

Facts & Figures

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Education Tax Policy Institute

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FY 2010 GRF Tax Revenues and Expenditures Down

Total GRF Taxes by Fiscal Year and Percentage Change Since Preceding Year -1999 through 2010

Fiscal Year	GRF Tax Revenue in Millions	Percentage Change in Tax Revenue
1999	\$14,553	2.60%
2000	\$15,618	7.30%
2001	\$15,650	0.20%
2002	\$15,474	-1.10%
2003	\$16,318	5.50%
2004	\$17,738	8.70%
2005	\$19,088	7.60%
2006	\$19,563	2.50%
2007	\$19,469	-0.50%
2008	\$19,420	-0.30%
2009	\$17,094	-12.00%
2010	\$16,234	-5.00%

Source: Legislative Service Commission

General Revenue Fund (GRF) Taxes in Fiscal Year (FY)10 equaled less than the taxes collected in any year since FY02. The four decreases in FY07 through FY10 occurred due to a combination of poor economic conditions, reductions in the personal income tax rates, and business tax restructuring in House Bill (HB) 66, enacted in 2005.

While the non-auto sales tax dropped by almost \$44.7 million from last year to this past year, the auto sales and use tax increased by over \$9.2 million, which some analysts attribute to the impact of the federal "Cash for Clunkers" program last year.

Perhaps the most alarming figure in any analysis of the FY10 revenue picture is the drastic drop in personal income tax collections, which declined by over \$380 million from the amount received in FY09.

An analysis of the income tax reveals that this source of revenue was actually over \$490 million below its FY09 pace back in December 2009 (i.e. halfway through FY10).

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Who's Weighing In?

With prospects of the looming budget shortfall projected to be in the billions of dollars, state leaders are not short on offers for help. Research organizations, think-tanks and professional associations are weighing in with advice for the governor and lawmakers on how they can "fix" the problem.

Education leaders should take notice – much of this advice involves finding efficiencies and paring down the size of government; education funding is not exempt from these opinions and recommendations.

HB 1, the budget bill for FY10/11, was no walk in the park two years ago. State leaders had a tough task when HB 1 was enacted to present a balanced budget, but with federal stimulus funds, they were able to put a high premium on preserving funding for education. Other state programs were eliminated or their funding drastically reduced. Human service agencies saw cuts as much as 30% in the last budget and there may not be much room for further reductions. Education represents a large percentage of state expenditures and a glaring budget line item ripe for picking.

Without knowing the outcome to the November election, it is impossible to speculate on whether education will enjoy the same high priority status in the upcoming biennial budget process as it did the last time around. And even if it remains high on the list of priorities, that may be "relative." With a much smaller pie, the slice for education may be bigger than the rest, but it could be substantially smaller than

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However, HB 318, effective in December 2009, postponed the last of five scheduled reductions of 4.2% in the tax rate and maintained the 2008 rates through all of 2009 and prospectively for 2010. Many Ohioans discovered in early 2010 that their 2009 state tax withholding amounts or quarterly estimated payments were not sufficient to cover the taxes due for 2009 because of the late postponement of the tax cut.

It would appear that a combination of the implementation of HB 318 and slightly improved employment in the state allowed Ohio by the end of the fiscal year in June to recover some of the decline in personal income tax collections. The actual drop from fiscal year 2009 to fiscal year 2010 improved by about \$111 million from a negative \$492 million to a minus \$381 million.

The other significant drop in revenue from fiscal year 2009 to fiscal year 2010 was the corporate franchise tax, but it was not unexpected. Fiscal year 2010 was the final year for completing the phase out of this tax, which will remain in place only for financial institutions in the future. The \$379 million decline was actually less than had been estimated for the year.

So, with a total decline of over \$860 million in General Revenue Fund receipts, how did Ohio avoid additional budget cuts in fiscal

year 2010? There are probably two explanations.

First, even though the reduction in receipts of over \$860 million could have been catastrophic, much of it was anticipated in revised revenue estimates issued in fiscal year 2009. The actual receipts were actually "only" about \$122 million less than the estimates. Second, total expenditures for the year were about \$2.65 billion less than in fiscal year 2009. The largest decline in spending occurred in the Medicaid program where over \$1.6 billion less of GRF money was spent in fiscal year 2010. Even though the Medicaid case load continues to rise, the increased federal share authorized by federal stimulus legislation significantly reduced Ohio's GRF share.

