\$ 15,398,521
School Technology	Promotes educational achievement through technology.	\$ 22,243,176	\$ 21,668,176

CHILDREN AND YOUTH SUCCEED IN SCHOOL			
		PROPOSED INVESTMENT	
PROGRAM TITLE	PROGRAM DESCRIPTION	FY 2006	FY 2007
School-Based Dental Sealant Program	Reduces tooth decay by providing dental sealants on the molars of second, third, sixth, and seventh graders in high poverty levels. With parental consent, a dentist also performs screenings to determine if teeth need additional treatment.	\$ 750,000	\$ 750,000
Services for Severely Emotionally Disturbed and At-Risk Children and Youth	Funds are used by local mental health boards to address priority needs of children and families, such as outpatient counseling and family therapy services.	\$ 170,691,645	\$ 177,807,494
Special Education Funding	Ensures a free and appropriate public education for all students with disabilities, as mandated by the federal Individuals with Disabilities Education Act (IDEA). The general principles include raising the expectations for children with disabilities, ensuring access to and progress in the general curriculum, strengthening the role of parents, and ensuring that families have meaningful opportunities to participate in their child's education.	\$ 989,851,127	\$ 1,093,953,268
Standard Hearing Impaired Education Program	Provides for the implementation of classroom instruction and related services at the Ohio School for the Deaf, such as American Sign Language and independent living skills, by specially certified personnel for deaf and hard of hearing students.	\$ 1,281,983	\$ 1,281,983
Standard Visually Impaired Education Program	Provides for the implementation of classroom instruction and related services at the Ohio State School for the Blind, such as Braille and independent living skills, by certified personnel for blind and visually impaired children.	\$ 3,953,023	\$ 4,014,694
Student Assessments	Provides for the development and administration, printing, distributing, collecting, scoring, and reporting of proficiency, achievement, diagnostic, and graduation tests.	\$ 76,226,265	\$ 81,995,734
Student Intervention and Extended Learning	Provides extended learning opportunities for students at risk of not passing proficiency tests, and reading intervention for students who are struggling and for those who require alternative strategies to succeed in their education.	\$ 32,282,054	\$ 32,282,054
Targeted Education for the Disadvantaged	Provides targeted support to enable schools to provide opportunities for disadvantaged children to acquire the knowledge and skills contained in the state's content and student performance standards that all children are expected to meet.	\$ 10,302,284	\$ 10,302,284

CHILDREN AND YOUTH SUCCEED IN SCHOOL			
		PROPOSED INVESTMENT	
PROGRAM TITLE	PROGRAM DESCRIPTION	FY 2006	FY 2007
Teacher Improvement Initiatives	Provides in-service and pre-service math and science teacher improvement programs through six Centers of Excellence, the Mathematics and Science Evaluation and Assessment Center, OSI-Discovery, and the Porter-Lake County Science Center.	\$ 1,647,635	\$ 1,647,635
Transportation Operating Cost	Reimburses the operational costs of transporting students to and from education entities and also ensures that bus drivers receive appropriate preservice training and recertification training.	\$ 412,330,728	\$ 420,577,343
Urban School Improvement	Builds capacity by setting standards, integrating technical assistance, brokering professional development, and assessing the results for school districts and buildings. One program, Project GRAD (Graduation Really Achieves Dreams), reduces the dropout rate by addressing the academic and social problems of urban students.	\$ 315,000	\$ 315,000
Youth Education through Department of Youth Services (DYS) Facilities	Funds education efforts for over 1,700 committed youth in DYS facilities to help them receive diplomas and complete achievement testing in accordance with the No Child Left Behind Act of 2001.	\$ 19,211,361	\$ 18,808,189
TOTAL CHILDREN AND YOUTH SUCCEED IN SCHOOL		\$ 9,566,766,412	\$10,002,986,434

