State of Ohio

Budget Highlights

Fiscal Years 2006 and 2007

Highlights of the
Biennial Appropriations
For Fiscal Years 2006-2007
Enacted June 2005

Prepared by the
Office of Budget and Management
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Overview of Amended Substitute House Bill 66
(FY 2006-2007 Budget Bill)

Amended Substitute House Bill 66 of the 126th General Assembly makes General Revenue Fund (GRF) appropriations of $25.3 billion in FY 2006 (a 1.9% increase over FY 2005 spending) and $25.9 billion in FY 2007 (a 2.6% increase over FY 2006). Appropriations from all funding sources total $53.6 billion in FY 2006 (a 8.4% increase over FY 2005 spending) and $55.2 billion in FY 2007 (a 3.1% increase over FY 2006).

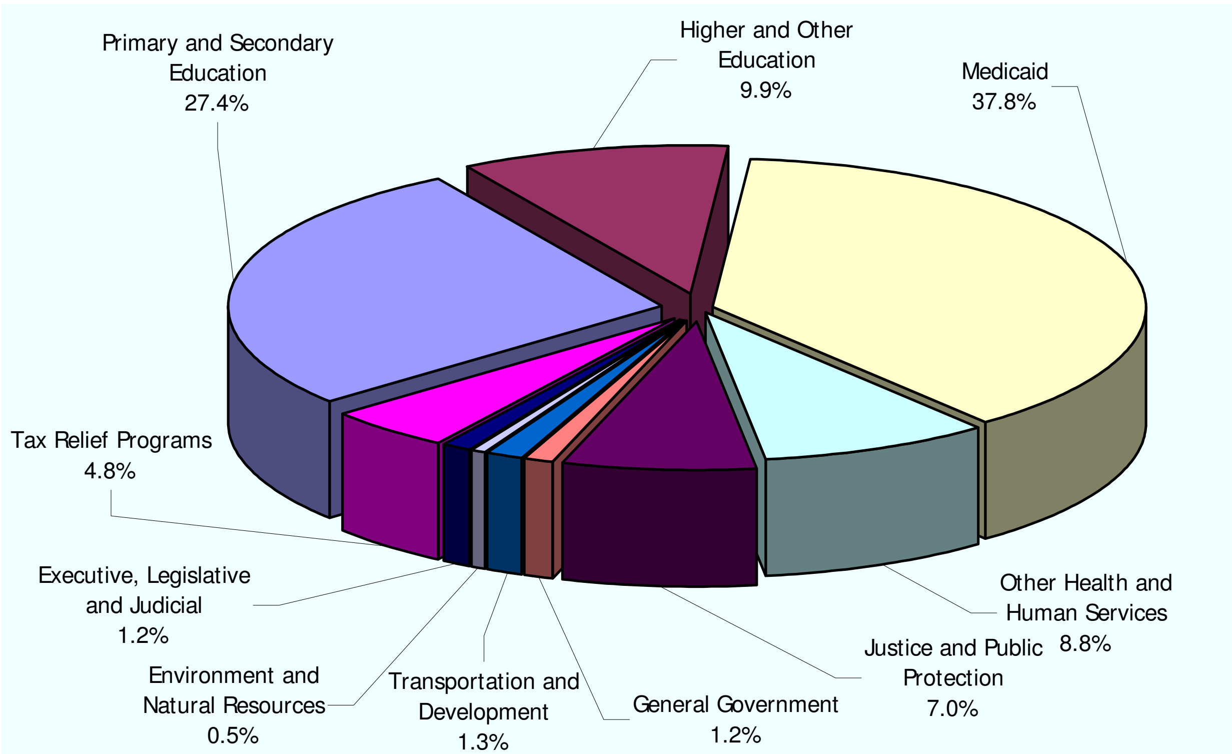
The state share of the GRF, which excludes federal reimbursement deposited into the GRF for Department of Job and Family Services programs, is $19.6 billion in FY 2006 and $20.1 billion in FY 2007. Figure 1 on page 3 illustrates the total GRF budget by major spending category and includes all federal reimbursement deposited into the GRF. Figure 2 on page 4 displays the state-only GRF budget by major spending category.

Below is a brief summary of GRF appropriations by spending category. For a complete list of agencies included in each spending category and their appropriated funding, see Table 2 on page 44 for GRF appropriations and Table 3 on page 46 for appropriations from all funding sources.

- **Medicaid** is the single-largest program in the state budget with total GRF appropriations of $9.5 billion in FY 2006 (0.8% above FY 2005) and $9.9 billion in FY 2007 (3.7% above FY 2006). This total includes federal reimbursement for Medicaid expenditures that is deposited in the GRF. When federal reimbursements are excluded, Medicaid becomes the second largest spending category in the state after Primary and Secondary Education.
- **Primary and Secondary Education** comprises the second-largest GRF area of expense. Appropriations total $6.9 billion in FY 2006 (2.8% above FY 2005) and $7.1 billion in FY 2007 (2.8% above FY 2006). The Department of Education has the largest GRF budget in this category, with FY 2006 GRF appropriations of $6.7 billion (2.1% above FY 2005) and $6.8 billion in FY 2007 (2.4% above FY 2006).
- **Higher and Other Education** GRF appropriations total $2.5 billion in FY 2006 (1.0% above FY 2005) and $2.6 billion in FY 2007 (3.1% above FY 2006). The Board of Regents, with GRF appropriations of $2.47 billion in FY 2006 (1.1% above FY 2005) and $2.55 billion in FY 2007 (3.2% above FY 2006), has the largest GRF budget in this category.
- **Other Health and Human Services** GRF appropriations totals $2.2 billion in FY 2006 (11.6% above FY 2005) and $2.3 billion in FY 2007 (1.5% above FY 2006). Agencies with the largest GRF budgets in this category include the non-Medicaid portion of the Department of Job and Family Services and the Departments of Mental Health and Mental Retardation and Developmental Disabilities.
- **Justice and Public Protection** GRF appropriations total $1.79 billion in FY 2006 (2.6% above FY 2005) and $1.82 billion in FY 2007 (1.8% above FY 2006). Agencies with the largest GRF budgets in this category are the Departments of Rehabilitation and Correction and Youth Services.
- **Transportation and Development** GRF appropriations total $315.8 million in FY 2006 (2.4% above FY 2005) and $333.7 million in FY 2007 (5.7% above FY 2006). The agencies with the largest GRF budgets in this category are the Department of Development and the Public Works Commission.

- **General Government** GRF appropriations totals $312.7 million in FY 2006 (11.1% above FY 2005) and $314.0 million in FY 2007 (0.4% above FY 2006). Agencies with the largest GRF budgets in this category are the Departments of Administrative Services and Taxation.
- **Executive, Legislative, and Judicial** agencies include all independently elected statewide officials and the legislative and judicial offices. The GRF appropriations for these agencies are $292.0 million in FY 2006 (0.2% above FY 2005) and $305.8 million in FY 2007 (4.7% above FY 2006).
- **Environment and Natural Resources** GRF appropriations total $136.9 million in FY 2006 (8.5% below FY 2005) and $139.1 million in FY 2007 (1.6% above FY 2006). The Department of Natural Resources has the largest GRF budget in this category.
- **Tax Relief Programs** spending consists primarily of payments to local governments to offset revenue losses due to the 2.5% homestead exemption and the 10.0% real property exemption. GRF appropriations in this category total $1.3 billion in FY 2006 (8.9% below FY 2005) and $1.2 billion in FY 2007 (5.7% below FY 2006).

Figure 1
FY 2006-2007 Operating Budget
Total General Revenue Fund Appropriations
Biennium Total $51,255.3 million



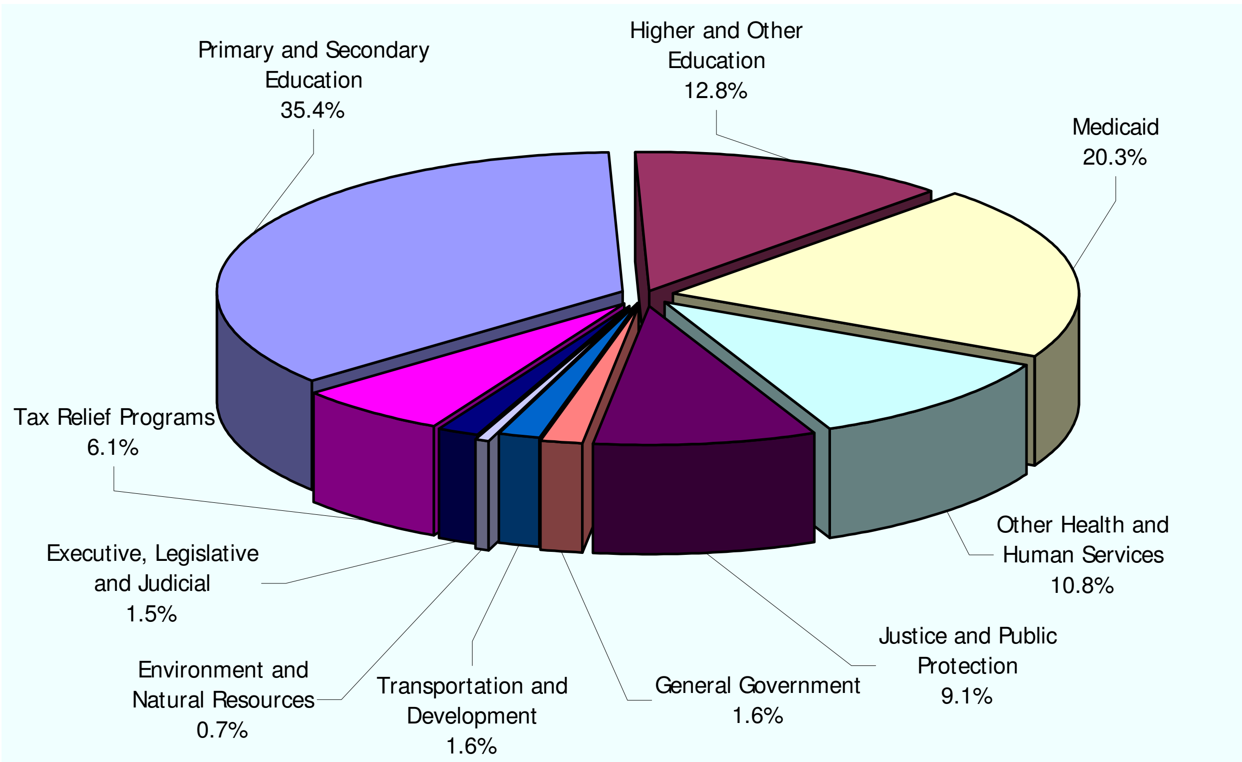
Total GRF Appropriations (dollars in millions)

Spending Category		FY 2005 Actual		FY 2006	% Change		FY 2007	% Change		Biennium Total
Primary and Secondary Education	$	6,745.5	$	6,935.8	2.8%	$	7,129.2	2.8%	$	14,065.0
Higher and Other Education	$	2,480.9	$	2,508.1	1.1%	$	2,587.0	3.1%	$	5,095.1
Medicaid	$	9,446.2	$	9,519.3	0.8%	$	9,867.2	3.7%	$	19,386.5
Other Health and Human Services	$	2,005.8	$	2,238.6	11.6%	$	2,272.5	1.5%	$	4,511.1
Justice and Public Protection	$	1,742.5	$	1,787.0	2.6%	$	1,820.0	1.8%	$	3,607.0
General Government	$	281.5	$	312.7	11.1%	$	314.0	0.4%	$	626.7
Transportation and Development	$	308.4	$	315.8	2.4%	$	333.7	5.7%	$	649.5
Environment and Natural Resources	$	149.7	$	136.9	-8.5%	$	139.1	1.6%	$	276.0
Executive, Legislative and Judicial	$	291.3	$	292.0	0.2%	$	305.8	4.7%	$	597.8
Tax Relief Programs	$	1,379.1	$	1,255.9	-8.9%	$	1,184.6	-5.7%	$	2,440.5
Total	**$**	**24,830.9**	**$**	**25,302.2**	**1.9%**	**$**	**25,953.1**	**2.6%**	**$**	**51,255.3**

Note: Numbers may not add to total due to rounding

Source: Ohio Office of Budget and Management, August 2005

Figure 2
FY 2006-2007 Operating Budget
Total State-Only General Revenue Fund Appropriations
Biennium Total $39,687.4 million



Total State-Only GRF Appropriations (dollars in millions)

Spending Category	FY 2005 Actual	FY 2006	% Change	FY 2007	% Change	Biennium Total
Primary and Secondary Education	$ 6,745.5	$ 6,935.8	2.8%	$ 7,129.2	2.8%	$ 14,065.0
Higher and Other Education	$ 2,480.9	$ 2,508.1	1.1%	$ 2,587.0	3.1%	$ 5,095.1
Medicaid	$ 3,886.2	$ 3,907.2	0.5%	$ 4,135.5	5.8%	$ 8,042.7
Other Health and Human Services	$ 1,919.3	$ 2,126.0	10.8%	$ 2,160.9	1.6%	$ 4,286.9
Justice and Public Protection	$ 1,742.5	$ 1,787.0	2.6%	$ 1,820.0	1.8%	$ 3,607.0
General Government	$ 281.5	$ 312.7	11.1%	$ 314.0	0.4%	$ 626.7
Transportation and Development	$ 308.4	$ 315.8	2.4%	$ 333.7	5.7%	$ 649.5
Environment and Natural Resources	$ 149.7	$ 136.9	-8.5%	$ 139.1	1.6%	$ 276.0
Executive, Legislative and Judicial	$ 291.3	$ 292.0	0.2%	$ 305.8	4.7%	$ 597.8
Tax Relief Programs	$ 1,379.1	$ 1,255.9	-8.9%	$ 1,184.6	-5.7%	$ 2,440.5
Total	**$ 19,184.4**	**$ 19,577.5**	**2.0%**	**$ 20,109.9**	**2.7%**	**$ 39,687.4**

Note: Numbers may not add to total due to rounding

Source: Ohio Office of Budget and Management, August 2005

Economic Forecast and Revenue Estimates

Overview

Well into its fourth year of expansion, the U.S. economy continues to grow at an above-trend rate. Real Gross Domestic Product increased at an annual rate of 3.5% during the 13 quarters since the end of the 2001 recession – slightly faster than the long-term trend. But growth has been uneven across the country, across sectors of the economy, and across individuals.

Ohio, like much of the Great Lakes area, has lagged the rest of the nation, as the mix of business in the region has responded less vigorously to the fiscal and monetary stimuli that have spurred the national recovery. The result has been a clear, but slow, improvement in state economic conditions. Improvements in the state's economy are expected to continue over the next two years.

The Ohio Governor's Council of Economic Advisors met in May 2005 to consider current conditions and prospects for the national and Ohio economies. The consensus was for uninterrupted economic growth at a moderate pace through FY 2007. Employment is expected to pick up and the unemployment rate to fall, while inflation is projected to remain low. As usual, the outlook is not without risks, and the economy might perform better or worse than anticipated.

The Forecast in Brief

After reaching 4.4% in FY 2004 and an estimated 3.7% in FY 2005, **real GDP growth** is projected to be 3.25% to 3.5% in FY 2006 and FY 2007 – just a bit higher than the average during the last 40 years. Council members cited high-energy costs and uncertainty about developments in Iraq as leading factors behind the slowing growth. There is also some question about the near-term effects on financial markets from efforts to deal with the federal budget, reform Social Security and Medicare, and the recent decision by China to allow its currency to appreciate against the dollar.