However, the increased federal share is due to begin phasing out in January 2011 and will be completely eliminated by July 1, 2011 (the first day of the next state budget).

Outside the General Revenue Fund, the commercial activity tax (CAT) is used to reimburse school districts and local governments for the phase out of the tangible personal property tax. Collections for the fiscal year totaled a little over \$1.34 billion, which was about \$58 million below what had been estimated. The result was that the GRF needed to transfer that shortfall in June



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to the tangible personal property tax replacement fund.

Ohio policymakers face a daunting challenge as they piece together Ohio's next budget. The Legislative Service Commission has estimated that the current two-year budget contains about \$8.4 billion in one-time revenues. No specific definition for "one-time revenues" exists. For this reason, the Administration, the LSC, and the Cuyahoga County-based Center for Community Solutions have presented different estimates of one-time revenues to the Legislature's Budget Advisory Committee. One-time revenue can include federal budget stabilization grants, transfers of money from tobacco prevention funds, savings from changes in payment schedules, and so on. While disagreement exists about exactly how much one-time revenue propped up the FY10-FY 11 budget, the amount of additional tax revenue needed to maintain the funding levels of the current budget in FY12-FY13 appears quite substantial.

Difficult choices involving increasing revenues or slashing additional dollars from an already reduced state budget still lie ahead.

Senate Bill 210 Targets Childhood Obesity

The Ohio General Assembly recently enacted legislation intended to reduce childhood obesity among Ohio school children. The bill's provisions cover a number of diverse aspects of children's health issues, including:

- Restrictions on the sale of certain foods identified as unhealthy at school during school hours;
- A pilot program in which schools can volunteer to provide 30 minutes of "moderate or rigorous" exercise per day;
- Requirements that teachers hired after June 30, 2013 to teach physical education must have a license to teach that subject;
- Requirements for body mass index screenings in certain grades;
- A requirement that the State Board of Education develop measures for building and district report cards related to student success in meeting physical education standards, compliance with standards prescribed by federal wellness programs, compliance with body mass screening requirements, and participation in the pilot program of pupil exercise.

While general concern for children's health undoubtedly motivated the provisions of this legislation, some legislators also believed a mandatory exercise program of 30 minutes per day would result in cost savings for the State's Medicaid program. ETPI analyzed the connection between school programs and Medicaid costs.

The Medicaid program breaks down into two kinds of health care assistance. Coverage for Families and Children (CFC) provides health insurance coverage for low income children. Aged, Blind, and Disabled (ABD) pays for medical expenses of indigent persons in those categories. As the table indicates, CFC programs cover many more individuals (1,382,635) than ABD (412,388). However, the ABD programs account for most of the total expenditures (\$9.1 billion) compared to CFC (\$4.4 billion).

CFC accounts for three-fourths of Medicaid eligible persons but for only one-third of expenditures, ABD accounts for less than one-quarter of eligible persons but for two-thirds of expenditures.

ABD expenditures equal about \$22,100 per person per year. Many of these expenditures are related to long term care and involve patients living in nursing facilities.

CFC expenditures equal about \$3,200 per person per year.

Many of the services available to eligible persons under CFC have no direct relationship to obesity issues such as:

- healthy child screening (eight visits by age two and once per year thereafter)
- dental cleaning and other dental services
- eye exams and eyeglasses
- obstetric services (pre and post-natal, ultrasounds, labor & delivery)
- emergency room visits
- flu shots

At the end of June 2010, the total Medicaid enrollment equaled 2.11 million, an increase of about 300,000 over FY09. The caseload has increased for 30 consecutive months. Caseload increases correspond directly to the deterioration of the Ohio economy at the end of 2008. The data show clearly that caseload increases do not tie directly to changes in childhood obesity rates. The data also show that most Medicaid costs can have no short term relationship with childhood obesity because two-thirds of Medicaid expenditures pay for the health care of the ABD population. Theoretically, a reduction in childhood obesity now might reduce Medicaid ABD costs in 50 or 60 years. Such savings will not help balance the FY12-FY13 budget, however.