CHILDREN AND YOUTH ENGAGE IN HEALTHY BEHAVIORS			
		PROPOSED INVESTMENT	
PROGRAM TITLE	PROGRAM DESCRIPTION	FY 2006	FY 2007
ADAMHS/ADAS Per Capita/Needs Board Allocations	Supports prevention and treatment programs for those abusing alcohol and/or other drugs by distributing funds to local Alcohol, Drug Addiction, and Mental Health Boards that then contract with local treatment and prevention agencies to provide services.	\$ 9,129,871	\$ 9,129,871
Adolescent Alcohol and Other Drug Treatment Grants	Supports programs that provide specialized treatment services to adolescents.	\$ 1,176,000	\$ 1,176,000
Adolescent Health and Healthy Ohioans/ Buckeye Best Program	Implements the Ohio Youth Risk Behavior Survey which measures health behaviors of students in grades nine through twelve; in addition, the adolescent health program provides training to schools and local health department staff on the development of healthy behavior messages.	\$ 35,000	\$ 35,000
Alcohol and Drug Addiction Prevention and Treatment Medicaid Services	Provides reimbursement for alcohol and other drug treatment services to eligible children.	\$ 3,810,000	\$ 3,810,000
Center for Innovative Practice	Coordinates Centers of Excellence, implementing multi-system intensive family therapy and community-based treatment services for juvenile offenders with anti-social behavior.	\$ 200,000	\$ 200,000
Child and Adult Care Programs	Provides reimbursement for nutritious snacks as well as breakfast, lunch, and dinner to children enrolled at participating day care centers, and after-school programs.	\$ 66,687,068	\$ 68,014,203
Community Prevention Grants	Addresses prevention issues at the state and local levels by promoting activities that address federal prevention strategies.	\$ 1,729,438	\$ 1,729,438
Community Treatment Grants	Provides grants to address special alcohol and drug addiction treatment issues at the local level.	\$ 12,700	\$ 12,700
Drug Free Community Coalitions	Provides funding support to assist local grassroots prevention efforts.	\$ 515,000	\$ 515,000
Family and Juvenile Drug Courts	Brings accountability to the treatment process with judicial monitoring to foster offender engagement in treatment. Family drug courts serve parents charged with child abuse, neglect or dependency. Juvenile drug courts serve felony, misdemeanor, or juvenile offenders.	\$ 2,209,663	\$ 2,209,663

CHILDREN AND YOUTH ENGAGE IN HEALTHY BEHAVIORS			
		PROPOSED INVESTMENT	
PROGRAM TITLE	PROGRAM DESCRIPTION	FY 2006	FY 2007
Family and Juvenile Drug Courts	Brings accountability to the treatment process with judicial monitoring to foster offender engagement in treatment. Family drug courts serve parents charged with child abuse, neglect, or dependency. Juvenile drug courts serve felony, misdemeanor, or juvenile offenders.	\$ 2,209,663	\$ 2,209,663
Health Care	Provides managed care, care within institutional settings, and care within community settings.	Funding for this program is captured under Infants and Toddlers Thrive.	
Higher Education Alcohol and Other Drug Prevention	Addresses multiple problems on college campuses related to underage use of alcohol and high-risk use of alcohol by adults.	\$ 330,000	\$ 330,000
Medicaid Adolescent Rehabilitation Program (MARP)	Provides funding for alcohol and drug addiction treatment services to Medicaid-eligible adolescents in Cuyahoga County.	\$ 192,000	\$ 192,000
Ohio Resource Network	Develops and distributes alcohol, tobacco, and other drug materials, training programs, and provides technical assistance to prevention professionals, teachers, parents, and volunteers.	\$ 832,000	\$ 832,000
Parents Awareness Task Force	Recognizes the critical role parents play in shaping a child's attitudes and beliefs regarding the use and abuse of alcohol, tobacco, and other drugs, and supports efforts to promote the involvement of parents in prevention activities.	\$ 30,000	\$ 30,000
PRIDE Scholarships	Provides scholarships for youth from Ohio to attend a World PRIDE Drug Prevention conference.	\$ 225,000	\$ -
Red Flags	Supports comprehensive school-based adolescent depression awareness and intervention programs for middle school students.	\$ 110,000	\$ 110,000
Residential Program and Services for the School for the Blind (OSB)	Supports implementation of the residential program for students residing at OSB. The main focus is the development of daily living skills to prepare for independent living upon graduation.	\$ 2,151,006	\$ 2,159,414
Residential Program and Services for the School for the Deaf (OSD)	Supports implementation of the residential program for students residing at OSD. The main focus is the development of daily living skills to prepare for independent living upon graduation.	\$ 837,252	\$ 837,252