Employment is expected to be a bright spot in the economy over the next two years. **U.S. employment growth** is projected to increase from 0.3% in FY 2004 to 1.6%-1.7% during FY 2005 to FY 2007, as growth in aggregate demand finally forces businesses to add to staffing levels. The **U.S. unemployment rate** is projected to edge down from an estimated 5.3% in FY 2005 to 5.1% by FY 2007.

The Council anticipates that **Ohio employment** will grow 0.4% in FY 2005, with the growth rate rising to 0.6% in FY 2006 and 0.9% in FY 2007. The **Ohio unemployment rate** is projected to fall from an estimated 6.2% in FY 2005 to 5.7% in FY 2007. Lower population growth accounts for most of the differences between the U.S. and Ohio employment growth rates.

The Council predicts continued solid growth in personal income, but growth in U.S. personal consumption expenditures is expected to slow. **U.S. personal income** growth is projected to average 5.5% in FY 2006 and FY 2007 after reaching an estimated 6.0% in FY 2005. **Retail sales growth** is projected to slow from an estimated 7.3% in FY 2005 to 4.9% in FY 2006 and

4.0% in FY 2007. **Ohio personal income** is projected to rise by 4.7% in FY 2006 and 4.5% in FY 2007 after rising an estimated 5.0% in FY 2005.

Light motor vehicle sales are projected to remain near recent highs, reflecting favorable motor vehicle prices, disposable income, household debt, inflation, and stock prices. Unit sales are projected at 16.7 million to 16.9 million units annually in FY 2006 and FY 2007, compared with an estimated 16.9 million unit pace in FY 2005.

Housing construction is expected to remain near historically high levels, reflecting low-interest rates and strong immigration. **U.S. housing starts** are projected to shift from an estimated 2.0 million units in FY 2005 to 1.8 million units in FY 2006 and FY 2007. **Housing starts in Ohio** are projected to follow the national trend.

Restrained inflation is expected to continue due to substantial excess manufacturing capacity globally and the strong inflation-fighting credibility of the Federal Reserve. In today's highly competitive environment, businesses find it difficult to make price increases stick. After rising an estimated 3.0% in FY 2005, **consumer prices** are projected to rise by 2.6% in FY 2006 and only 2.2% in FY 2007. Energy prices increased inflation in FY 2005 but the sector is expected to be more neutral over the next two years.

Potential Risks to the Outlook

Despite all the positive signs in the economy, there are some risks in the economic forecast. Nine of the ten business cycle recessions since World War II have corresponded with large spikes in the price of oil. (The exception was the 1960 recession.) The economy is more flexible today than in the past as consumers use energy more efficiently. Further, as a percent of per capita income, the cost of filling up a 15-gallon tank today consumes about half the share of income that it would have in 1981. But added to the 40.0% increase in the price of oil during the past three years, any further increases would threaten economic growth.

A second risk is a sharp depreciation in the U.S. dollar or unexpected rise in inflation that would prompt an abrupt rise in interest rates. The Federal Reserve has so far raised short-term interest rates in small steps, and widespread confidence in the Fed has kept long-term rates down. A loss of confidence in the dollar or the Fed could result in higher interest rates and a downturn in housing construction, motor vehicle production, and capital spending – three areas of the economy that have been critical to growth since the 2001 recession.

The consensus forecast of sustained but slower economic growth translates into moderate revenue growth for the state's General Revenue Fund (GRF) during the FY 2006-2007 biennium. The Ohio economy appears to have turned the corner. Given the many false starts in recent years, however, revenue projections have been based on conservative economic growth assumptions.

Summary of Revenue Estimates

The revenue estimates for the FY 2006-2007 biennium are based on the consensus forecast of the Governor's Council of Economic Advisors that predicts modest economic growth and moderate inflation. The estimates also use the economic forecasts of Global Insight, a leading economic forecasting company. Table 1 lists the historical and estimated future GRF receipts by source. Figures 3 and 4 display the projected FY 2006-2007 GRF revenues by major sources. Figure 3 shows total GRF revenue, which includes Federal Grants. Figure 4 shows total GRF revenue excluding Federal Grants to display state-only resources. All these revenues reflect House Bill 66 as enacted.

Total GRF revenues, including the effects of tax changes, are projected to be $25.6 billion in FY 2006 (0.3% over FY 2005) and $25.9 billion in FY 2007 (0.9% above FY 2006). State-only GRF revenues were $19.9 billion in FY 2005 and are estimated to be $19.9 billion in FY 2006 and $20.0 billion in FY 2007. This produces growth rates of 0.0% and 0.6%, respectively. Total GRF tax receipts are expected to be $19.3 billion in FY 2006 (1.2% over FY 2005) and $19.4 billion in FY 2007 (0.6% over FY 2006).

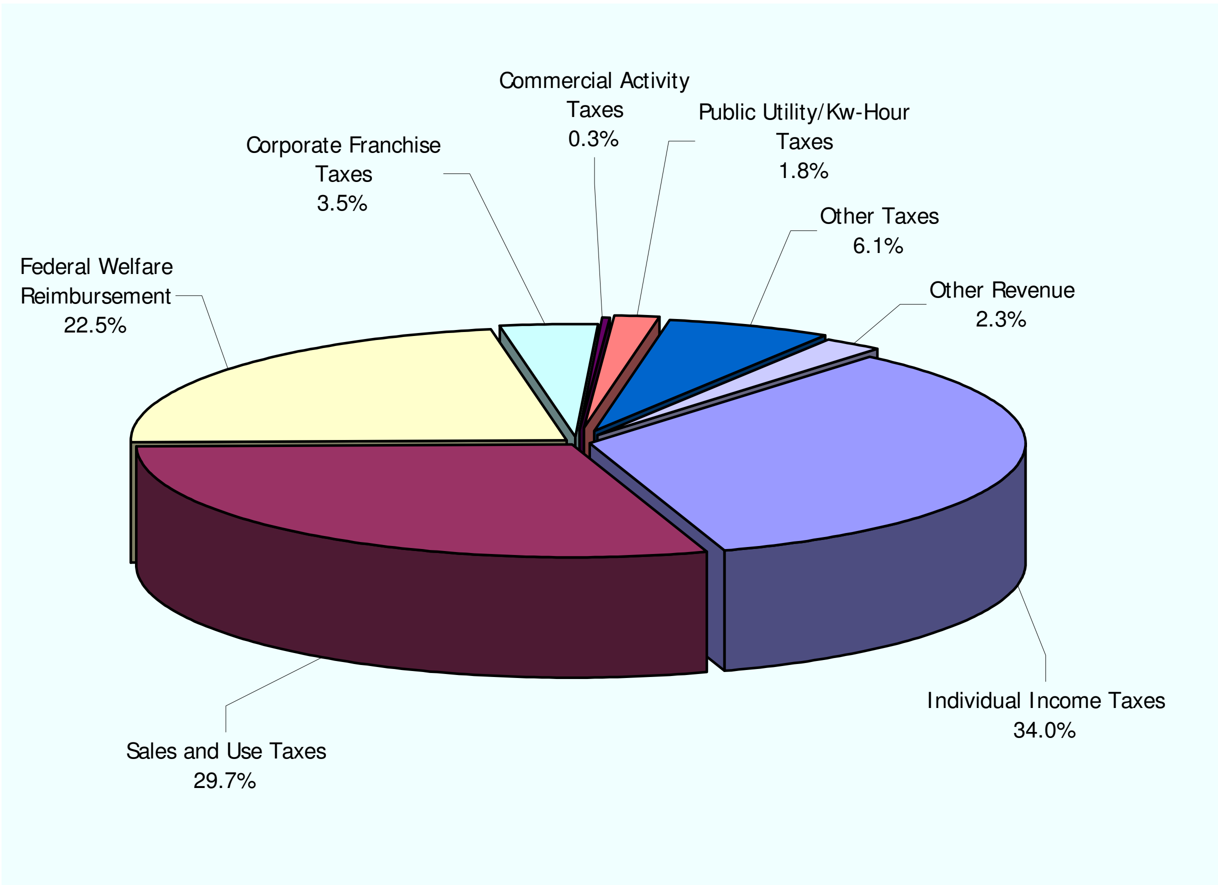
Transfers to the GRF are projected to decrease from $551.8 million in FY 2005 to $259.3 million in FY 2006. This estimate represents decreases of 53.0%. The reduction in transfer revenue reflects the use of one-time Federal Fiscal Relief revenues in the FY 2005.

The GRF revenue estimates for FYs 2006 and 2007 include limitations on deposits into and distributions from the local government funds during those years. Deposits to the local government funds in each fiscal year are be limited to the lesser of the amount they received last year, or the amount that would be deposited using the codified percentages that are in the Revised Code.

Figure 3

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

Biennium Total $51,486.0 million



Estimated Total GRF Revenues (dollars in millions)

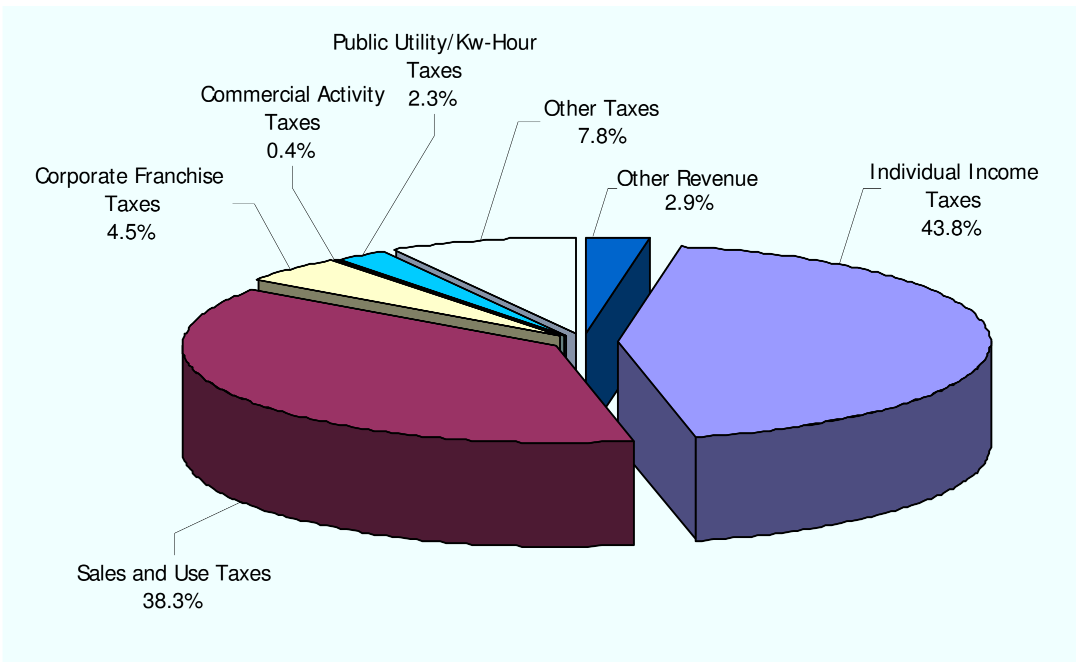
Revenue Source	Actual FY 2005	FY 2006	% Change	FY 2007	% Change	Total
Individual Income Taxes	$ 8,598.9	$ 8,673.9	0.9%	$ 8,803.1	1.4%	$ 17,483.0
Sales and Use Taxes	$ 7,827.1	$ 7,480.9	-4.4%	$ 7,806.1	4.4%	$ 15,292.3
Federal Grants & Reimbursement	$ 5,646.6	$ 5,724.7	1.4%	$ 5,843.2	2.1%	$ 11,567.9
Corporate Franchise Taxes	$ 1,051.6	$ 952.6	-9.6%	$ 838.4	-11.8%	$ 1,789.0
Commercial Activity Taxes	$ -	$ 143.5	0.0%	$ -	-100.0%	$ 143.5
Public Utility/Kw-Hour Taxes	$ 443.9	$ 462.3	4.1%	$ 466.7	1.0%	$ 929.0
Other Taxes	$ 1,166.5	$ 1,608.2	37.5%	$ 1,520.3	-5.6%	$ 3,119.2
Other Revenue	$ 815.9	$ 580.2	-28.9%	$ 581.9	0.3%	$ 1,162.1
Total	$ 25,550.5	$ 25,626.3	0.3%	$ 25,859.7	0.9%	$ 51,486.0

Note: Numbers may not total due to rounding.
Source: Ohio Office of Budget and Management, August 2005

Figure 4

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

Biennium Total $39,918.1 million



Estimated Total State-Only GRF Revenues (dollars in millions)

Revenue Source	Actual FY 2005	FY 2006	% Change	FY 2007	% Change	Total
Individual Income Taxes	$ 8,598.9	$ 8,673.9	0.9%	$ 8,803.1	1.4%	$ 17,483.0
Sales and Use Taxes	$ 7,827.1	$ 7,480.9	-4.4%	$ 7,806.1	4.4%	$ 15,292.3
Corporate Franchise Taxes	$ 1,051.6	$ 952.6	-9.6%	$ 838.4	-11.8%	$ 1,789.0
Commercial Activity Taxes	$ -	$ 143.5	0.0%	$ -	-100.0%	$ 143.5
Public Utility/Kw-Hour Taxes	$ 443.9	$ 462.3	4.1%	$ 466.7	1.0%	$ 929.0
Other Taxes	$ 1,166.5	$ 1,608.2	37.5%	$ 1,520.3	-5.6%	$ 3,119.2
Other Revenue	$ 815.9	$ 580.2	-28.9%	$ 581.9	0.3%	$ 1,162.1
Total	$ 19,903.9	$ 19,901.6	0.0%	$ 20,016.5	0.6%	$ 39,918.1

Note: Numbers may not total due to rounding.
Source: Ohio Office of Budget and Management, August 2005

Comprehensive Tax Reform

Am. Sub. H.B. 66 enacts fundamental tax reform in Ohio and substantially reflects Governor Taft's initial proposal. While the national economy has been improving, the Midwest and Ohio have trailed the rest of the nation. Lagging economic performance is the result of many factors. The nation as a whole and Ohio specifically 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 budget improves Ohio's competitiveness by making a number of changes to address situations in which Ohio's high tax rates act as disincentives to investment and employment. The tax reform accomplished by this budget reduces the burden on investment and encourages capital formation, which in turn will 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, cuts in taxes on capital investment are phased in over time, and also balanced with innovative solutions to raise the revenue needed to pay for essential public services.

Overview of Reforms

The tax reforms contained in Am. Sub. H.B. 66 are:

- A 21.0% reduction in the income tax, phased-in over five years;
- Elimination of the tangible personal property (TPP) tax for general businesses and for telecommunications companies, phased-in over four- and five-year periods, respectively;
- Elimination of the corporate franchise tax (except for financial institutions and their affiliates) over a five-year period;
- Enactment of a commercial activity tax (CAT), phased-in over five years; and,
- An immediate reduction in the state sales tax from 6.0% to 5.5%.

Tax Reform Provides Significant Tax Reductions

The tax reform package is both a sweeping tax restructuring and a significant overall tax cut. In total, state taxes are reduced by $512.0 million in FY 2006 and $983.0 million in FY 2007, compared to the tax rates that were in place in FY 2005. By FY 2010, the estimated reductions reach $2.4 billion. Of course, state taxes are not the only taxes reduced in this tax reform bill. The elimination of the local general business TPP tax increases the size of the overall tax cut, even after accounting for the elimination of the 10.0% rollback on commercial and industrial real property. H.B. 66 reduces combined state and local taxes by $416.0 million in FY 2006 and by $1.2 billion in FY 2007. Total tax reductions reach $3.7 billion by FY 2010 when the reform package is fully phased-in.