The original proposal to require 30 minutes of "moderate to rigorous" exercise per day in all schools was probably the most controversial part of the original legislation. Neither recess nor after school sports would have counted toward the satisfaction of this requirement. School districts objected to an additional half hour requirement without additional compensation and without any provision for reconciling that requirement with other substantive mandates related to

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Medicaid Eligible Persons and Medicaid Expenditures for Aged, Blind, & Disabled (ABD) and Covered Families & Children (CFC) - FY09

ABD	Aged	Blind	Disabled	ABD Total
# of Persons Eligible	152,882	764	258,742	412,388
% of Persons Eligible	8.52%	0.04%	14.41%	22.97%
Expenditure*	\$3,040,114,922	\$11,907,593	\$6,061,172,908	\$9,113,195,424
% of Total Medicaid Expenses	22.44%	0.09%	44.74%	67.27%

CFC	OWF & Related	Healthy Start	CFC Total	Medicaid (CFC + ABD) Total
# of Persons Eligible	1,111,782	270,854	1,382,635	1,795,023
% of Persons Eligible	61.94%	15.09%	77.03%	100.00%
Expenditure*	\$3,530,059,549	\$902,964,336	\$4,433,023,885	\$13,546,219,309
% of Total Medicaid Expenses	26.06%	6.67%	32.73%	100.00%

Source: Public Assistance Monthly Statistics Report FY09 ODJFS *Includes State and Federal Dollars

Tax Exemptions for Wind Power Plants and Other Electric Generating Projects

Senate Bill (SB) 232 enacted a program of tax exemptions for electric generating projects based on specific “renewable” or “clean” energy sources. This summary will not attempt to cover all of the complicated requirements applicable to the new tax exemptions. Generally, the legislation identified three classes of generating facility and specified eligibility for tax exemption of property used in each class of facility based on the nameplate generating capacity of the facility:

- Generates aggregate power of 250 kilowatts or less - automatic exemption and not treated as a public utility;
- Generates aggregate power of 250 kilowatts to 5 megawatts - exempt if certified by the Director of Development and no local approval required;
- Generates aggregate power of more than 5 megawatts - exempt if certified by the Director of Development and approved by the county commissioners of the county where located.

Unless property used in the generation of electricity qualifies for tax exemption, the tax on such property equals the authorized tax rate levied by schools or other local governments multiplied by the assessed value of the property. Assessed value equals the depreciated acquisition cost of the property multiplied by 24% in the case of generating property or 85% in the case of transmission and distribution property (T&D). To

place the generating capacity classifications into context, a plant designed for the commercial sale of electricity typically would exceed five megawatts of nameplate capacity.

Two kinds of electric generation potentially qualify for exemption.

1. Renewable energy plants

Examples of renewable energy plants include electricity generated from wind and solar energy resources. The legislation establishes the following schedule for such plants:

- Application to the power siting board by December 31, 2011
- Construction begun after January 1, 2009 and before January 1, 2012
- Placed in service before 2013

2. Clean coal or clean nuclear plants

To qualify for exemption, these facilities must be placed in service by 2017.

If the personal property of either kind of facility qualifies for exemption, its real property is exempted. In the case of wind turbines, one-half acre per turbine qualifies for exemption. If real property currently treated as agricultural land receives exemption, no conversion charges occur under the Current Agricultural Use Value (CAUV) program.

Neither a renewable resource, clean coal, nor clean nuclear facility can qualify for exemption if any portion of that facility provided power before December 31, 2009.

SB 232 requires payments in lieu of taxes according to the conditions set forth on the table top right.

The payment depends on the ratio of full-time equivalent employees at the plant who live in Ohio. As the number of Ohioans employed at the plant increases, the payment goes down.

County commissioners can require an additional payment in lieu of taxes on top of the statutory amount required as shown on the first three rows of the table. However, the sum of any payment required by the county commissioners plus the statutory requirement cannot exceed \$9,000 per MW. For solar power generating facilities, the statutory payment in lieu of taxes amount always equals \$7,000 per MegaWatt (MW).

The legislation specifies “the county treasurer shall allocate the payment on the basis of the project’s physical location.” This allocation refers to payments required by the statute.

Payments in Lieu of Taxes for Qualified Generating Facilities (Except Solar Facilities)

Payment Per MW of Nameplate Generating Capacity	Percentage of Ohio Employees Working at Facility
Required \$6,000	75.00% or More
Required \$7,000	At least 60% and less than 75%
Required \$8,000	At least 50% and less than 60%
County Option + Required up to \$9,000	Maximum Payment

The county optional payments are treated as general revenue to the county. It appears that the treasurer should apportion payments in the same proportion as property tax payments among the applicable taxing subdivisions, but the legislation does not explicitly require such a distribution.