CHILDREN AND YOUTH ENGAGE IN HEALTHY BEHAVIORS			
		PROPOSED INVESTMENT	
PROGRAM TITLE	PROGRAM DESCRIPTION	FY 2006	FY 2007
Safe and Drug Free Schools and Communities	Provides support for alcohol and other drug prevention programming implemented through local educational and community-based organizations.	\$ 3,584,932	\$ 3,584,932
School Breakfast	Provides reimbursement to schools participating in the National School Breakfast Program. This program supports low-income students at 2,340 public and nonprofit private schools, camps, and institutions.	\$ 50,117,908	\$ 52,141,467
School Lunch	Provides reimbursement to schools participating in the National School Lunch Program. This program supports low-income students at 4,166 public and nonprofit private schools, camps, and institutions.	\$ 237,730,275	\$ 245,065,295
State Prevention Incentive Grants	Promotes the application of evidence-based alcohol and drug prevention programs at the local level and enhances the prevention system at the state level.	\$ 2,550,000	\$ 2,550,000
Summer Food Programs	Provides meals to low-income children during extended school vacations and summer school.	\$ 5,230,154	\$ 5,339,360
Teen Screen	Funds screening developed by Columbia University to identify youth at risk for suicide and/or undiagnosed mental illness and arrange treatment.	\$ 70,000	\$ 70,000
Temporary Assistance for Needy Families (TANF) Alcohol and Other Drug Treatment	Provides treatment services through the local Alcohol Drug Addiction and Mental Health Service Boards for children at or below 200 percent of the federal poverty level.	\$ 350,012	\$ 350,012
Tobacco Compliance Program (Synar)	Enables the Investigative Unit of the Department of Public Safety to conduct random, unannounced compliance inspections of tobacco outlets to monitor illegal sales of tobacco products to youth.	\$ 300,000	\$ 300,000
Tobacco Risk Reduction	Provides a speaker from the Center for Disease Control to address the Ohio Parent Teacher Association (PTA) Conference on the Division of Adolescent and School Health (DASH) Guidelines.	\$ 30,000	\$ 30,000
Tova's N.E.S.T. (Nutrition, Education, Sleep, Therapy)	Provides six workshops to educate and raise awareness for mental illness within the African American faith community by promoting recovery and resiliency.	\$ 10,000	\$ 10,000

CHILDREN AND YOUTH ENGAGE IN HEALTHY BEHAVIORS			
		PROPOSED INVESTMENT	
PROGRAM TITLE	PROGRAM DESCRIPTION	FY 2006	FY 2007
Treatment Alternatives to Street Crime	Serves as an interface between the criminal justice and addiction treatment communities by identifying chemically dependent offenders, providing assessments, and making referrals for the most appropriate drug treatment.	\$ 4,642,750	\$ 4,642,750
Underage Drinking Prevention	Supports prevention efforts on college campuses related to the underage use of alcohol.	\$ 338,935	\$ 338,935
Urban Minority Alcoholism and Drug Abuse Outreach Programs	Provides culturally specific and bilingual alcohol and other drug prevention services to African-American and Hispanic populations in public housing communities, churches, schools, and grass roots organizations.	\$ 2,296,758	\$ 2,296,758
Youth Lead Prevention	Provides services to build on youth assets and helps to counter problems that effect adolescents.	\$ 277,265	\$ 277,265
Youth Mentoring	Provides services that allow youth to increase their resiliency skills, promote self-empowerment and enable them to cope with environmental stresses that may tempt them to use alcohol, tobacco, and other drugs or to become involved in violence, juvenile crime, and/or failure in school.	\$ 1,687,834	\$ 1,687,834
TOTAL CHILDREN AND YOUTH ENGAGE IN HEALTHY BEHAVIORS		\$ 399,428,821	\$ 410,007,149

YOUTH SUCCESSFUL TRANSITION INTO ADULTHOOD			
		PROPOSED INVESTMENT	
PROGRAM TITLE	PROGRAM DESCRIPTION	FY 2006	FY 2007
Adoption and Safe Family Program	Provides funding to community boards to support substance abuse services for families involved in the child welfare system.	\$ 4,000,000	\$ 4,000,000
Adult Assessment	Provides adults without a high school diploma the opportunity to achieve an equivalent General Education Development (GED) certificate through a national standardized test.	\$ 1,944,360	\$ 1,944,360
Adult Basic and Literacy Education (ABLE)	Provides free instruction in basic literacy, workplace literacy, family literacy, English for speakers of other languages (ESOL) instruction and preparation for the General Educational Development (GED) test.	\$ 27,095,124	\$ 27,095,124
Adult Workforce Education	Teaches basic skills and improves the knowledge and skills provided by adult workforce education and training, through full-time and part-time adult career-technical training programs.	\$ 26,097,566	\$ 26,097,566
Career-Based Intervention Programs (CBIP)	Helps disadvantaged students overcome barriers to career and academic success. The program includes paid work experience or other work-based learning such as service learning and academic instruction for credit or remediation.	\$ 24,999,044	\$ 25,595,638
College Based Career-Technical Education	Extends a career path from the high school to the postsecondary level. Students enroll in a seamless career-technical program, also known as Tech Prep, that begins in high school and continues through an associate's degree in college and beyond.	\$ 13,073,620	\$ 13,073,621
College Readiness and Access	Supports programs designed to improve the ability of high school students to enroll and succeed in college.	\$ 6,375,975	\$ 7,655,425
DYS Institutions	Detains and rehabilitates felony offenders to lower recidivism and provides rehabilitation services.	\$ 176,866,804	\$ 184,293,409
DYS Parole Operations	Supervises juveniles released from correction facilities to fulfill parole requirements such as school attendance or community service.	\$ 14,568,023	\$ 15,177,125
Federal Juvenile Justice Grants	Administers grant programs for juvenile crime prevention, treatment, and rehabilitation to lower delinquency rates.	\$ 7,421,186	\$ 6,518,203
Foster Care – Educational Training Vouchers	Provides education and training vouchers to persons who have aged out of the foster care system.	\$ 2,096,745	\$ 2,096,745