The elements of the tax reform package are discussed below by major tax source.

Personal Income Tax

Across-the-Board Rate Reduction

In the long run, the biggest dollar changes made to any tax in the budget bill were made to the personal income tax. A 21.0% across-the-board rate cut provides over $1.0 billion in tax relief over the next two fiscal years (approximately $340.0 million in FY 2006 and $727.0 million in FY 2007). By full phase-in of the rate cut in FY 2010 (tax year 2009), tax relief will approach $2.2 billion annually. While these tax cuts are being phased in over the next five years, the inflation adjustments to the personal income tax brackets (usually termed "indexing") that previously had been scheduled to go into effect in tax year 2005 will be suspended; instead, indexing will now begin in tax year 2011.

Currently, Ohio's top marginal state income tax rate is 7.5%. Taxpayers can face much higher combined state and local marginal tax rates. For example, a taxpayer in the city of Euclid, which has the highest municipal income tax rate in Ohio (2.85%), would face a combined state and local tax rate of 10.35%. In other jurisdictions (e.g., the city of Bexley), a taxpayer might pay the 7.5% top state income tax, a municipal income tax, and a school district income tax. The Ohio Department of Taxation has calculated that the statewide average municipal income tax rate is about 1.7%. The combined state and municipal top marginal rate of 9.2% was fifth highest in the nation in 2004.

When the rate cut is fully phased-in, the state top marginal rate will be reduced to 5.925%, and the other eight marginal tax rates will also be reduced proportionately.

Additional Tax Relief

Besides the rate cut, there is additional tax relief provided through a new low-income credit that results in taxpayers with Ohio Taxable Income (OTI) of less than $10,000 paying zero Ohio income tax. Since OTI equals income after personal exemptions are subtracted, a family of four can have Ohio Adjusted Gross Income (OAGI) of $15,400 and still pay zero Ohio income tax. The credit eliminates Ohio income tax liability for about 550,000 filers.

Other Changes to the Personal Income Tax

- The tax on accumulated trust income is made permanent. This initially results in a gain of about $56.0 million, but the annual gain declines as the rate cuts are phased-in.
- The higher education tuition deduction is eliminated in tax year 2006 to help fund the Ohio College Opportunity Grant program, which is better targeted to low- and middle-income families. The elimination of the deduction increases revenue by about $13.0 million per year beginning in fiscal year 2007. For more information on the Ohio College Opportunity Grant program, please see page 29.

Tangible Personal Property Tax

The budget eliminates the TPP tax on most businesses over four years, beginning in tax year 2006. The tax is phased-out through reductions in the assessment percentages applied to all categories of TPP: manufacturing machinery and equipment (MME), inventory, and all other tangible personal property ("furniture and fixtures"). The assessment rates are reduced from their current 25.0% level (23.0% on inventory) to 18.75% in tax year 2006, 12.5% in tax year 2007, 6.25% in tax year 2008, and 0% in tax year 2009.

The phase-out for MME is enhanced by the provision that such property purchased after January 1, 2005, is immediately exempt from tax; that is, its assessment percentage immediately goes to zero in tax year 2006.

These changes will provide $1.5 billion in tax relief to businesses by tax year 2009 (increased from approximately $71.0 million in FY 2006 and $527.0 million in FY 2007).

Cross-state comparisons are not as readily available or as simple to perform for the TPP tax as they are for the personal income tax or the corporate franchise tax, where one may do fairly straightforward comparisons such as an examination of state marginal tax rates. Nevertheless, there is evidence that Ohio's TPP tax poses a serious competitive handicap. Recent comparisons with Ohio's five neighboring states show that Ohio's TPP tax collections per capita were well above those of its neighbors. In addition, Ohio's inclusion of inventory in its TPP tax is fairly unusual; only 15 other states subject inventory to property taxation.

Telecommunications Company Property

In addition to the eliminations discussed above, telecommunications company property will also be exempted from the TPP tax. First, telecommunications companies are switched from being classified as utility property taxpayers to being general business property taxpayers. The property of telecommunications companies then has its assessment percentages reduced from 25.0% under current law to 0% in tax year 2011 in equal increments (telephone companies have some legacy property that is currently assessed at 67.0% of true value, which also will be reduced to 0% by tax year 2011). This change will provide an additional $175.0 million in business tax relief by tax year 2011. When the changes for telecommunications companies and general business taxpayers are combined, the elimination of the TPP tax provides almost $1.7 billion in tax relief by tax year 2011.

School Districts and Local Governments Held Harmless

The TPP tax in Ohio is an entirely local tax, paid to school districts (70.0%) and local governments (30.0%). Recognizing that these entities need time to adjust to the elimination of this tax, the budget provides full revenue replacement for several years to school districts and governments and then gradually phases-out those state payments.

Am. Sub. H.B. 66 holds school districts harmless (i.e., makes up 100.0% of the TPP tax revenue losses) for these changes through FY 2011 by means of a combination of additional state foundation aid and direct reimbursement payments from the state. Revenues for state reimbursements primarily come from the new CAT (see detail in subsequent section). After FY 2011, the direct TPP reimbursement payments from the state to the school districts are gradually phased out; however, school districts in the aggregate will continue to receive 70.0% of annual CAT revenues earmarked for school purposes.

The budget also holds local governments harmless for the TPP tax changes through tax year 2010 (tax year 2011 for telephone company property) through state reimbursement payments. As with the school districts, the direct state payments targeted to local governments (based on their foregone TPP tax revenues) are then gradually phased out.

Corporate Franchise Tax

The bulk of the corporate franchise tax is phased out over five years, from tax year 2006 through tax year 2010 (FY 2010). The tax is reduced in five equal increments, with liability being multiplied by 80.0% in tax year 2006, 60.0% in tax year 2007, etc., down to 0% in tax year 2010. The elimination of the corporate franchise tax for all but a limited class of taxpayers will provide fully phased-in tax relief amounting to $1.1 billion in FY 2010 (increased from approximately $171.0 million in FY 2006 and $404.0 million in FY 2007).

The corporate franchise tax has in some ways been the worst of both worlds for Ohio: a tax with high marginal rates which distorts economic decisions and acts as a disincentive for business to locate in Ohio, and conversely a tax with a relatively narrow base (due to tax planning, legislated credits, etc.) that does not raise much revenue. Ohio's 8.5% top marginal corporate tax rate, combined with the previously cited weighted average municipal income tax rate, is 10.2%, which was third highest in the nation in 2004. Despite the high marginal rates in FY 2002, the last year for which comprehensive Census data on state and local taxes were available, the Ohio franchise tax raised only $67 per capita, well below the national average and below all of Ohio's neighboring states.

Remnants of the corporate franchise tax will remain. Financial institutions currently pay the corporate franchise tax, although they pay under a different base and rate than non-financial corporations. They will continue to pay the corporate franchise tax rather than the new CAT. In addition, the subsidiaries of financial institutions and insurance companies will also continue to pay the corporate franchise tax rather than paying the new CAT.

To allow the state to leverage economic development through targeted incentives, several corporate franchise tax credits are retained but become commercial activity tax credits beginning in fiscal year 2009. These include the job creation tax credit, the job retention tax credit, the credit for increased research expenses, and the credit for research and development loan repayments.

Commercial Activity Tax

Rationale for the CAT

To replace part of the revenue lost from the repeal of the general business TPP tax and the elimination of most of the corporate franchise tax, a new Commercial Activity Tax (CAT) is levied. The CAT, like the corporate franchise tax, is a business privilege tax, but it is based on a different theory of taxation and operates quite differently than the corporate franchise tax.

The CAT is an explicit move away from an "ability to pay" tax to a tax based on the benefit principle, where the idea is that a business should pay taxes based on the recognition that it receives benefits from state and local government services, whether the business is nominally profitable or not. (Note that the administration took as one of its starting points the thesis that the corporate franchise tax has been seriously compromised by state and local tax planning, and thus it no longer functions well as a tax that varies with a corporation's true ability to pay.) The CAT also partially takes the place of the TPP tax on general businesses. Repealing the TPP tax is a historic embrace of the idea that a direct tax on physical capital assigns tax burdens across businesses in an inequitable and economically unproductive manner. The tax made Ohio's tax structure uncompetitive relative to other states and placed Ohio's economy at a distinct disadvantage.

The CAT assumes that benefits received by business are proportional to the business's activity in this state, wherein "activity" means the amount of sales made in the Ohio market. Most states have migrated to one degree or another from "production-based" taxes and toward "market-based" taxes. (The corporate income tax single-sales factor adopted by an increasing number of states is one indication of that trend.) However, with the adoption of the CAT and the repeal of the corporate franchise and tangible personal property taxes, Ohio is a national leader in the usage of a market-based tax structure.

Definition of the CAT
The CAT is a business privilege tax measured by gross receipts. Gross receipts are business receipts generated by sales of goods or services in Ohio, and thus exclude exports outside Ohio and investment income such as dividends, interest, and capital gains. The vast majority of Ohio businesses either will be exempt from the CAT or will pay only a $150 annual minimum tax.

Application of the CAT
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. Thus, utilities that currently pay the public utility excise tax or insurance companies paying the gross premiums tax will remain under those taxing structures. A major exception pertains to financial institutions, which currently pay the corporate franchise tax. Financial institutions, as well as the affiliates of banks and insurance companies, will continue to pay the corporate franchise tax.

The CAT is levied in three tiers. It is imposed on all business entities above a minimum size, regardless of their organizational form (C-corporation, S-corporation, LLC, partnership, sole proprietorship). It is **not** a tax imposed on individual transactions and paid by the consumer. Business entities that have less than $150,000 in annual gross receipts will pay no tax. Business entities with annual gross revenues greater than or equal to $150,000, but less than $1 million, will pay a "minimum tax" of $150 annually. Business entities with gross receipts above $1.0 million annually will pay $150 plus 0.26% of their gross receipts in excess of $1.0 million.

The definition of taxable gross receipts is crucial to the expected economic development benefits of the CAT. Taxable gross receipts do not include revenues generated from non-Ohio sales. So, an Ohio manufacturer who sells industrial equipment to businesses in Indiana and Michigan will not have taxable gross receipts as a result of those sales. An Ohio auto dealer selling vehicles to customers in Indiana will not have taxable gross receipts as a result of those sales. An Ohio pool-cleaning company that sends its people and equipment to customers in Kentucky to clean their swimming pools will not have taxable gross receipts as a result of those sales. Conversely, companies based in other states that sell goods or services in Ohio will pay the CAT on the gross receipts realized from those sales. The CAT is designed to generate tax revenue based on the magnitude of a company's usage of the Ohio market, and not based on the magnitude of human or capital resources used in this state. To put it another way, the CAT is a tax designed not to burden Ohio-based production, which should therefore encourage Ohio investment and employment.

The CAT law also contains a provision that allows groups of companies related by common ownership to exclude intra-group sales (similar to the corporate franchise tax) from the tax base. In order to strongly encourage out-of-state companies to register as CAT taxpayers and pay the CAT on their Ohio gross receipts, the law allows the intra-group exclusion only if all the related companies – including those that may not have Ohio nexus – agree to file as one consolidated taxpayer. This provision is designed to reduce the litigation over what companies are subject to the CAT by providing an incentive for large, multi-state enterprises to have all their members making sales in Ohio to voluntarily pay the CAT.

There are two significant, temporary exemptions to the CAT. Gross receipts from Ohio sales of motor fuel are exempt from the CAT for FY 2006-2007. Also, gross receipts arising from sales of tangible personal property shipped into or out of a foreign trade zone which meets certain qualifications (such as being within a mile of an international airport and containing a qualified intermodal facility) are excluded from the CAT.

CAT Implementation and Revenue Estimates

As with the multi-year phase-outs of the TPP tax and the corporate franchise tax, the CAT will be phased-in over five years, with taxpayers paying 20.0% of the "full-strength" tax in FY 2006, 40.0% in FY 2007, etc, until it is fully phased-in for FY 2010. Among other things, the phase-in will allow policymakers to monitor whether the tax has any unexpected consequences for particular industries or sectors and to make structural adjustments if needed.

The CAT is currently expected to generate $219.0 million in FY 2006 and $449.0 million in FY 2007. This revenue will be credited to the School District and Local Government Property Tax Replacement funds to make the hold harmless payments described above and to the GRF. Of course, estimating a new tax is very difficult and the forecasts are subject to considerable uncertainty. Because of this, there is a formula-driven tax rate adjustment in Am. Sub. H.B. 66, whereby in September of 2007 the FY 2006-2007 revenues will be compared to a revenue target and the 0.26% tax rate will be adjusted upward or downward (beginning the following January) if revenues are above or below the target by 10.0% or more. Similar rate adjustments are provided after FY 2009 and after FY 2011. By the time of the full phase-in of the CAT, in FY 2010, it is expected to generate at least $1.3 billion annually. Revenues realized in FY 2010 and succeeding years could be higher than the $1.3 billion cited above since that amount assumes no change in the CAT rate.

Sales and Use Tax

The state sales tax rate was increased from 5.0% to 6.0% for FY 2004-2005. This budget reduces the tax rate back to 5.5% for FY 2006 and subsequent years. The decrease in the state sales tax rate helps both businesses – who pay 30.0% to 35.0% of the sales and use tax, based on estimates published in the National Tax Journal – and Ohio households. The total tax relief provided by the sales tax reductions increases from $712.0 million in FY 2006 to $863.0 million in FY 2010.

Other Sales and Use Tax Changes

The vendor discount, which is essentially a portion of the sales tax that vendors are allowed to keep to cover costs associated with collecting and filing the tax, was maintained at 0.9% for FY 2006-2007. The statutory discount is 0.75%, but it was raised to 0.9% for FYs 2004-2005, and the higher discount is being temporarily maintained for another two years.

A second change permanently eliminates the exemption for investment coins and bullion.

Real Property Tax

The 10% rollback is a 10% property tax credit provided to all real property owners. Local governments and school districts lose no revenue from the 10% rollback because the state makes payments from the GRF to those jurisdictions to reimburse them for the cost of the rollback.

H.B. 66 eliminates the 10% rollback for commercial and industrial real property. The elimination of the 10% rollback for commercial and industrial real property causes no change to local finances. Local governments and school districts will receive the same amount of revenue as before: they will realize additional tax revenue from commercial and industrial property owners instead of reimbursements from the state.

One area where Ohio's tax system is already competitive is in real property taxes, both generally and with respect to business real property taxes in particular. The Governor and the General Assembly decided to reduce real property tax relief for commercial and industrial property and to use the savings to the GRF to increase the amount of tax relief provided in other areas where Ohio's tax structure was less competitive.

Besides short-run savings, the elimination of the 10% rollback for commercial and industrial property will allow the state to better control the rate of GRF expenditure growth in the future. Although this will place some additional tax burden on Ohio businesses, the annual tax increase of $365 million by FY 2010 is relatively small when compared to the $2.8 billion in tax relief provided by the TPP tax elimination and the corporate franchise tax elimination for non-financial businesses once those changes are fully phased-in.