YOUTH SUCCESSFUL TRANSITION INTO ADULTHOOD			
		PROPOSED INVESTMENT	
PROGRAM TITLE	PROGRAM DESCRIPTION	FY 2006	FY 2007
Foster Care – Independent Living	Supports independent living services for older children in the foster care system to help them successfully transition into adulthood and become self-sufficient.	\$ 4,370,543	\$ 4,516,169
Health Care	Provides managed care, care within institutional settings, and care within community settings.	Funding for this program is captured under Infants and Toddlers Thrive.	
Juvenile Court Subsidies	Funds court programs and services as an alternative to commitment to a state DYS institution.	\$ 67,176,675	\$ 67,633,628
K-12 Career Development	Helps students identify initial educational and career goals, and develop the skills necessary to make informed career and educational decisions throughout life. Skills are developed through classroom integration activities as well as career exploration experiences.	\$ 1,453,925	\$ 1,453,925
Secondary Workforce Development Programs	Provides a combination of academic and technical courses or experiences based on broad career fields, such as agriculture and environmental systems, business and administrative services, engineering and science technologies health science; information technology, law and public safety, and manufacturing technologies.	\$ 248,745,298	\$ 257,235,283
Social Security Block Grant (Title XX) program	Provides counseling, daycare, home-based health services, education, training, information and referral, recreational programs, and transportation services to children with MR/DD.	\$ 250,688	\$ 250,688
Suicide Prevention Coalitions	Addresses suicide prevention strategies based on local needs and available resources through community groups.	\$ 180,000	\$ 180,000
Work and Family Studies	Teaches knowledge and skills that foster adolescent transition into the adult roles of worker, family member, and community member. Students learn the core competencies of solving problems, making decisions, reflective thinking, managing resources, communicating effectively and developing leadership skills.	\$ 30,023,699	\$ 30,677,302
Workforce Development	Supports activities that strengthen the state's workforce through employment services and workforce development activities aimed at young adults.	\$ 60,310,483	\$ 60,310,493
TOTAL YOUTH SUCCESSFUL TRANSITION INTO ADULTHOOD		\$ 717,049,758	\$ 735,804,704

Introduction

The Medicaid program is a state and federal program that provides medical care for low-income and disabled Ohioans. In Ohio, the state share of the expenditures is approximately 41 percent of total expenditures; the federal government pays for the rest. The federal government also sets minimum eligibility and service levels. This federal control limits Ohio's options in managing the size and scope of the program.

In Ohio, one in four children and one in four seniors over the age of 85 receive services funded through the Medicaid program. Medicaid pays for 33% of all births in the state and covers 70% of all nursing facility care. The Medicaid eligible population continues to grow; in fiscal year 1999 there were just over one million recipients. This number will grow to more than 1.8 million during fiscal year 2007.

Medicaid is the largest single program in the state, accounting for nearly 40 percent of the state's General Revenue Fund (GRF) spending. Over the past five years, most state agencies have seen reductions in GRF appropriations, yet since fiscal year 2000, Medicaid GRF expenditures have increased 73.3%. In order to support services that are vital to Ohioans – such as primary and secondary education and higher education – Medicaid spending must be restrained.

The Need for Cost Containment

During the fiscal year 2004 – 2005 biennium, the administration implemented cost management initiatives that contained Medicaid expenditures by \$339.1 million in fiscal year 2004 and will save a projected \$523.9 million in fiscal year 2005. Since 2003, the Ohio Medicaid program has grown at approximately the same rate as private insurers. These growth rates are impressive given that Medicaid recipients are poorer and more medically fragile than those covered by private insurers. Despite these efforts to contain Medicaid spending, the program continues to grow at rates that cannot be sustained in future years without serious implications for other essential state services.

In fiscal year 2005, Ohio is projected to spend \$10.5 billion on Medicaid services, \$9.6 billion of which is supported by the GRF. The state produces Medicaid baseline projections based on trends in cost, utilization, and caseloads to estimate total program costs. The baseline projection shows that without cost containment initiatives all funds spending on Medicaid will reach \$13 billion in fiscal year 2007. By comparison, all funds spending in fiscal year 2001 was \$6.9 billion. This represents an increase of 87.3 percent from 2001 to 2007.

The baseline estimates are illustrated in the table below.