Other Tax Changes

Cigarette Tax

In order to raise revenue to partly offset the economically-necessitated tax cuts in the tax reform package, H.B. 66 increases the cigarette tax from $0.55 per pack to $1.25 per pack. The budget provides some additional discounts to cigarette vendors (on top of the existing 1.8% stamping discount), and exempts from the Ohio cigarette excise tax (and the Ohio use tax) up to $300 per month of cigarettes purchased outside Ohio but transported into the state. In all, the provisions of the bill will increase cigarette tax revenue by $471.0 million in FY 2006 and $382.0 million in FY 2007.

Estate Tax

Finally, the budget also reduces the Ohio estate tax. The Ohio estate tax has two components, the "basic" estate tax and the "additional" estate tax. While the federal estate tax contained a credit for state death taxes, the Ohio additional estate tax acted as a "sponge" tax that charged high-value estates more Ohio tax but did not cost the estates anything because they received a dollar-for-dollar federal credit. However, federal legislation phases-out the federal credit for state death taxes by 2005. The federal credit no longer exists, meaning that the Ohio additional estate tax now has no offsetting federal credit. H.B. 66 eliminates the Ohio additional estate tax to prevent Ohio estates from paying additional tax due to the elimination of the federal credit. This reduces estate tax revenue by $40.0 million per year, with the state loss being 20.0%, or $8.0 million annually, and the loss to cities and townships being 80.0%, or $32.0 million annually. Due to the timing of the federal change, FY 2006 is only a partial-year loss, with an impact of $2.0 million to the state and $8.0 million to cities and townships.

Encouraging Economic Development

While the economy continues to place pressure on state finances, Am. Sub. H.B. 66 promotes the development of Ohio's economy by assisting companies, training workers, and supporting strong communities. The budget reforms the tax structure of the state, continues to invest in infrastructure improvements and in research that will develop new technologies, and directs funding to business development, job training programs, and marketing activities.

Comprehensive Tax Reform

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

Jobs for Ohio Ballot Initiative

On November 8, 2005, voters will be asked to approve a proposal to amend the Ohio Constitution for a special bond issue. This $2.0 billion initiative consists of $1.35 billion for public infrastructure capital improvements to continue the program commonly known as "Issue 2," $500.0 million for research and development purposes as a component of the Third Frontier Project, and $150.0 million for the development of sites and facilities for industry, commerce, distribution, and research and development purposes. The projected debt service payments for the public infrastructure and research and development components are appropriated in the Department of Development and the Public Works Commission. The debt service for the site development component will be appropriated at a later date.

Third Frontier Project

The Third Frontier Project (www.thirdfrontier.com), launched by Governor Taft in February 2002, is a $1.6 billion, ten-year program of investment in new research, product and process innovation, and job creation. The core programs for the Third Frontier Project that are included in the budget are:

- **Third Frontier Action Fund:** Grants from this source support technology-based economic development, with a focus on creating more early stage capital for start-up companies, early stage growth companies, and new fuel cell technologies and products. Funding for the FY 2006-2007 biennium is continued at $16.79 million per year.
- **Innovation Ohio Loan Fund:** Loans from this fund assist companies with below-market financing for investments in fixed assets necessary to develop new commercial products. Appropriations for the FY 2006-2007 biennium are $50.0 million per year.

Business Development
The budget expands funding for Business Development Grants that assist companies and communities to create and retain jobs. The funding level of $11.8 million per year is an increase of more than 30.0% from the FY 2005 appropriation.

Worker Guarantee Program
The Worker Guarantee Program, created in the 2004 Jobs Bill, provides state match funding to assess, screen, and train employees for companies creating 100 or more new jobs. Funding is maintained for this initiative at $3.0 million per year.

Ohio Investment in Training Program
The Ohio Investment in Training Program provides customized training to new and expanding businesses. The 2004 Jobs Bill provided additional resources for this program, and Am. Sub. H.B. 66 provides funding of $17.2 million per year.

Ohio Business Development Coalition
In 2004, the Ohio Business Development Coalition was created to promote and market the advantages of doing business in Ohio. State funding of over $5.2 million per year will supplement funding from the coalition's partners.

The Commission on Higher Education and the Economy (CHEE)
The FY 2006-2007 budget builds upon the final recommendations (online at www.chee.ohio.gov) of the Commission on Higher Education and the Economy (CHEE), a committee of 33 leaders representing the private sector, government, and institutions of higher education, including public, private, and proprietary schools. The CHEE was charged to help Ohio create more and better jobs for the state's citizens, increase economic competitiveness, and fuel economic growth statewide through higher education initiatives. (See section titled "Education, the Cornerstone to Success" for discussion of other CHEE recommendations.)

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

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

Economic Growth Challenge
The commission recommended the creation of an Economic Growth Challenge, which is funded in this budget. This challenge will help the state maximize the world-class research, innovation, and technology commercialization capacities of its public and private higher education

institutions to drive economic growth and create jobs. The challenge is made up of three independent, but related, programs that include:

- **Research Incentive (formerly Research Challenge):** Funding for the Research Incentive increases over 5.0% from FY 2005 funding levels to $18.0 million per year. (Research Challenge was previously funded through an independent appropriation item.) State funding has leveraged an average of $183.0 million in external research and development funding annually;
- **Innovation Incentive:** Total new funding of $2.3 million in FY 2006 and $4.7 million in FY 2007 is provided for the Innovation Incentive. This new investment of state dollars will be coupled with matching funds generated through institutional reallocation of the current doctoral set-aside (from the State Share of Instruction). Incentive recipients will receive an allocation of the total funding through a competitive, independently evaluated proposal process to support doctoral programs and areas of research that have the greatest potential to (a) attract preeminent researchers and build world-class research capacity; (b) enhance regional or state economic growth by creating new products and services to be commercialized by Ohio industrial firms; and (c) complement funding provided for Ohio's Third Frontier Project.
- **Technology Commercialization Incentive:** The budget provides $500,000 to begin implementation of this new incentive in FY 2007. The Technology Incentive is a competitive grant program designed to reward colleges and universities for working with Ohio businesses and industry for the successful transfer of technology and the commercialization of new ideas. This will increase cooperation between higher education institutions and businesses to encourage more joint research and commercialization ventures.

Ohio Supercomputer Center (OSC)
The OSC provides high performance computing resources beyond those currently available on campuses to all of Ohio's colleges and universities. Additionally, many researchers throughout the state include OSC as an available state resource to make their grant proposals for external non-state funding more competitive on a national level, which is a high priority of the CHEE report. OSC works with private industry to identify business solutions through high-performance computing and modeling. The budget provides support for the OSC with recommended funding of $10.3 million in each year of the biennium, $6.0 million of which comes from federal sources.

Ohio Academic Resource Network (OARnet)
A primary goal of OARnet is to facilitate communications and resource sharing among Ohio's researchers and institutions of higher education, which is aligned with CHEE recommendations to promote increases in Ohio's research and development capacity. The budget provides $3.7 million in each fiscal year to OARnet to provide Internet access to 88 higher education institutions throughout Ohio and over two million Ohioans, while also providing network connectivity between researchers and the Ohio Supercomputer Center.

On November 30, 2004, Ohio marked its national prominence in computing and connectivity by officially launching the Third Frontier Network (online at http://www.osc.edu/oarnet/tfn/), which has been described as the nation's most advanced fiber optic network for education, research, and economic development. In the upcoming year, OARnet will begin expanding the network to include areas of the state such as Steubenville, Marietta, and Defiance, as well as providing last mile connectivity to institutions of higher education in rural areas of the state.

Ohio Agricultural Research & Development Center (OARDC)
The CHEE recommended that Ohio continue its efforts as a national leader in innovation and discovery, which includes continued investment in OARDC. The goal of the OARDC is to enhance Ohio's agricultural industries in terms of competitiveness and profitability. The OARDC, considered the nation's most comprehensive agricultural research facility, provides unbiased, research-based, scientific information for food, agricultural, and environmental systems. Each year the center administers nearly 600 research projects, attracting top researchers from across the nation and leveraging external funding to match state investments. OARDC will receive $36.0 million in each year of the biennium.

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

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

Jobs and Progress Plan
The transportation budget bill (Amended Substitute House Bill 68) contains appropriations to continue implementation of the Jobs and Progress Plan, first announced in August 2003. This 10-year, $5.0 billion initiative to improve Ohio's roadways will generate more than 4,000 highway construction jobs, ease freeway congestion, improve road safety, and connect rural regions. Appropriations in this budget for the Department of Transportation's major new highway construction program total more than $1.5 billion over the biennium.

Marketing Ohio Products at Home and Abroad

OHIO PROUD was created in 1993 to increase the sales of agricultural products raised, grown, or processed in Ohio. This program, along with others in the Department of Agriculture, seeks to create consumer awareness of Ohio products through event displays, newspaper advertisements, and billboards. In addition to these activities, the department's marketing staff promotes Ohio products internationally. Total appropriations in the Department of Agriculture for marketing activities total over $2.1 million in FY 2006 and $2.0 million in FY 2007. Similarly, the Department of Development promotes Ohio businesses internationally through the operation of trade offices and by conducting trade missions. The budget provides $4.2 million per year for Development's International Trade program.

Education, the Cornerstone of Success

Governor Taft and the General Assembly continue to work towards an education system in which Ohio schools will prepare children to succeed in education, in the workforce, and as productive citizens. Student achievement continues to be the focus of investments made in this budget. Primary and secondary education in the state has been redesigned to focus on clear and rigorous academic standards for students at each grade level. To help students successfully meet these standards, the FY 2006-2007 budget provides assistance and training to schools and educators.

Funding from all sources for education purposes totals $12.2 billion in FY 2006 (4.7% above FY 2005) and $12.9 billion in FY 2007 (5.9% above FY 2006). GRF funding for education totals $9.4 billion in FY 2006 (2.4% above FY 2005) and $9.7 billion in FY 2007 (2.9% above FY 2006).[1]

Primary and Secondary Education

Funding for the Department of Education from all sources totals $9.4 billion in FY 2006 (5.3% above FY 2005) and $10.0 billion in FY 2007 (6.3% above FY 2006). GRF funding totals $6.7 billion in FY 2006 (2.1% above FY 2005) and $6.8 billion in FY 2007 (2.4% above FY 2006). Funding from Lottery profits totals $637.9 million in each fiscal year.

Governor's Blue Ribbon Task Force on Financing Student Success

In 2003, the Governor convened and charged the Blue Ribbon Task Force on Financing Student Success (online at http://www.blueribbontaskforce.ohio.gov/) with developing an improved system of funding primary and secondary education in Ohio that promotes higher levels of student achievement and gives every child the opportunity to succeed. The Task Force recommended reforms to ensure that Ohio's system for funding schools is stable, predictable, and grows appropriately; affordable within the context of the state's economy; and includes features that promote the effective use of resources.

The Foundation Program

The FY 2006-2007 budget begins implementation of funding recommendations made by the Task Force, most of which affect the Foundation Program, which provides most state funding to school districts.

Comprised of four line items, the Foundation Program is funded at $6.2 billion in FY 2006 (2.9% above FY 2005) and $6.3 billion in FY 2007 (2.3% above FY 2006). The four line items are: Foundation Funding (200-550), Pupil Transportation (200-502), Gifted Pupil Program (200-521), and Special Education Enhancements (200-540).

[1] Totals include the Department of Education, the Board of Regents, the Ohio Schools for the Blind and Deaf, the Ohio School Facilities Commission, the eTech Ohio Commission, the Board of Career Colleges and Schools and the Tuition Trust Authority.

Foundation Funding (200-550)[2]

The Foundation Funding line item is increased over its four predecessor line items by $159.4 million in FY 2006 (2.9% above FY 2005) and is further increased by $130.0 million in FY 2007 (2.3% above FY 2006). The following are the key Task Force initiatives funded in the operating budget and included within the new line item 200-550, Foundation Funding:

Base Cost Funding

- The base cost per-pupil allocation is increased to $5,283 in FY 2006 (2.2% above the FY 2005 per-pupil amount of $5,169) and $5,403 in FY 2007 (2.3% above FY 2006). The per pupil base cost is divided into three elements: the cost of base classroom teachers at $53,680 per teacher at a 20:1 student-to-teacher ratio in FY 2006; other personnel support at $1,806 per pupil in FY 2006; and non-personnel support at $792 per pupil in FY 2006.
- Additional state and local base cost funding for data-based decision making efforts, professional development in data-based decision making, general professional development, and general intervention is provided totaling $40 per pupil in FY 2006 and $47.99 per pupil in FY 2007. These investments underscore the importance of the use of data to inform the allocation of resources and the use of data by educators to identify teaching practices that are the best determinants of a district's ability to achieve successful academic results.
- As recommended by the Task Force, the Cost of Doing Business factor is eliminated and savings are reallocated through the formula to school districts and students most in need. During the transitional period, a base cost guarantee is added so that school districts do not experience decreases below either the FY 2005 state aggregate or the per pupil base cost payment, whichever is less.
- Transitional Aid is provided to guarantee that districts receive 100.0% of prior-year total foundation formula aid in each year of the biennium.

Poverty-Based Assistance

Poverty plays a major role in student achievement and the data are clear that districts with high concentrations of economically disadvantaged students are not achieving academically. For this reason the Task Force, and subsequently the FY 2006-2007 budget, targets resources to districts of high poverty for use in researched strategies to help these students succeed. Funding for Poverty-Based Assistance totals approximately $380.9 million in FY 2006 (16.0% above FY 2005) and $435.0 million in FY 2007 (14.2% above FY 2006). The poverty indicator used to support the following funding supplements includes a count of children in families that qualify for the Ohio Works First program. Following are the components of Poverty-Based Assistance:

- **All-Day Kindergarten:** Continues funding for all-day kindergarten, as it exists in current law, estimated at $112.6 million in FY 2006 and $114.5 million in FY 2007.
- **Student Academic Intervention:** A new funding subsidy for student academic intervention provides districts increasing levels of funding for intervention as their

[2] Appropriation item 200-550, Foundation Funding, consolidates four previous items: Base Cost Funding (200-510), Disadvantaged Pupil Impact Aid (500-520), Parity Aid (200-525) and the Charge-Off Supplement (200-546).

poverty concentration increases. Funding is estimated at $69.2 million in FY 2006 and $113.5 million in FY 2007.

- **Support for Large Urban Districts:** Large urban districts face unique challenges that other districts with high concentrations of poverty do not. For this reason additional funding is provided to large urban districts for drop-out prevention and community engagement. Funding is estimated at $21.0 million in FY 2006 and $36.9 million in FY 2007.
- **Professional Development:** A new subsidy for professional development will be phased in to provide high poverty districts with an additional payment of up to 4.5% of their formula amount. Funding is estimated at $2.4 million in FY 2006 and $4.3 million in FY 2007.
- **Class Size Reduction:** The previous formula for class size reduction is modified slightly to better target resources to those districts and students with greatest needs. Funding is estimated at $122.5 million in FY 2006 and $126.5 million in FY 2007.
- **Limited English Proficient Intervention:** A subsidy for high poverty districts with at least 2.0% of students identified as limited English proficient (LEP) will be phased in to provide such districts an additional payment of 25.0% of their formula amount. Funding is estimated at $1.6 million in FY 2006 and $2.9 million in FY 2007.

Parity Aid

Parity Aid is provided on a sliding scale above the basic aid allocation to 80.0% of Ohio's poorest schools because these districts have less capacity to support education with local revenue. Each qualifying district receives the difference between what 7.5 mills raise in a district at the 80th percentile and what 7.5 mills raise in the qualifying district.

Charge-Off Supplement

This supplement (sometimes referred to as Gap Aid) provides districts that have less actual local revenue than the state assumes as the local share for basic aid, special education weighted funding, career-technical weighted funding, and transportation. The assumed local share of basic aid is equivalent to 23 mills, but districts are only required to raise 20 mills. For those districts that raise less than 23 mills, this supplement provides the difference (or gap) between 23 mills and what the district actually raises. Payments received by school districts as reimbursement due to the phase-out of the tangible personal property tax are included for the purposes of calculating the charge-off supplement.

Excess Cost Supplement

This funding is for districts whose assumed local share for special education weighted funding, career-technical weighted funding, and pupil transportation exceeds 3.3 mills times the district's recognized valuation.

Pupil Transportation (200-502)

Am. Sub. H.B. 66 provides $412.3 million in FY 2006 and $420.6 million in FY 2007 to support school district transportation programs. In addition to these resources, the budget bill directs the Department of Education to recommend a revised distribution formula by July 1, 2006, to assure the effective and fair allocation of funding.

Gifted Pupil Program (200-521)
Am. Sub. H.B. 66 provides $46.9 million in FY 2006 and $47.2 million in FY 2007 to support gifted programming. Funding supports 1,110 gifted units, the identification of gifted students, the Summer Honors Institute for gifted freshman and sophomore high school students, and the Ohio Summer School for the Gifted.

Special Education Enhancements (200-540)
Funding for this line item totals $134.2 million in FY 2006 and $135.4 million in FY 2007 primarily to fund special education and related services at county boards of mental retardation and developmental disabilities, educational service centers, and school districts with preschool special education units. Other notable programs include funding of $2.9 million in each fiscal year for home instruction for children with disabilities, $2.8 million in each fiscal year for school psychology interns, and $1.5 million for parent mentoring programs.

Revenue and Taxation
The budget eliminates the tangible personal property assessment over the period beginning tax year 2006 through tax year 2009. Districts will be held harmless from revenue losses until FY 2011 using a combination of increased Foundation Program funding (due to lower valuations) and direct payments from the Commercial Activity Tax (CAT), a new revenue source. In FY 2012, while the direct hold harmless payments will begin to be phased out, the total CAT revenues allocated to schools will be maintained and distributed to districts in an equitable fashion that accounts for differences in district wealth.

Operations and Efficiency
The budget supports the use of data analysis in decision making and the deployment of resources to yield operational efficiencies at the district level, which is a fundamental goal of the Task Force. The Task Force also focused on efficiencies that could be gained in health care and general school district operations. Efficiencies included in the budget are:

- A total of $1.3 million per year for the Auditor of State to conduct performance audits to identify savings in the areas of financial systems, human resources, facilities maintenance, transportation, and technology utilization, with priority given to districts in fiscal distress.
- School districts are required to use medical plans designed by the newly created School Employees Health Care Board following a study to identify potential efficiencies of consolidating health care insurance purchasing for public school employees. The General Assembly must enact a law to implement the recommendations resulting from the study.

Student Success Initiatives
The budget builds upon the work of the Governor's Commission for Student Success (online at http://www.osn.state.oh.us/gcss/), which was charged with identifying a plan to promote student achievement by insisting on high academic expectations for all students, fair and effective assessments based on those standards, and accountability for results. The FY 2006-2007 budget includes total funding of $78.6 million in FY 2006 and $87.6 million in FY 2007 for student success initiatives to support the continued development of academic content standards and

curriculum models, student assessments, and local accountability. Key student success initiatives included in the budget are:

- **Academic Standards & Model Curricula:** Funding of $6.3 million in FY 2006 and $6.4 million in FY 2007 is provided to support the further development of academic standards and the development of model curricula for foreign language, fine arts, and technology along with the expansion of lesson plans available for other subjects.
- **Assessments:** Funding of $54.4 million in FY 2006 (5.4% above FY 2005) and $60.0 million in FY 2007 (10.2% above FY 2006) will allow for the continued development of achievement tests, the Ohio Graduation Test (OGT), and the development of new achievement tests in mathematics, reading, social studies, and writing.
- **Local Report Cards:** Funding of $3.7 million in each fiscal year maintains standard Local Report Cards for all public schools and districts to report student performance indicators.
- **Value-Added Specialists:** New funding of $200,100 in FY 2006 and $3.8 million in FY 2007 is provided to create a system of regional level value-added specialists who will train value-added specialists at the school district level to track and measure individual student growth and academic progress over time.

Educational Choice Scholarships

This budget introduces a new initiative in FY 2007 that provides scholarships of $4,250 for grades K-8 and $5,000 for grades 9-12 to parents of students who attend persistently failing schools, enabling them to choose to send their child to a more successful chartered, nonpublic school. The Educational Choice Scholarships are not only intended to offer another route for student success, but also to impel the administration and teaching staff of a failing school building to improve upon their students' academic performance. Funding for this program is provided via a $5,200 per student deduction from the participating students' resident districts' payment from the state. Participating students will continue to be counted in the resident district's average daily membership (ADM).

Teaching Success Initiatives

The budget continues education reform as recommended by the Governor's Commission on Teaching Success (online at http://www.teaching-success.org/), a commission created to address and make recommendations regarding the preparation, recruitment, retention, and professional development of teachers to ensure student success in meeting Ohio's academic standards. The FY 2006-2007 budget includes support for teacher recruitment and preparation; teacher induction, support, and retention; professional development for teachers and administrators; and alternative teacher and administrator licensure programs. Total support for this series of programs is $34.2 million in FY 2006 and $34.7 million in FY 2007. The key teaching success initiatives included in the budget are:

- **National Board Certification:** The budget includes $7.9 million in FY 2006 (15.4% above FY 2005) and $8.3 million in FY 2007 (5.1% above FY 2006) to support and encourage the participation of teachers in the National Board Certification process.
- **Teacher-on-Loan:** Funding of nearly $750,000 in each fiscal year supports the Teacher-on-Loan program for teachers from classrooms around the state to serve as master teachers who understand and implement standards-based education and train their peers.

- **Entry-Year Teacher Programs:** Funding of $9.5 million in each fiscal year is provided to maintain the support of mentoring services and performance assessments of beginning teachers and principals.
- **Professional Development Institutes:** Funding of $12.7 million in each fiscal year is provided for the Ohio Mathematics Academy Program (OMAP), the Ohio Science Institute (OSCI), and the State Institutes for Reading Instruction (SIRI) for professional development in standards-based mathematics, science, and reading instruction.

School Building Assistance

House Bill 66 continues support for the Rebuild Ohio plan that will allow every Ohio school child to learn in safe, modern facilities and give school districts the capability to create customized classrooms and instruction tailored to meet students' needs. The Ohio School Facilities Commission (OSFC) is charged with providing funding, management oversight, and technical assistance to school districts throughout the state for the renovation and construction of school facilities. The budget supports this effort through the non-GRF appropriation of $9.3 million in FY 2006 and $9.7 million in FY 2007 to continue the effective oversight of Ohio's school construction and renovation programs and GRF appropriations of $220.4 million in FY 2006 and $256.5 million in FY 2007 for debt service on the $2.38 billion in bond issuances for Commission programs.

In addition to operating appropriations, the budget provides an additional $50.0 million in surplus FY 2005 GRF revenue, a GRF transfer of $30.0 million in FY 2006 to the School Building Assistance Fund (Fund 021), and the diversion of approximately $140.0 million of tobacco settlement revenue from the Tobacco Use Prevention and Cessation Fund to support construction projects.

Subsidizing the School Facilities Half-Mill Maintenance Requirement

House Bill 66 includes funding of $10.7 million in FY 2007 to support a new provision that will equalize a school district's one-half mill maintenance set-aside to a statewide average. This assistance will help school districts maintain new facilities constructed under OSFC programs. This initiative targets resources to those districts with the greatest needs.

Higher Education

Total funding for the Board of Regents from all sources is $2.5 billion in FY 2006 (1.3% above FY 2005) and $2.6 billion in FY 2007 (3.2% above FY 2006). GRF funding for the Board of Regents totals $2.47 billion in FY 2006 (1.1% above FY 2005) and $2.55 billion in FY 2007 (3.2% above FY 2006).

Increased investments in higher education fund the implementation of key recommendations made by the Commission on Higher Education and the Economy (CHEE) (online at http://www.chee.ohio.gov/). Governor Taft charged the group with developing a strategic plan for the state to help higher education achieve its full potential in creating more and better jobs for Ohioans, increasing economic competitiveness, and fueling economic growth. The highlighted programs in this section address the CHEE recommendations related to increasing the number of

Ohioans participating in higher education. (Economic development and research-related initiatives are addressed in the "Encouraging Economic Development" section of this document.)

Ohio College Opportunity Grant
Ohio's strategy to improve educational access includes providing direct aid to Ohioans who face financial barriers to higher education. As recommended in the CHEE report, this budget includes funding to create a new need-based financial aid program, the Ohio College Opportunity Grant. The program, which will provide an additional $58.1 million in FY 2007, will be phased in over four years beginning in FY 2007 and replace the Ohio Instructional Grant and the Part-time Instructional Grant. The new program provides consistency between the state's measure of need and the measure used for the federal Pell Grant. This effort will increase the tuition-buying power of those students demonstrating the most financial need. Additionally, the new program increases the maximum grant award for students attending public institutions from $2,190 under the current Ohio Instructional Grant to $2,496, an increase of 14.0%. When coupled with investments in other direct need-based financial assistance to students (the Ohio Instructional Grant and Part-time Instructional Grant programs), this budget appropriates a total of $161.2 million in FY 2007 (25.2% above FY 2005).

Ohio Instructional Grant & Part-time Instructional Grant Programs
Students who participate in higher education prior to FY 2007 will remain eligible to receive grants under the state's current need-based financial aid program, the Ohio Instructional Grants for full-time students ($121.2 million in FY 2006 and $92.5 million in FY 2007) and the Part-time Instructional Grants for part-time students ($14.5 million in FY 2006 and $10.5 million in FY 2007). As noted above, these programs will be phased out by FY 2011 and replaced by the Ohio College Opportunity Grant.

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

- **Student Choice Grants:** House Bill 66 includes $50.9 million in FY 2006 and $53.0 million in FY 2007 to provide incentives for Ohio students to pursue higher education in the state. Grants are provided to resident undergraduates who attend Ohio private non-profit colleges and universities.
- **Ohio Academic Scholarships:** $7.8 million is provided in each fiscal year to support merit-based scholarships to Ohio's high achieving high school graduates.
- **Workforce Development Grants:** The operating budget includes $2.1 million in each fiscal year to provide merit-based grants to students at eligible proprietary schools throughout Ohio.
- **Ohio National Guard Scholarship Program:** $15.1 million in FY 2006 and $16.6 million in FY 2007 is appropriated to fulfill Ohio's commitment to provide educational support to members of the Ohio National Guard.
- **Ohio War Orphans Scholarship:** $4.7 million in each fiscal year is authorized to support Ohio's commitment to dependents of the state's service men and women who become permanently disabled or die while in active duty during a time of conflict.

- **Health Professional Loan Repayment:** Non-GRF support is provided for three health professional loan repayment programs ($1.5 million in each fiscal year), which encourage health professionals to work in health care shortage areas of the state by providing student loan repayments for each year of service.

Continuation of the Tuition Cap
The CHEE report recommended restraining tuition growth at state-assisted institutions of higher education. House Bill 66 limits growth to the lesser of 6.0% or $500 annually in an effort to expand access to higher education.

Ohio's Partnership for Continued Learning (P-16 Council)
A major recommendation of the CHEE was to continue initiatives that increase overall cooperation among the state and local communities in efforts to create a seamless P-16 education system that serves all Ohioans. House Bill 66 provides $150,000 in each fiscal year in both the Board of Regents and the Department of Education's budgets to create Ohio's Partnership for Continued Learning, which will work in cooperation with local and state level partners to create a single comprehensive education system from early childhood through adulthood.

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

College Readiness & Access
House Bill 66 provides support for CHEE recommendations focused on increasing the skills and education level of Ohioans to create a highly educated and work-ready population. Total GRF funding for College Readiness & Access initiatives of $6.4 million in FY 2006 (51.8% above FY 2005) and $7.7 million in FY 2007 (20.1% above FY 2006) expands the reach and impact of projects targeted to encourage college enrollment by primary and secondary students throughout the state. The following two initiatives, funded through College Readiness & Access, represent major investments in Ohio's youth, improving awareness and planning for higher education and increasing college participation in the upcoming years.

- **The Ohio College Access Network (OCAN):** OCAN will receive $1.1 million in FY 2006 and $1.2 million in FY 2007 to continue support for current initiatives, to expand upon current programming, and to reach into counties that are currently underserved.
- **Early College High School Pilot Program:** This program will receive $1.6 million in FY 2006 and $2.8 million in FY 2007 in new funding in both the Board of Regents' and the Department of Education's budgets to implement pilot partnerships as recommended by the CHEE and the Committee to Redesign Ohio High Schools. The partnerships will provide students who may not have had the opportunity to attend college otherwise with

the opportunity to earn college credit towards an associate or bachelor's degree while still in high school.

State Share of Instruction
House Bill 66 provides $1.6 billion in FY 2006 and an increase of $30.0 million (1.9% above FY 2006) in fiscal year 2007 to supplement the general operations of the state's 13 four-year universities, 24 regional branch campuses, two free standing medical colleges, 15 community colleges, and eight technical colleges. The additional amounts provided in FY 2007 will support enrollment growth through a methodology to be developed by the 15-member Higher Education Funding Council. The Council will review all aspects of higher education funding and submit a report of its findings and recommendations to the Governor, Speaker of the House, and Senate President by May 31, 2006.

Challenge Funding
This budget provides targeted state investments for the Access, Jobs, Success, and Economic Growth Challenges.

- **Access Challenge:** Funding of $73.5 million in FY 2006 and $73.0 million in FY 2007 is provided for Access Challenge to support the efforts of access campuses to keep tuition below the state average and make higher education more affordable for all Ohioans. The access campuses include all public technical and community colleges, university branch campuses, as well as Central State University, Shawnee State University, and the two-year components of the University of Akron, the University of Cincinnati, and Youngstown State University. Included within this appropriation level is $10.2 million in FY 2006 and $9.7 million in FY 2007 to enable Central State University to maintain undergraduate fees below the statewide average to encourage enrollment of first-generation college students from groups historically underrepresented in higher education.
- **Jobs Challenge:** The budget includes $9.3 million in each year of the budget to further the Jobs Challenge initiatives aimed to promote the state's economic development goals through employee training, and employer partnership and engagement with participating institutions of higher education.
- **Success Challenge:** Additionally, funding is provided to promote timely degree completion and support for at-risk students at Ohio's 13 state-assisted universities through the Success Challenge ($52.6 million in each year).
- **Economic Growth Challenge:** Economic Growth Challenge, which replaces Research Challenge, receives funding of $20.3 million in FY 2006 and $23.2 million in FY 2007. For more information about this effort to maximize commercialization capacities at institutions of higher education, please refer to the "Encouraging Economic Development" section of this document.

Managing Limited Resources

The General Revenue Fund (GRF) appropriations in this budget will result in the two slowest growing fiscal years of the last 40 years, with GRF growth rates of 1.9% in FY 2006 and 2.6% in FY 2007.