Baseline Estimates without Cost Management

	FY 05	FY 06	Change	FY 07	Change
Total ODJFS Medicaid Services	\$10.6 billion	\$11.9 billion	12.7%	\$13.0 billion	9.3%
GRF (both federal and state shares)	\$9.6 billion	\$10.7 billion	11.4%	\$11.7 billion	10.0%

The vast majority of Medicaid spending comes from caring for the aged, blind, and disabled (ABD) population, and the fastest growing sector of Ohio's population is seniors aged 60 or older. The most costly component of ABD spending covers nursing home care. Even after fiscal year 2004 – 2005 cost containment initiatives are taken into account, nursing home care expenditures will reach \$2.7 billion in fiscal year 2005, which represents 25.7 percent of all Medicaid expenditures.

Currently Medicaid spending on nursing homes is governed by an out-of-date formula that is locked in Ohio law and is not driven by supply or demand. In fact, spending on nursing homes has risen by approximately 60 percent over the last eight years while the number of people served in nursing homes has **declined** by more than 4,100. The occupancy rate for Ohio nursing homes is 83 percent, which leaves approximately 12,000 empty beds, yet the formula partially subsidizes the cost of this excess capacity.

Budget Approach

The administration has approached the Medicaid budget with an eye on both immediate cost containment efforts and long-term, strategic reform. Several principles guided the identification of cost containment initiatives:

- Protect vulnerable populations, in particular children and senior citizens;
- Contain provider rates, while maintaining critical access to quality services;
- Seek cost containment in areas of the program with the highest costs; and
- Assure access to quality care for Ohio's most vulnerable citizens.

To control the rate of Medicaid growth the administration is implementing several strategies including: 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.

Health care coverage for children will not be directly impacted by the proposed changes.

Combined, these cost management initiatives reduce projected GRF spending (both federal and state shares) by \$813.2 million in fiscal year 2006 and \$1.5 billion in fiscal year 2007.

Provider Rates

The Executive Budget reduces the overall amount paid to nursing facilities by 3 percent in fiscal year 2006 compared to the amount paid in fiscal year 2005. While the Executive Budget includes an aggregate reduction in nursing facility expenditures, rates for individual nursing facilities may increase or decrease depending on existing efficiency measures associated with that particular facility. In fiscal year 2007, the budget will leave the payments frozen at the fiscal year 2006 levels.

To ensure proper funding for the needs of Ohio's Medicaid population, the administration proposes to remove the nursing home reimbursement formula from state statute. This outdated formula directs a disproportionate share of the state's resources to a service that fewer and fewer citizens want or need.

Additionally, the Executive Budget proposes to maintain inpatient hospital and intermediate care facilities for mentally retarded (ICF/MR) payments at their fiscal year 2005 levels. This would leave payments unchanged in both fiscal year 2006 and fiscal year 2007.

The administration will continue to focus on reducing the growth of prescription drug costs. During the fiscal year 2004 – 2005 biennium, Ohio aggressively implemented a preferred drug list (PDL). This initiative steered consumers and prescribing physicians to use medically viable and more cost effective drugs. The PDL also allowed the Medicaid program to maximize rebates from drug manufacturers. During fiscal years 2004 and 2005, the PDL reduced Medicaid's reliance on the GRF by over \$1 billion. In the upcoming biennium the PDL is projected to reduce GRF needs by more than \$1.3 billion. The Medicaid program continues to use generic drugs when financially and medically prudent. Currently, 50 percent of the prescriptions paid through the Medicaid program are for generic drugs.

In addition to the PDL strategy, reductions in prescription drug growth will be recognized through the price Medicaid pays for drugs. Currently, Ohio pays wholesale acquisition cost (WAC) plus 9 percent for trade name drugs. WAC is used as the pricing benchmark for prescription drugs. The Executive Budget will reduce this payment to WAC plus 7 percent.

Services

Reluctantly, the administration finds it necessary to reduce some optional services currently available through the Ohio Medicaid plan in order to achieve needed savings. These services are not federally mandated and were added to the Medicaid plan when the state could afford an expanded list of priorities.

The Executive Budget calls for the elimination of vision and dental coverage for adults. Vision and dental coverage for children will not be affected.

The Disability Medical Assistance program (DMA) serves non-Medicaid eligible individuals who are medication dependent and have an income of \$115 or less per month. This program provided prescription drug, physician, clinic, dental, and durable medical equipment services. This population is not Medicaid eligible and as a result the state does not receive any federal reimbursement for the costs. The Executive Budget proposes to eliminate the DMA program

Eligibility

In June 1999, the legislature extended coverage to parents of Medicaid-eligible children who were earning up to 100 percent of the federal poverty level (FPL). The Executive Budget recommends lowering the eligibility threshold from 100 percent of the FPL to 90 percent of the FPL. This reduction will affect approximately 25,000 parents.

Consumer Liability

Pharmacy co-payments are standard practice in private health insurance plans. Currently, Ohio Medicaid requires all federally allowable Medicaid consumers to pay a \$3 co-payment for drugs not included on the PDL. Federal law prohibits the state from requiring individuals residing in an institutional setting or who are pregnant to pay co-pays. The Executive Budget recommends expansion of existing co-payment requirements by requiring a \$1 co-payment for generic drugs and \$2 for trade name drugs listed on the PDL.

Strategic Investments

As previously stated, the Executive Budget provides responsible reform along with immediate cost containment initiatives. Proposed reforms are intended to:

- Deliver cost-effective and preventive care for low-income children and families;
- Provide cost-effective, non-institutional options for living and receiving health care for senior citizens; and
- Improve the information technology used to manage the Medicaid program.

Managed Care Expansion

The Executive Budget recommends that Ohio join the long list of states providing statewide, mandatory managed care for covered families and children (CFC). Managed care saves money compared to a fee for service model by providing proactive, preventive care. This health care model focuses on preventing illness and diseases instead of responding only after the patient becomes ill. The managed care expansion will transition over 190,000 new individuals to managed care in fiscal year 2006 and an additional 500,000 in fiscal year 2007. Once fully implemented, this initiative will provide improved health care services to over 1.2 million Ohioans.

The Executive Budget proposes to finance this expanded managed care plan through the implementation of an assessment fee on Medicaid managed care providers.

Ohio recognizes the important role of hospitals in Medicaid managed care expansion and has taken strong steps to address concerns of hospitals related to managed care plan solvency. In recent years the state has significantly strengthened the risk-based capital requirements and other financial standards for Medicaid managed care plans operating in the state.

Supporting Seniors – Ohio Access

The Executive Budget continues to fund the programs outlined in the Ohio Access Report. These initiatives pave the way to allow Ohio's needy citizens to receive access to quality services in a non-institutional setting.

The Taft Administration places great importance on protecting the elderly. One of the administration's goals is to provide the opportunity for the elderly to receive health care services in settings other than institutions. To this end, the Executive Budget provides for the expansion of both the PASSPORT and Choices waivers. These programs provide support services to seniors in their own homes who need help with activities of daily living and who would otherwise be forced to live in a nursing home. PASSPORT allows low-income seniors to be cared for at home.

Additionally, the Executive Budget proposes creating an Assisted Living Waiver. This waiver will provide services to seniors who are currently enrolled in either the PASSPORT or Choices waivers, but who would otherwise be forced to move into a nursing home because their need for services has increased. The Assisted Living Waiver will

also be available to individuals who would like to move from nursing facilities. This new waiver will provide services to 1,800 elderly Ohioans.

During the current biennium, the state initiated the Success Project, a pilot program to help people residing in a nursing home to transition back to living in a community setting. The Executive Budget provides funds to continue this program.

Information Technology Investment

Ohio Medicaid is the nation's sixth largest public health care program and provides health care service to over 2 million Ohioans; however, the main computer system used to manage the program and pay claims is over 20 years old, is expensive and difficult to maintain. It is essential that the state has the tools necessary to better manage the program, accurately pay claims, and have the flexibility to make cost saving administrative changes without reducing services to Medicaid recipients. Therefore, the Executive Budget provides the funds necessary to begin building a new Medicaid information management system. Ohio has been identified as an early adopter state by the federal government and is therefore eligible to receive 90 percent matching federal funds for this initiative.

Program Integrity

The Executive Budget recommends several changes to state law to provide improved collections of documented provider over payments, increase its authority to audit providers more than once, and terminate abandoned provider agreements. Combined these changes will allow the state to more effectively collect money owed to the state and maintain updated, accurate provider files.

Medicare Part D

One other significant change will take place in the coming biennium that will have a profound impact on the Medicaid budget. In 2003, the federal government enacted the Medicare Prescription Drug, Improvement and Modernization Act (MMA). The part of the MMA that affects 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. Ohio has negotiated significant rebates from drug manufactures for these prescription drug purchases. 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. This payment from the state to Medicare is commonly referred to as the "clawback" payment.

The federal government is still working on many of the program's details and has until October 2005 to release all of the details relating to Medicare Part D. The administration estimates that the implementation of Medicare Part D will cost Ohio Medicaid \$155.3 million in fiscal year 2006 and \$340.0 million in fiscal year 2007.

The state will not receive federal reimbursement for its clawback payments nor will the state receive rebates for these drugs. In fiscal year 2007, these changes will increase the state's share for these drugs by \$55.7 million.

Conclusion

The fiscal year 2006 – 2007 Medicaid policy initiatives proposed by the Taft Administration focus on restraining growth in every area of the program, including cost, utilization, and caseload. The Executive Budget seeks to broaden access to home and community-based services while providing fair and reasonable reimbursement rates for nursing home care.

The budget allocates \$10.9 billion in fiscal year 2006 and \$11.1 billion in fiscal year 2007 to provide health care coverage for over 1.3 million covered families and children and over 450,000 aged, blind, and disabled Ohio citizens.