The FY 2006-2007 budget reduces or holds flat many of the state's GRF funded agencies, consolidates functions or activities of several state agencies, and holds down the costs of one of the fastest growing programs in state government – Medicaid. Of the state's 64 GRF funded agencies, 24 will remain at FY 2005 GRF levels or decrease their reliance on GRF funding.

The FY 2006-2007 budget continues the sound management practices and fiscal restraint for which Ohio is known. In fact, many agencies will spend less from the General Revenue Fund in FY 2007 than they spent in FY 2000. The majority of GRF spending increases over this time period can be attributed to increased spending in primary and secondary education, Medicaid, debt service, and property tax relief programs. Examples of some of the cost management strategies employed over the past several biennia are outlined below.

- Over the past five years, agencies' GRF budgets have been cut by $1.4 billion.
- Since 1999, the number of state employees has been steadily shrinking. In January 1999, there were approximately 62,500 state employees. As of August 2005, there are approximately 59,100.
- The most conservative state-employee compensation contract in the history of Ohio public sector collective bargaining was negotiated, freezing base wages for state employees for a two-year period.
- The size of the state vehicle fleet has been reduced by nearly 12.0%.
- The closure of six institutions has either taken place or is scheduled to take place. These include: Riverview Juvenile Correctional Facility, Maumee Juvenile Correctional Facility, Orient Correctional Institution, Lima Correctional Institution, Springview Development Center, and Apple Creek Developmental Center.

In addition, a number of Medicaid cost management initiatives have been successfully implemented and have saved the state over $860.0 million in the FY 2004-2005 biennium alone, but growth rates for this program were still 11.9% in FY 2004 and 5.9% in FY 2005. The Medicaid program has grown at a faster rate than state revenues in seven of the past ten years. Clearly, this rate of growth is not sustainable without crowding out other budget priorities. To bring the rate of growth in line with revenues, the FY 2006-2007 budget includes additional strategies to continue to rein in Medicaid program expenditures.

Medicaid

The FY 2006-2007 Medicaid budget cuts program costs while protecting services and eligibility for children and minimizing harm to the most vulnerable populations: pregnant women, the elderly, and people with disabilities. The budget adopts short-term strategies to reduce projected costs in the FY 2006-2007 biennium and sets the stage for responsible long-term Medicaid reform using strategies that will control the rate of growth over time. These strategies are intended to deliver cost effective and preventive care for low-income families and children;

provide cost-effective, non-institutional residential options and health care for seniors; and improve the information technology used to manage the Medicaid program. Many of the reforms in the budget are consistent with the recommendations of the Ohio Commission to Reform Medicaid (online at www.ohiomedicaidreform.com). Specifically, the budget:

- Expands the preferred drug list to gain supplemental rebates for behavioral prescription drugs;
- Replaces the cost-based nursing facility reimbursement formula with a price-based formula beginning in FY 2007;
- Freezes inpatient hospital, nursing facilities, and intermediate care facilities for the mentally retarded (ICF/MRs) payments at FY 2005 levels for FYs 2006 and 2007;
- Expands managed care statewide to cover over one million children and their families and over 125,000 aged, blind, and disabled enrollees;
- Eliminates coverage for parents with incomes between 90.0% and 100.0% of the federal poverty level;
- Requires patient co-payments for prescription drugs, vision and dental care, and non-emergency emergency room visits;
- Provides funding for the new Medicaid Information Technology System (MITS) that will replace the Department of Job and Family Services' 20-year-old system. The new system will enable the department to better manage the program, accurately pay claims, and have the flexibility to make cost-saving administrative changes without reducing services to Medicaid recipients; and
- Creates the Medicaid Administrative Study Council, which is charged with making recommendations to more effectively administer the Medicaid program through a new cabinet-level department.

These cost containment initiatives will reduce projected GRF spending by approximately $720.0 million in FY 2006 and $1.4 billion in FY 2007.

The budget increases funding for programs that help individuals live in community settings where they prefer to live, thus reducing the need for expensive nursing home care. The budget does the following:

- Creates a new waiver enabling 1,800 people to live in an assisted living setting;
- Expands the PASSPORT and Choices waiver programs;
- Provides a process for those seniors who must enter a nursing home due to a PASSPORT waiting list to bypass the waiting list and enroll in the PASSPORT program;
- Creates a new Medicaid voucher pilot program that will enable participants to pay for their own health care services; and
- Continues to fund the Success Project, which helps individuals move into a community setting from a nursing home.

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

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

Consolidation of the SchoolNet and the Educational Telecommunications Network Commissions

The budget consolidates the operations of the Ohio SchoolNet and the Ohio Educational Telecommunications Network Commissions into the newly formed eTech Ohio Commission beginning in FY 2006. The merger is an effort to leverage the resources and activities of these two agencies to serve schools and the public with educational, cultural, and informational content, as well as safety information, media services for special populations, and content/support that enriches classroom instruction in ways that are aligned with academic content standards.

Consolidation of Regulatory Boards

Ohio currently has 27 independent boards that set standards for licensure and registration of members of various professions and occupations. The boards then enforce these standards through examination, inspection, investigation, and continuing education. The budget intends to consolidate 20 of these boards within umbrella agencies in order to streamline operations and improve efficiencies. The sizes of the agencies to be consolidated range from the State Board of Orthotics, Prosthetics, and Pedorthics, with one full-time employee and an annual budget of approximately $100,000, to the State Board of Cosmetology, with 32 full-time employees and an annual budget of nearly $3.0 million. Fiscal year 2006 funding for these regulatory boards combined totals $11.2 million. The agencies employ over 110 staff members and have 150 board members or commissioners.

The appointed boards and commissions will continue to provide oversight of their professions, but the Departments of Commerce, Health, and Public Safety, as appropriate, will provide staffing and support services. The goal of this initiative is to ensure management accountability for all of the affected regulatory boards and to realize management and budget efficiencies.

The budget includes funding for FY 2006 for each of the boards and commissions included in the consolidation initiative; however, no appropriations are included for FY 2007. The budget also contains temporary law establishing a transition team to implement the transfer. The team includes representatives from the Departments of Commerce, Health, Public Safety, and Administrative Services, as well as the Office of Budget and Management. The transition team membership also includes three members representing the impacted regulatory boards, as selected by the executive directors of those boards. This task force is charged with submitting a report containing recommendations and the details for the consolidations not later than December 31, 2005, to the Governor, the Speaker of the House of Representatives, and the President of the Senate. The report must address funding levels, projected cost savings, the consolidation of activities, necessary staffing levels, and the continuation of current standards, procedures, and rules. The budget also expresses the General Assembly's intent to introduce legislation in FY 2006 that will include the necessary statutory changes to effect the consolidations and revised appropriations for FY 2007.

Consolidation of Utility Customer Call Centers

The call centers currently operated by the Public Utilities Commission and the Office of the Ohio Consumers' Counsel will be consolidated into one center that will be operated by the Public Utilities Commission. The consolidation is expected to result in savings to utility consumers.

Worker Safety Program Transfer

Two worker safety programs, previously housed in the Department of Commerce, the Public Employment Risk Reduction Program and the Occupational Safety and Health Administration On-Site Consultation Program, are moved to the Bureau of Workers' Compensation, where the objectives of the programs will be better aligned with the agency's mission. In addition, the portion of the programs previously supported by the General Revenue Fund, approximately $1.4 million per year, will be supported by non-GRF sources.

Environmental Protection Fee

The budget includes an environmental protection fee of $1.50 per ton on solid waste that is disposed of in Ohio landfills. The fee will replace the use of the GRF to support the operations of the Environmental Protection Agency by FY 2007.

Fees to Support State Services

The budget includes new or increased fees for eight agencies. These fees are needed to meet operating costs of providing the service or to reduce the agency's dependence on GRF. Activities that are generally of a regulatory nature, or activities that deliver something of value for which the recipient reasonably can be expected to pay the cost of the service received, should be funded from revenues generated from those directly benefiting from the activity. As a policy, the fee imposed generally should be sufficient to generate the necessary revenues to perform the activity. The fees range from the Department of Agriculture's increased fees for permits for amusement rides to the Department of Health's increased fees for nursing home licensure and X-ray inspection.

Supporting Seniors and Families

Supporting seniors and families continues to be a priority of Governor Taft and the legislature. The following initiatives are evidence of this support.

PASSPORT

The PASSPORT program provides personal care, adult day services, home-delivered meals, medical equipment and supplies, independent living assistance, nutrition consultation, and transportation services based on the individual needs of qualifying older Ohioans who require assistance to remain in their homes. Total funding for the PASSPORT program is $348.6 million in FY 2006 and $376.9 million in FY 2007, which represents growth of 11.8% and 8.1% respectively. PASSPORT GRF funding is $112.0 million in FY 2006 (8.1% above FY 2005) and $121.0 million in FY 2007 (8.0% above FY 2006). Funding levels will enable approximately 25,000 older Ohioans to receive home care assistance in the next biennium and support an average of 625 new enrollees per month. Even at these increased levels of funding, it is likely that qualifying seniors could spend some time waiting for an available slot in the PASSPORT program. The budget does provide an opportunity for individuals who had to move into a nursing home but had been on a PASSPORT waiting list to bypass the waiting list and transfer directly from a nursing facility into the PASSPORT program.

Assisted Living Waiver

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

ICF/MR Conversion Pilot Program

A waiver will be created that will enable current ICF/MR facilities and up to 200 individuals to volunteer to participate in a pilot program that will provide needed services through a home- and community-based waiver rather than in an institutional setting. The Department of Job and Family Services and the Department of Mental Retardation and Developmental Disabilities will consult with an advisory council on the waiver application, program adjustments, rules, and an evaluation of the pilot program.

Access to Better Care – Improving Behavioral Health Services for Children

Through a variety of funding sources, the budget includes $25.8 million in FY 2006 and $26.9 million in FY 2007 to improve access to and the quality of behavioral health services to children in Ohio through prevention, early intervention, and treatment strategies. Specifically, the budget includes:

Prevention

- $1.5 million in each fiscal year for the expansion of the evidence-based community-planning model, Partnerships for Success (PfS), to additional counties;

- $2.6 million in each year of the biennium to support Early Childhood Mental Health Professionals (ECMHP) and target their efforts to school districts in academic watch or academic emergency 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
- $325,000 over the biennium to broaden the understanding, prevention, and intervention for Fetal Alcohol Spectrum Disorder.

Early Intervention

- $500,000 over the biennium to expand effective parent and caregiver training and education;
- $320,000 over the biennium to increase awareness of 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 and community based risk assessment and suicide prevention activities.

Treatment

- $4.7 million in each fiscal year to continue FAST '05, funds dedicated to improving community behavioral health treatment and developing a parent advocacy network;
- $4.5 million in FY 2006 and $5.5 million in FY 2007 to build upon FAST '05 by providing flexible local funds for effective, family-centered community behavioral health treatment and support services;
- $1.0 million in each year of the biennium to support, in select areas of the state, programs that focus on improving behavioral health services for the child welfare and juvenile justice populations. At least one project will focus on adolescent girls involved with or at risk for involvement with the juvenile justice system;
- $4.0 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.

TANF Spending Plan

Ohio will spend approximately $1.3 billion per year on TANF eligible activities. Some of the TANF initiatives funded in the budget include:

- $344.0 million in FY 2006 and $354.6 million in FY 2007 to support the Ohio Works First program, Ohio's cash assistance program. Cash assistance grants will be increased by 10.0%, the first increase since FY 2000;

- $326.1 million per year for county TANF allocations for local programs that assist low-income families;
- $165.1 million in FY 2006 and $165.7 million in FY 2007 for subsidized child care (see Child Care section below for more information on child care initiatives);
- $97.4 million in FY 2006 and $116.3 million in FY 2007 for the Early Learning Initiative that will serve 10,000 children in FY 2006 and 12,000 children in FY 2007 with access to full-day, full-year programming to meet the child care needs of their working families and to provide an early learning program to help prepare them for school;
- $35.0 million per year to support innovative state and county demonstration programs, including a student intervention demonstration project funded at $15.0 million per year;
- $45.3 million in FY 2006 and $46.2 million in FY 2007 for the child care provider rate reimbursement ceiling increase to 65.0% of the market rate. (See Child Care section below for additional information on child care initiatives.);
- $11.0 million per year for faith based – strengthening families initiatives; and
- $10.0 million per year for the Kinship Permanency Incentive Program, a program to promote kinship permanency for a minor child in the legal and physical custody of a kinship caregiver.

Child Care
Child Care is supported at $628.6 million in FY 2006 and $662.5 million in FY 2007. The budget includes provisions to increase access to child care for working families by:

- Increasing the intake eligibility level for child care assistance from 150.0% to 185.0% of the federal poverty level beginning on July 1, 2005;
- Reducing co-payments for most families by at least 10.0%. Some families with incomes below the federal poverty line will experience reductions in co-payments of up to 60.0%; and
- Restructuring provider reimbursements to better reflect the costs of providing care in different regions around the state.

Alcohol and Drug Addiction Prevention and Treatment
Total funding for the Department of Alcohol and Drug Addiction Services is $184.4 million in FY 2006 and $190.6 million in FY 2007. GRF funding is $39.9 million in FY 2006 and $41.7 million in FY 2007. Additional funding is provided to expand prevention programming and alcohol and other drug treatment services and includes $2.2 million in FY 2006 and $2.8 million in FY 2007 to provide services to people who meet the criteria for the Disability Medical Assistance Program.

Bureau for Children with Medical Handicaps
The Bureau for Children with Medical Handicaps (BCMH) within the Department of Health provides vital services such as treatment, diagnosis, and service coordination primarily for children who have severe medical handicaps such as hemophilia, spina bifida, cerebral palsy, and cystic fibrosis. GRF funding for this program totals $9.6 million in FY 2006 and $8.8 million in FY 2007. GRF funding was increased to enable the department to restore the financial eligibility levels that were in place prior to October 2003. In addition, the program's religious exemption is

removed, requiring all BCMH applicants to apply for and accept Medicaid assistance before qualifying for the program.

Aid to Military Families

The budget requires the Adjutant General to reimburse active duty members of the Ohio National Guard for life insurance premium payments made by the member if that member chooses to participate in the federal Servicemembers' Group Life Insurance program. The bill also requires the Adjutant General to pay a $100,000 death benefit (increased from $20,000) to the beneficiary or beneficiaries of an Ohio National Guard member who dies while performing active duty. The budget appropriates $1.4 million per year for these purposes.

Medicaid

The Medicaid budget continues to make high quality care the number one goal while seeking to expand alternative forms of care. Notwithstanding the cost containment initiatives in the budget (for additional information on these see "Managing Limited Resources"), Medicaid will continue to be the largest single state program. Medicaid spending from all sources totals $11.0 billion in FY 2006 and $11.3 billion in FY 2007. GRF appropriations total $9.5 billion in FY 2006 and $9.9 billion in FY 2007. At these funding levels, Medicaid will:

- Provide health care coverage for approximately 1.8 million Ohioans;
- Provide health care coverage for 45.0% of all children under the age of five;
- Provide health care coverage for one in four seniors over the age of 85;
- Cover 70.0% of all nursing facility care in the state; and
- Cover 33.0% of all births in the state.

Medicare Part D

In 2003, the federal government enacted the Medicare Prescription Drug, Improvement and Modernization Act (MMA). The part of the MMA that impacts Ohio is a change in how prescription drugs are funded for dual-eligible individuals, those who qualify for both Medicare and Medicaid. This part of the MMA is referred to as Medicare Part D. Currently, Ohio Medicaid pays for drugs for these individuals and receives federal reimbursement like most other Medicaid services. When Medicare Part D becomes effective in January 2006, Medicare will pay for these drugs directly and will charge the state a premium based on what it calculates as the state share of these costs. A new line item, 600-526 Medicare Part D, has been created to make this payment. Appropriations for this line item are $155.3 million in fiscal year 2006 and $339.6 million in fiscal year 2007.

Essential State Services

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

Department of Rehabilitation and Correction
GRF funding for the Department of Rehabilitation and Correction is $1.48 billion in FY 2006 (2.8% above FY 2005) and $1.50 billion in FY 2007 (1.7% above FY 2006). The budget will fund the operation of 32 institutions, including inmate medical and mental health services, as well as parole operations and community corrections programs. All community programs will remain at FY 2005 levels to support increases at the institutions for legally mandated medical care and mental health services. Currently no institution closures are planned; however, the appropriation levels will likely result in the attrition of several hundred employees over the biennium.

Department of Youth Services
GRF funding for the Department of Youth Services is $244.5 million in FY 2006 (3.9% above FY 2005) and $252.3 million in FY 2007 (3.2% above FY 2006). Total funding for the RECLAIM Ohio program is $132.2 million per year and will support the operation of eight state juvenile correctional facilities (JCF) and one private facility; provide $30.0 million per year in subsidies to 88 county juvenile courts for diversion programs; and support the operation of 12 community correctional facilities. Increased funding for RECLAIM was provided to target specific initiatives at the Scioto JCF to address the female population and in Ohio River Valley JCF to address the transfer of the sex offender population from Circleville JCF. With the exception of an increase to activate 18 new community corrections beds to divert male and female offenders from institutions, funding for local subsidies will remain at FY 2005 levels.

Department of Mental Retardation and Developmental Disabilities
GRF funding for the Department of Mental Retardation and Developmental Disabilities is $352.9 million in FY 2006 and $353.4 million in FY 2007. GRF funding levels will support ten institutions as well as waiver services for approximately 11,300 individuals with MR/DD. Growth rates (-0.3% and 0.1% respectively) are lower than those for the state's other institutional agencies because they reflect savings from the closure of two developmental centers, Springview in June 2005 and Apple Creek in June 2006.

Department of Mental Health
GRF funding for the Department of Mental Health is $561.0 million in FY 2006 (4.2% above FY 2005) and $578.8 million in FY 2007 (3.2% above FY 2006). Funding levels will enable the department to maintain state hospitals at nine sites for Ohioans with severe mental illness. An additional $5.0 million in FY 2006 and $10.0 million in FY 2007 is provided for local board subsidies to maintain community services such as treatment, temporary housing, consumer-to-consumer support, and emergency outpatient care. A total of $4.3 million in FY 2006 and $5.7 million in FY 2007 is earmarked in the Community Medication Subsidy line item to provide

services to individuals who meet the eligibility criteria of the Disability Medical Assistance Program.

Ohio State School for the Blind
GRF funding for the Ohio State School for the Blind is $7.3 million in FY 2006 (1.5% above FY 2005) and $7.4 million in FY 2007 (1.7% above FY 2006). Funding levels will enable the department to maintain the current number of employees for the continuation of current programs.

Ohio School for the Deaf
GRF funding for the Ohio School for the Deaf is $9.7 million in each year of the biennium (8.0% increase above FY 2005). Funding levels will allow the department to maintain its current staff level for the continuation of current programs.

Ohio Veterans' Home Facility Support
Total funding for the Ohio Veterans' Home is $52.0 million in FY 2006 (5.0% above FY 2005) and $52.9 million in FY 2007 (1.7% above FY 2006), and GRF funding totals $27.0 million in FY 2006 (4.4% above FY 2005) and $27.4 million in FY 2007 (1.5% above FY 2006). Funding will support the Ohio Veterans' Home in Georgetown as it fills to capacity, while continuing to support the existing facilities in Sandusky.

County Entitlement Administration
GRF appropriations totaling $151.2 million per year have been provided to fund the state's share of county administration expenditures for the Food Stamp, Disability Assistance, and Medicaid programs. This increase of over 100.0% above FY 2005 appropriated levels is necessary to cover county expenditures that previously had been supplemented with federal TANF dollars, an inappropriate use of this revenue source.

In addition, the budget includes an appropriation of $60.0 million to pay back a portion of the state's obligation to Ohio's federal TANF grant.

Disaster Assistance
Weather caused a number of natural disasters in FY 2005, during which all but ten counties in the state had at least one Governor-declared emergency. The Governor's declarations allow state resources to be used to assist local governments and allow counties to be eligible for potential federal assistance. Provisions in Am. Sub. H.B. 66 allowed $40.0 million in surplus FY 2005 GRF revenue to be transferred to the Disaster Services Fund. The Controlling Board may approve transfers from this fund to various agencies to support disaster relief programs. A portion of this funding will be used to pay the known costs of prior disasters, and the remaining funding will be available for future needs.

In addition, the Department of Job and Family Services' budget provides a total of $5.0 million per year in TANF funds for disaster assistance for TANF-eligible families and $1.0 million per year from the GRF for disaster assistance for low-income residents who are not eligible for

TANF benefits. An additional $5.0 million per year is available in the Controlling Board budget, as needed, for future disasters, emergencies, or other purposes.

Department of Natural Resources

The budget provides additional GRF funding for the Department of Natural Resources to support operations and maintenance at Ohio's state parks. This additional funding was provided in lieu of the establishment of a daily parking fee, and will continue the tradition of free entry to Ohio's state parks.

Table 1

Actual and Estimated Revenues for the General Revenue Fund
Fiscal Years 2004 to 2007
(Dollars in Millions)

Revenue Source	Actual FY 2004	Actual FY 2005	% Chg	Estimated FY 2006	% Chg	FY 2007	% Chg
Tax Revenue							
Auto Sales and Use	1,122.9	1,064.1	-5.2%	967.0	-9.1%	976.5	1.0%
Non-Auto Sales and Use	6,407.7	6,763.0	5.5%	6,513.9	-3.7%	6,829.6	4.8%
Subtotal Sales and Use	**7,530.6**	**7,827.1**	**3.9%**	**7,480.9**	**-4.4%**	**7,806.1**	**4.3%**
Personal Income	7,696.9	8,598.9	11.7%	8,673.9	0.9%	8,803.1	1.5%
Corporate Franchise	809.2	1,051.6	30.0%	952.6	-9.4%	838.4	-12.0%
Commercial Activity	0.0	0.0	N/A	143.5	N/A	0.0	-100.0%
Public Utility	226.4	104.1	-54%	146.6	40.8%	146.6	0.0%
Kilowatt Hour	339.0	339.8	0.0%	315.7	-7.1%	320.1	1.4%
Foreign Insurance	230.5	242.9	5.4%	243.6	0.3%	250.9	3.0%
Domestic Insurance	165.9	171.4	3.3%	172.9	0.9%	178.1	3.0%
Business and Property	29.9	25.2	-15.7%	26.4	4.8%	27.0	2.3%
Cigarette	557.5	577.7	3.6%	1,013.2	75.4%	914.7	-9.7%
Alcoholic Beverage	56.5	56.8	0.6%	57.5	1.2%	58.0	0.9%
Liquor Gallonage	30.9	32.2	4.2%	32.6	1.3%	33.3	2.1%
Estate	64.2	60.4	-6.0%	62.1	2.8%	58.3	-6.2%
Total of Tax Revenue	**17,737.5**	**19,088.0**	**7.6%**	**19,321.4**	**1.2%**	**19,434.6**	**0.6%**
Non-Tax Revenue							
Earnings on Investments	18.0	35.0	94.7%	65.0	85.8%	90.0	38.5%
Licenses and Fees	50.2	70.6	40.8%	69.2	-2.0%	69.2	0.0%
Other Income	119.1	85.8	-28.0%	127.0	48.1%	127.0	0.0%
Interagency Transfers	68.9	72.8	5.6%	59.7	-18.0%	59.6	-0.2%
Total of Non-Tax Revenue	**256.1**	**264.1**	**3.1%**	**320.9**	**21.5%**	**345.8**	**7.8%**
Transfers							
BSF Transfer	0.0	0.0	0.0%	0.0	N/A	0.0	N/A
Liquor Transfers	118.0	115.0	-2.5%	123.0	7.0%	117.3	-4.6%
Transfer In - Other	380.6	417.2	9.6%	123.0	-70.5%	118.8	-3.4%
Transfers In - Temporary	22.3	19.6	-12.1%	13.3	-32.1%	0.0	-100.0%
Total Transfers	**520.9**	**551.8**	**5.9%**	**259.3**	**-53.0%**	**236.1**	**-8.9%**
Total Sources Excluding Federal Grants	**18,514.4**	**19,903.9**	**7.5%**	**19,901.6**	**0.0%**	**20,016.5**	**0.6%**
Federal Grants Deposited in the GRF	5,516.4	5,646.6	2.4%	5,724.7	1.4%	5,843.2	2.1%
Total Sources	**24,030.8**	**25,550.5**	**6.3%**	**25,626.3**	**0.3%**	**25,859.7**	**0.9%**

Source: Ohio Office of Budget and Management, August 2005

Table 2

Actual Expenditures and H.B. 66 Appropriations by Agency
Total General Revenue Fund, FYs 2005, 2006, 2007

State Agency / Spending Category	FY 2005 Actuals	FY 2006 Appropriation	% Change	FY 2007 Appropriation	% Change
Primary and Secondary Education					
Education, Department of	6,536,896,466	6,672,413,299	2.1%	6,829,816,636	2.4%
Educational Telecommunications Network Comm[a	9,125,218	0	-100.0%	0	0.0%
eTech Ohio Commission[a]	0	25,989,387	0.0%	25,768,233	-0.9%
School Facilities Commission	165,364,639	220,416,400	33.3%	256,514,700	16.4%
SchoolNet Commission[a]	18,000,957	0	-100.0%	0	0.0%
State School for The Blind	7,182,595	7,287,292	1.5%	7,411,712	1.7%
State School for The Deaf	8,942,014	9,656,955	8.0%	9,656,955	0.0%
subtotal	**6,745,511,889**	**6,935,763,333**	**2.8%**	**7,129,168,236**	**2.8%**
Higher and Other Education					
Arts Council	11,274,473	11,238,161	-0.3%	11,238,161	0.0%
Historical Society	14,778,574	14,319,655	-3.1%	14,294,655	-0.2%
Library Board	13,044,207	13,105,191	0.5%	13,105,191	0.0%
Ohioana Library Association	202,134	200,000	-1.1%	200,000	0.0%
Regents, Board of	2,441,648,111	2,469,260,757	1.1%	2,548,147,869	3.2%
subtotal	**2,480,947,499**	**2,508,123,764**	**1.1%**	**2,586,985,876**	**3.1%**
Health and Human Services					
African American Males, Commission on	292,545	282,000	-3.6%	282,000	0.0%
Aging, Department of	132,312,050	151,682,653	14.6%	159,585,711	5.2%
Alcohol and Drug Addition Services, Dept. of	36,796,784	39,909,973	8.5%	41,674,515	4.4%
Health, Department of	67,873,293	75,587,016	11.4%	75,537,016	-0.1%
Hispanic-Latino Affairs, Commission on	178,252	181,781	2.0%	181,781	0.0%
Total Job and Family Services, Department of	10,269,856,994	10,521,592,074	2.5%	10,875,043,040	3.4%
Medicaid	9,446,177,653	9,519,308,013	0.8%	9,867,211,576	3.7%
Other Job and Family Services	823,679,341	1,002,284,061	21.7%	1,007,831,464	0.6%
Legal Rights Service	489,323	489,322	0.0%	489,322	0.0%
Mental Health, Department of	538,338,730	561,012,510	4.2%	578,783,810	3.2%
Mental Retardation/DD, Department of	354,108,765	352,880,570	-0.3%	353,397,967	0.1%
Minority Health, Commission on	1,152,587	1,346,410	16.8%	1,346,410	0.0%
Rehabilitation Services Commission	23,309,607	24,296,832	4.2%	24,296,832	0.0%
Veterans' Home	25,883,699	27,026,114	4.4%	27,426,231	1.5%
Veterans' Organizations	1,387,041	1,634,619	17.8%	1,634,619	0.0%
Medicaid subtotal	**9,446,177,653**	**9,519,308,013**	**0.8%**	**9,867,211,576**	**3.7%**
Other Health and Human Services subtotal	**2,005,802,017**	**2,238,613,861**	**11.6%**	**2,272,467,678**	**1.5%**
Justice and Public Protection					
Adjutant General	9,970,543	11,493,735	15.3%	11,493,735	0.0%
Civil Rights Commission	7,043,859	7,253,075	3.0%	7,470,667	3.0%
Criminal Justice Services, Office of [b]	2,490,854	0	-100.0%	0	0.0%
Ethics Commission	1,357,230	1,536,213	13.2%	1,536,213	0.0%
Inspector General, Office of	746,717	1,700,868	127.8%	979,085	-42.4%
Public Defender Commission	40,484,746	38,151,495	-5.8%	38,077,880	-0.2%
Public Safety, Department of [b]	9,069,761	6,532,596	-28.0%	6,842,889	4.7%
Rehabilitation and Correction, Department of	1,435,916,379	1,475,869,973	2.8%	1,501,312,169	1.7%
Youth Services, Department of	235,415,125	244,491,259	3.9%	252,293,166	3.2%
subtotal	**1,742,495,214**	**1,787,029,214**	**2.6%**	**1,820,005,804**	**1.8%**
General Government					
Administrative Services, Department of	143,415,968	162,295,547	13.2%	163,129,980	0.5%
Ballot Board	285,311	0	-100.0%	0	0.0%
Budget and Management, Office of	2,465,832	2,226,875	-9.7%	2,480,759	11.4%
Capital Square Review and Advisory Commission	2,869,086	2,892,269	0.8%	2,852,269	-1.4%
Commerce, Department of	4,011,152	2,086,477	-48.0%	2,032,397	-2.6%
Controlling Board	0	5,950,000	0.0%	5,950,000	0.0%
Cultural Facilities Commission	34,890,379	38,325,006	9.8%	38,442,207	0.3%
Dispute Resolution and Conflict Mgmt, Comm. On	429,271	470,000	9.5%	470,000	0.0%
Elections Commission	295,941	411,623	39.1%	411,623	0.0%
Personnel Review Board	1,073,432	1,116,170	4.0%	1,148,000	2.9%
State Employment Relations Board	3,031,993	3,265,397	7.7%	3,363,359	3.0%
Tax Appeals, Board of	2,035,289	2,155,055	5.9%	2,211,035	2.6%
Taxation, Department of	84,482,664	91,511,742	8.3%	91,511,742	0.0%
Cancelled and Reissued Warrants	850,797	0	-100.0%	0	0.0%
Capital Items	1,392,073	0	-100.0%	0	0.0%
subtotal	**281,529,188**	**312,706,161**	**11.1%**	**314,003,371**	**0.4%**

Table 2

Actual Expenditures and H.B. 66 Appropriations by Agency
Total General Revenue Fund, FYs 2005, 2006, 2007