Overview

The Governor’s fiscal year 2006-2007 Executive Budget recommendations reflect a number of proposals to increase fees for programs where recommended appropriations exceed revenues generated by current fees. These fee increases, in most cases, are needed to meet operating costs or to cover the cost of providing the service. Fee increase proposals are included for the following agencies:

- | | |
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| Department of Aging
Board of Sanitarian Registration
Department of Agriculture
Department of Health
Public Defenders Commission | Department of Natural Resources
Department of Public Safety
Board of Regents
Environmental Protection Agency |
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Activities that are generally of a regulatory nature or activities that deliver something of value (e.g., products, services) 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. When fees are insufficient to cover the costs of programs, taxpayers must absorb the cost. Additionally, certain fees may be imposed which generate revenues above and beyond the cost of the activity. Such additional revenues are often used to fund programs that have some relationship to the activity from which the revenues are generated. It is with this basic philosophy that the following fees are proposed:

Department of Aging

Proposal

The Department of Aging proposes several fees and penalties affecting nursing homes and residential care facilities. These include an assessment of a \$100 fine for failure by long-term care facilities to complete a long-term care consumer guide survey. This will encourage participation by the long-term care facilities in completing the long-term care consumer guide survey. There also will be an assessment of a \$300 fee on residential care facilities and a \$400 fee on nursing facilities. These funds will be used to fund the long-term care guide. The long-term care guide will provide consumers of long-term care information to determine the best long-term care option.

The department also proposes an assessment of a \$500 fine for denial of access to a long-term care ombudsman. This will serve as a deterrent for long-term care facilities preventing an ombudsman from protecting the rights of long-term care facility residents. In addition, an assessment of a late fee on the \$6 bed fee currently charged to long-term care facilities is proposed. The late fee will double after 90 days.

Description	Current Fee	Proposed Fee
Fine for Failure to Complete Long-Term Care Consumer Guide Survey	\$0	\$100 per incidence
Residential Care Facility Assessment	\$0	\$300 per year
Nursing Home Assessment	\$0	\$400 per year
Fine for Denial of Access to Long-term Care Ombudsman	\$0	\$500 per incident
Late Fee on the \$6 Bed Fee Currently Charged	\$6 per bed	\$12 per bed if 90 days past due

Environmental Protection Agency

Proposal

The Environmental Protection Agency (EPA) is proposing to assess \$1.75 per ton on solid waste that is disposed of in Ohio landfills. The revenue generated from this environmental protection fee will support the operations of many EPA divisions and programs and will provide funding to implement new air pollution control mandates. By fiscal year 2007, the estimated revenue generated from the environmental protection fee eliminates EPA's reliance on the General Revenue Fund in its entirety. The revenue from the existing \$2.00 per ton of solid waste tipping fee will continue to be used for the operations of EPA's programs within the Division of Solid and Infectious Waste as well as some hazardous waste programs. Related to the environmental protection fee, the Department of Natural Resources (DNR) proposes to assess a fee of \$1.00 per ton of solid waste to support DNR's Division of Recycling and Litter Prevention which funds grants that are awarded to local solid waste districts and local government entities across the state as well as supporting marketing and research programs. This \$1.00 assessment will replace corporate franchise tax dollars, the division's current funding source. With these new assessments, the average cost of waste disposal to landfills in Ohio is similar to that of other midwest states and could make Ohio seem less attractive for receiving out-of-state waste.

EPA also proposes to increase the 401 water quality certification fee to help defray the cost of regulating the dredging, filling, and relocating wetlands, lakes, and streams.

Description	Current Fee	Proposed Fee
Environmental Protection Fee	\$2.00 per ton	\$4.75 per ton (includes EPA portion and DNR portion)
401 Water Quality Certification Fee	Varies \$15 to \$200 per application	\$200 for all applications \$500 per acre renewal fee \$10 per linear foot of stream impact fee

Department of Agriculture

Proposal

The Department of Agriculture is proposing a variety of new and increased fees in order to reduce their reliance on General Revenue Funds and to make programs more self-supporting. The fees range from increasing dairy processing industry fees to implementing a new fee for the weights and measures division on the licensing and certification of vehicle scales and large meters.