State Agency / Spending Category	FY 2005 Actuals	FY 2006 Appropriation	% Change	FY 2007 Appropriation	% Change
Tax Relief Programs	**1,379,052,464**	**1,255,916,077**	**-8.9%**	**1,184,629,366**	**-5.7%**
Executive, Legislative, and Judicial Branches					
Attorney General	53,776,126	43,619,349	-18.9%	54,148,887	24.1%
Auditor of State	30,630,904	31,926,156	4.2%	31,876,156	-0.2%
Court of Claims	2,364,166	2,598,040	9.9%	2,678,331	3.1%
Governor, Office of the	4,208,248	4,697,265	11.6%	4,672,265	-0.5%
House of Representatives	18,359,466	20,169,168	9.9%	20,370,859	1.0%
Joint Committee on Agency Rule Review	352,474	379,769	7.7%	387,364	2.0%
Joint Legislative Ethics Committee	448,773	550,000	22.6%	550,000	0.0%
Judicial Conference	956,998	957,000	0.0%	957,000	0.0%
Judiciary/Supreme Court	111,569,655	119,835,462	7.4%	122,882,604	2.5%
Legislative Service Commission	18,161,403	21,483,427	18.3%	21,509,427	0.1%
Secretary of State	2,982,806	2,971,585	-0.4%	2,971,585	0.0%
Senate	10,342,416	11,546,357	11.6%	11,661,821	1.0%
Treasurer of State	37,161,063	31,304,283	-15.8%	31,169,283	-0.4%
subtotal	**291,314,498**	**292,037,861**	**0.2%**	**305,835,582**	**4.7%**
Transportation and Development					
Agriculture, Department of	20,231,543	18,963,611	-6.3%	18,722,395	-1.3%
Development, Department of	99,149,281	99,797,446	0.7%	103,367,446	3.6%
Expositions Commission	432,546	400,000	-7.5%	400,000	0.0%
Public Works Commission	157,423,943	174,418,700	10.8%	189,313,900	8.5%
Transportation, Department of	31,142,610	22,178,085	-28.8%	21,903,885	-1.2%
subtotal	**308,379,923**	**315,757,842**	**2.4%**	**333,707,626**	**5.7%**
Environment and Natural Resources					
Air Quality Development Authority	9,516,832	7,639,914	-19.7%	9,554,614	25.1%
Environmental Protection Agency	19,737,589	2,500,002	-87.3%	0	-100.0%
Environmental Review Appeals	437,471	479,161	9.5%	483,859	1.0%
Natural Resources, Department of	119,962,319	126,285,534	5.3%	129,059,034	2.2%
subtotal	**149,654,211**	**136,904,611**	**-8.5%**	**139,097,507**	**1.6%**
Grand Total	**24,830,864,556**	**25,302,160,737**	**1.9%**	**25,953,112,622**	**2.6%**

Source: Ohio Office of Budget and Management, August 2005

[a] The Educational Telecommunications Network and SchoolNet Commissions are merged and renamed the eTech Ohio Commission.
[b] The Office of Criminal Justice Services is merged with the Department of Public Safety.

Table 3
Actual Expenditures and House Bills 65, 66, 67, 68 Appropriations by Agency
All Funds, FYs 2005, 2006, 2007

State Agency / Spending Category	FY 2005 Actual	FY 2006 Appropriation	% Change	FY 2007 Appropriation	% Change
Primary and Secondary Education					
Education, Department of	8,905,705,722	9,380,185,421	5.3%	9,974,696,440	6.3%
Educational Telecommunications Network Comm[a	9,951,928	0	-100.0%	0	0.0%
SchoolNet Commission[a]	21,645,972	0	-100.0%	0	0.0%
School Facilities Commission	177,162,358	229,736,017	29.7%	266,206,185	15.9%
eTech Ohio Commission[a]	0	21,339,395	0.0%	30,654,413	43.7%
State School for The Blind	8,709,236	9,345,309	7.3%	9,499,729	1.7%
State School for The Deaf	10,881,818	12,124,444	11.4%	12,124,444	0.0%
subtotal	**9,134,057,034**	**9,652,730,586**	**5.7%**	**10,293,181,211**	**6.6%**
Higher and Other Education					
Arts Council	12,734,589	13,261,727	4.1%	13,261,727	0.0%
Higher Education Facilities Commission	14,641	16,819	14.9%	16,819	0.0%
Historical Society	14,778,574	14,319,655	-3.1%	14,294,655	-0.2%
Library Board	22,314,347	24,228,021	8.6%	24,466,188	1.0%
Ohioana Library Association	202,134	200,000	-1.1%	200,000	0.0%
Career Colleges and Schools, Board of	418,078	486,700	16.4%	508,600	4.5%
Regents, Board of	2,460,771,493	2,492,766,641	1.3%	2,571,853,753	3.2%
Tuition Trust Authority	5,446,930	5,715,986	4.9%	6,114,606	7.0%
subtotal	**2,516,680,786**	**2,550,995,549**	**1.4%**	**2,630,716,348**	**3.1%**
Health and Human Services					
African American Males, Commission on	315,641	292,000	-7.5%	292,000	0.0%
Aging, Department of	407,680,094	481,254,243	18.0%	518,685,061	7.8%
Alcohol and Drug Addition Services, Dept. of	167,439,299	184,403,048	10.1%	190,607,590	3.4%
Health, Department of	541,842,840	568,171,863	4.9%	575,242,231	1.2%
Hispanic-Latino Affairs, Commission on	198,865	201,781	1.5%	201,781	0.0%
Industrial Commission	52,730,256	59,999,383	13.8%	59,999,383	0.0%
Job and Family Services, Department of	15,424,512,285	17,093,013,278	10.8%	17,427,514,127	2.0%
Legal Rights Service	4,560,894	4,578,330	0.4%	4,578,330	0.0%
Mental Health, Department of	948,517,052	1,000,312,569	5.5%	1,040,707,794	4.0%
Mental Retardation/DD, Department of	1,138,287,430	1,122,111,225	-1.4%	1,099,888,053	-2.0%
Minority Health, Commission on	1,325,909	1,746,410	31.7%	1,646,410	-5.7%
Rehabilitation Services Commission	245,278,020	268,976,949	9.7%	268,212,924	-0.3%
Veterans' Home	49,521,077	51,992,188	5.0%	52,900,184	1.7%
Veterans' Organizations	1,387,041	1,634,619	17.8%	1,634,619	0.0%
Workers' Compensation, Bureau of	282,391,766	321,561,811	13.9%	322,027,501	0.1%
subtotal	**19,265,988,469**	**21,160,249,697**	**9.8%**	**21,564,137,988**	**1.9%**
Justice and Public Protection					
Adjutant General	52,470,212	36,870,306	-29.7%	36,874,628	0.0%
Civil Rights Commission	10,456,071	11,064,026	5.8%	11,081,618	0.2%
Criminal Justice Services, Office of [b]	32,579,235	0	-100.0%	0	0.0%
Ethics Commission	1,688,710	2,038,756	20.7%	1,968,756	-3.4%
Inspector General, Office of	846,875	1,800,868	112.6%	1,079,085	-40.1%
Public Defender Commission	57,863,429	59,064,253	2.1%	64,019,448	8.4%
Public Safety, Department of [b]	598,683,446	696,759,522	16.4%	697,783,763	0.1%
Rehabilitation and Correction, Department of	1,594,670,766	1,688,660,530	5.9%	1,714,077,726	1.5%
Youth Services, Department of	259,573,884	276,336,857	6.5%	283,188,131	2.5%
subtotal	**2,608,832,628**	**2,772,595,118**	**6.3%**	**2,810,073,155**	**1.4%**
General Government					
Accrued Leave Liability Fund Group	381,120,655	614,569,377	61.3%	701,112,486	14.1%
Administrative Services, Department of	2,325,991,022	2,429,325,279	4.4%	2,429,808,118	0.0%
Ballot Board	285,311	0	-100.0%	0	0.0%
Budget and Management, Office of	12,809,738	14,270,401	11.4%	14,730,043	3.2%
Capital Square Review and Advisory Commission	6,393,021	6,637,474	3.8%	6,597,474	-0.6%
Commerce, Department of	557,535,371	580,520,066	4.1%	608,995,528	4.9%
Consumers' Counsel, Office of	8,239,755	7,770,000	-5.7%	7,770,000	0.0%
Controlling Board	0	5,950,000	0.0%	5,950,000	0.0%
Deposit, Board of	1,151,820	1,676,000	45.5%	1,676,000	0.0%
Medical Transportation Board [c]	371,213	388,450	4.6%	0	-100.0%
Cultural Facilities Commission	35,520,776	39,326,454	10.7%	39,506,502	0.5%
Dispute Resolution and Conflict Mgmt, Comm. On	617,389	750,000	21.5%	750,000	0.0%
Elections Commission	644,589	636,623	-1.2%	636,623	0.0%

Table 3
Actual Expenditures and House Bills 65, 66, 67, 68 Appropriations by Agency
All Funds, FYs 2005, 2006, 2007

State Agency / Spending Category	FY 2005 Actual	FY 2006 Appropriation	% Change	FY 2007 Appropriation	% Change
Insurance, Department of	26,349,634	31,993,567	21.4%	32,123,567	0.4%
Liquor Control Commission	683,353	718,181	5.1%	803,348	11.9%
Lottery Commission	404,357,000	416,821,346	3.1%	404,099,733	-3.1%
Personnel Review Board	1,079,731	1,128,170	4.5%	1,163,000	3.1%
Petrol. Undergd Storage Tank Release Comp. Bd.	971,730	1,075,158	10.6%	1,116,658	3.9%
Professional Licensing Boards [c]	30,233,310	34,373,718	13.7%	22,861,839	-33.5%
Public Utilities Commission	50,680,422	55,017,608	8.6%	54,742,608	-0.5%
Racing Commission	26,078,290	29,080,442	11.5%	29,082,901	0.0%
Revenue Distribution Funds	4,106,692,215	4,338,924,843	5.7%	4,588,031,143	5.7%
Sinking Fund, Commissioners of	661,420,263	733,001,400	10.8%	817,344,300	11.5%
State Employment Relations Board	3,064,412	3,340,938	9.0%	3,438,900	2.9%
Tax Appeals, Board of	2,035,289	2,155,055	5.9%	2,211,035	2.6%
Taxation, Department of	1,479,399,307	1,653,842,893	11.8%	1,745,494,162	5.5%
Cancelled and Reissued Warrants	1,011,246	0	-100.0%	0	0.0%
Central Accounting Interfund Transfers	141,337	0	-100.0%	0	0.0%
subtotal	**10,124,878,199**	**11,003,293,443**	**8.7%**	**11,520,045,968**	**4.7%**
Tax Relief Programs	**1,379,052,464**	**1,255,916,077**	**-8.9%**	**1,184,629,366**	**-5.7%**
Executive, Legislative, and Judicial Branches					
Attorney General	156,446,050	169,999,139	8.7%	172,006,677	1.2%
Auditor of State	70,790,346	75,814,582	7.1%	75,764,582	-0.1%
Court of Claims	3,427,692	4,180,724	22.0%	4,261,015	1.9%
Governor, Office of the	4,362,738	5,051,779	15.8%	5,026,779	-0.5%
House of Representatives	18,390,494	21,626,111	17.6%	21,827,802	0.9%
Joint Committee on Agency Rule Review	352,474	379,769	7.7%	387,364	2.0%
Joint Legislative Ethics Committee	448,773	550,000	22.6%	550,000	0.0%
Judicial Conference	1,181,670	1,182,000	0.0%	1,182,000	0.0%
Judiciary/Supreme Court	116,804,992	125,973,227	7.8%	129,188,156	2.6%
Legislative Service Commission	18,278,693	21,660,427	18.5%	21,686,927	0.1%
Secretary of State	25,054,790	55,423,203	121.2%	17,987,000	-67.5%
Senate	10,352,396	12,024,537	16.2%	12,140,001	1.0%
Treasurer of State	60,318,059	66,411,083	10.1%	66,368,283	-0.1%
subtotal	**486,209,167**	**560,276,581**	**15.2%**	**528,376,586**	**-5.7%**
Transportation and Development					
Agriculture, Department of	50,787,541	47,952,026	-5.6%	48,155,881	0.4%
Development, Department of	676,276,464	892,129,478	31.9%	894,789,164	0.3%
Expositions Commission	13,072,263	14,563,315	11.4%	14,563,315	0.0%
Housing Finance Agency [d]	0	8,100,000	0.0%	8,100,000	0.0%
Public Works Commission	224,042,326	241,902,514	8.0%	256,851,315	6.2%
Transportation, Department of	2,458,081,947	2,867,181,385	16.6%	2,906,666,685	1.4%
subtotal	**3,422,260,541**	**4,071,828,718**	**19.0%**	**4,129,126,360**	**1.4%**
Environment and Natural Resources					
Air Quality Development Authority	14,039,734	18,231,041	29.9%	20,153,590	10.5%
Environmental Protection Agency	157,495,899	182,497,877	15.9%	186,061,609	2.0%
Environmental Review Appeals Commission	437,471	479,161	9.5%	483,859	1.0%
Lake Erie Commission	950,597	1,361,072	43.2%	1,367,794	0.5%
Natural Resources, Department of	306,140,577	331,086,195	8.1%	331,719,662	0.2%
subtotal	**479,064,278**	**533,655,346**	**11.4%**	**539,786,514**	**1.1%**
Grand Total	**49,417,023,566**	**53,561,541,115**	**8.4%**	**55,200,073,497**	**3.1%**

Source: Ohio Office of Budget and Management, August 2005

[a] The Educational Telecommunications Network and SchoolNet Commissions are merged and renamed the eTech Ohio Commission.
[b] The Office of Criminal Justice Services is merged with the Department of Public Safety.
[c] Nineteen of the twenty-seven Professional Licensing Boards will be combined with the Department of Commerce and the Department of Health in FY 2007. The Medical Transportation Board will be merged into Department of Public Safety. Fiscal Year 2007 appropriations for boards affected by the merger are not included in this chart as FY 2007 appropriations will be established in future legislation. Licensing Boards that are exempt from consolidation are the Board of Examiners of Architects, Accountancy Board, Dental Board, Board of Registration for Engineers and Surveyors, Medical Board, Board of Nursing, and Board of Pharmacy. FY 2007 appropriations for these licensing boards have been made and are included in this chart.
[d] The Housing Finance Agency became an independent agency in FY 2006. Previous it was a division within the Department of Development.

Table 4
Estimated General Revenue Fund Balances
For Fiscal Years 2006 and 2007
(Dollars in Millions)

FY 2006

Estimated FY 2006 Beginning Available Balance*	**127.8**
Plus Estimated FY 2006 Revenues and Transfers to the GRF	25,626.3
Total Sources Available for Expenditure and Transfer	25,754.1
Less Recommended FY 2006 Appropriations	25,302.2
Less GRF Transfers	46.5
Adjustment for Estimated GRF Debt Service Lapses	(7.7)
Total Uses	25,341.0
Estimated FY 2006 Ending Balance	**413.1**

* The Fiscal Year 2006 available balance represents the Fiscal Year 2005 ending balance less specified transfers and reserves.

FY 2007

Estimated FY 2007 Beginning Balance	**413.1**
Plus Estimated FY 2007 Revenues and Transfers to the GRF	25,859.7
Total Sources Available for Expenditure and Transfer	26,272.8
Less Recommended FY 2007 Appropriations	25,953.1
Contingent Appropriation for Medicaid	107.3
Less GRF Transfers	87.6
Adjustment for Estimated GRF Debt Service Lapses	(7.7)
Total Uses	26,140.3
Net Estimated Unreserved, Undesignated FY 2007 Ending Balance	**132.5**

Source: Ohio Office of Budget and Management, August 2005