Description	Current Fee	Proposed Fee
Equine Infectious Anemia Testing Fee	\$0	\$5 per test – will be set by rule
Dairy Processing Industry Fee	Varies	Determined annually by Milk Sanitation Board – but will raise the amounts to generate the GRF reductions to this program.
Plant Industries Fees		
Fertilizer	12 cents per ton	25 cents per ton
Feed	10 cents per ton	25 cents per ton
Pesticide Product Registration Fee	\$100 annual	\$150 Annual
Amusement Ride Inspection	Varies	Varies but will be set at a level to generate sufficient revenue to replace prior GRF funding

Food Safety and Inspection – Doubles Most Fees

	Home Bakery	\$10 for one Oven/\$30 for two ovens	\$20 for one Oven/\$60 for two ovens
	Commercial Bakery	\$30 per 1,000 pounds of production per hour	\$60 per 1,000 pounds of production per hour
	Cannery	\$100	\$200
	Soft Drink Bottler	\$100	\$200
	Cold Storage Warehouse	\$100	\$200
	Frozen Food	\$25	\$50
	Syrup and Extract	\$50	\$100
	Certificate of Health and Freesale	\$0	\$20 per certificate
Weights and Measures			
	Vehicle Scales	\$0	\$250
	Large Meters	\$0	\$250

Board of Regents

Proposal

The Board of Regents proposes a new fee for new degree program approval for proprietary schools.

Description	Current Fee	Proposed Fee
New Degree Program (Proprietary School)	\$0	\$1,000 for in-state schools/\$2,000 for out-of-state schools

Department of Health

Proposal

The Department of Health proposes to implement new fees and a variety of fee increases. The fees and fee increases cover a range of activities from Hospice and Adult Care facility initial inspections to employee assistance programs and swimming pool inspections.

Description	Current Fee	Proposed Fee
Hospice Initial Inspection Fee	\$0	\$1,750
Adult Care Facility Initial Inspection Fee	\$10 per bed	\$20 per bed
Nursing Home Facility – Current Bed and Application Fee	\$105 per 50 beds	\$170 per 50 beds
X-Ray Inspection	varies	9 percent increase
Nurse Aide Training		
Initial Application	\$200	\$715
Re-approval Application	\$200	\$720
Train the Trainer Re-approval	\$500	\$825
Train the Trainer Application	\$500	\$825
Physicians with J-1 Visa – Placement Fee	\$0	\$3,571
Employee Assistance Program	\$.60 per paycheck	\$.75 per paycheck
Swimming Pool Inspection	\$65 per inspection	\$88 per inspection

Public Defender

Proposal

The Office of the Public Defender proposes one new fee and one increase to an existing fee. The new fee is an indigent application fee of \$25; \$20 of the fee will be retained by counties and the remaining \$5 will be forwarded to the Office of the Public Defender to be used for the offices' operating costs. The second fee is a surcharge on the existing Ohio Legal Aid Filing fee. This fee is also expanded to include descendent estate filings. The revenue from this fee is passed through to the Ohio Legal Assistance Foundation who then provides grants to local legal aid societies.

Description	Current Fee	Proposed Fee
Indigent Application Fee	None	\$25 per Application
Ohio Legal Aid Filing Fee – Legal Aid Filings	\$15 per Filing	\$25 per Filing
Ohio Legal Aid Filing Fee – Small Claims Filings	\$7 per Filing	\$10 per Filing

Public Safety

Proposal

The Department of Public Safety, along with the newly merged Office of Criminal Justice Services, proposes a surcharge on birth and death certificates and divorce/dissolution filing fees. This fee is proposed to replace General Revenue Fund funding previously used by Criminal Justice Services to provide subsidies to the 65 family violence shelters throughout the state. Public Safety is also proposing a fee for the issuance of driver trainer certificates and increases for private investigator and security guard licenses.

Description	Current Fee	Proposed Fee
Birth and Death Certificates	\$15	\$16.50
Divorce and Dissolution Filing Fees	\$60	\$65.50
Drivers Training Certificates	\$0	\$8 per certificate
Private Investigators/Security Guards		
License Fee	\$250	\$375
Annual Renewal Fee	\$250	\$275
Registration Fee	\$18	\$40
Application Fee	\$10	\$15
Re-qualification Certificate	\$5	\$15

Department of Natural Resources

Proposal

The Department of Natural Resources proposes one fee increase and three new fees to help support existing programs. The new fees are the Nuisance Wildlife Control Operators, a Ginseng gathering permit, and an All Terrain Vehicle (ATV) license reciprocity with other states. In addition, an increase to the ATV permits is proposed. In addition, a portion of the Environmental Protection Agency's proposed Environmental Protection Fee, will go to the Department of Natural Resources to be used to support the Litter and Recycling program. For further information on this fee, see the section on the Environmental Protection Agency and the Environmental Protection Fee.

Description	Current Fee	Proposed Fee
Nuisance Wildlife Control Operators	\$0	\$100
Ginseng Collecting Permit	\$0	\$75
ATV License Permit	\$5	\$15
ATV License Reciprocity	\$0	\$5

Board of Sanitarian Registration

Proposal

The Board of Sanitarian Registration proposes to increase application and renewal registration fees.

Description		Current Fee	Proposed Fee
Sanitarian Registration Fee			
	Application	Varies	7 percent increase
	Renewal	Varies	7 percent increase