Currently, the Power Siting Board has approved, or has under consideration, proposed power plants in six counties under circumstances by which eventual approval for tax exemption could occur. These counties include: Champaign, Crawford, Hardin, Paulding, Richland, and Van Wert. These facilities could generate as much as 1,125 MW.

Comment

The construction of the proposed wind power projects currently under consideration would occur in a few school districts in rural areas. The exemption of these facilities would reduce current real property taxes and potential personal property taxes. The relatively limited nature of these effects will not have a large impact on local resources for schools in most parts of the state. However, in 1999, the General Assembly enacted a comprehensive restructuring of electric utility taxes in connection with electric industry deregulation. That restructuring stabilized utility taxation in a manner intended to make Ohio electric companies more competitive and better able to deliver cheaper power to Ohio customers. The exemption of selected kinds of electric generating facilities from taxation in SB 232 threatens to de-stabilize the tax structure established eleven years ago in SB 3. School districts agreed to significant reductions in electric utility property taxes at that time in order to achieve the very stability now threatened by the exemption of renewable energy projects, clean coal plants, and clean nuclear plants. In 2005, when the General Assembly restructured Ohio’s entire business tax system, it kept the electric utility property tax policies from SB 3. The disruption of those policies for the sake of 84 jobs in SB 232 may represent the most reckless tax policy enactment in Ohio history.

Tax Exemptions for Wind Power Plants and Other Electric Generating Projects

SB 232’s creation of special tax treatment for certain kinds of electric power generating processes makes it likely that the conventional

electric utility generators now will demand parity to erase any competitive disadvantage for their power plants. Such demands may take the form of litigation or another round of legislation. In either case, the amounts at issue for school districts will be much larger. For tax year 2008, taxes charged against electric utility property approximated \$500 million. Of that amount, school district taxes would account for about \$325 to \$350 million.

Analysis of the proposed exemptions by ETPI while SB 232 went through the legislative process showed several disturbing features.

1. All tax exemption benefits provided by SB 232 provide savings in addition to a 30% direct federal government subsidy.
2. Proponents of the legislation appear to have exaggerated the taxes applicable to the proposed wind power plants by as much as 100%.
3. Based on official applications by wind power developers to the Ohio Power Siting Board, the proposed wind power plants targeted by SB 232 will create 84 permanent jobs at the turbine sites.
4. The wind power developers own estimated tax impacts imply a per job exemption cost of about \$446,600 per year. Using more conservative and more accurate estimates by ETPI of the cost of tax exemptions, the per job cost will equal about \$182,700 per year. Both estimates are net of payments in lieu of taxes estimated at the maximum possible amount of \$9,000 per MW.
5. ETPI estimates that payments in lieu of taxes will enable schools and other local governments to recover only about 40% of the taxes foregone by the exemptions. However, if the potential tax burdens claimed by the proponents of the wind turbine projects were accurate, the payments in lieu of taxes would generate only 22% of the tax loss.

Senate Bill 210 Targets Childhood Obesity

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the content of the core education program. No one could understand how schools could devote 30 minutes per day to exercise if that commitment occurred at the expense of substantive instructional time. In addition to these objections, no direct evidence connected such exercise programs with reduction in obesity or reductions in Medicaid expenditures. As a result, the Legislature changed a mandatory exercise program into a voluntary one.

In 2005, the State of North Carolina enacted a 30-minute mandatory exercise program for its schools. The program differed in important ways from the original Ohio proposal. The North Carolina program permitted recess activities to count as exercise. A specific prohibition prevented teachers from depriving pupils of recess as a disciplinary measure. The state undertook a program to train teachers in the implementation of the exercise programs. Subsequently, the North Carolina education department surveyed schools to assess the effects of the mandatory exercise program. An open-ended survey showed that only about 3% of elementary schools' responses and 6% of middle schools' response identified weight loss or maintenance as a success of the exercise requirement. However, the same survey found that 27% of elementary school respondents found improvement in pupil concentration and another 17% of elementary school respondents identified an increase in student alertness. Middle schools reported similar results of 14% for improved focus and 17.8% of better alertness. ("Implementation of a School-Based State Policy to Increase Physical Activity," Kelly R. Evenson, PhD, Kymm Ballard, MA, Ginny Lee, BS, Alice Ammerman, DrPh, Journal of School Health, May 2009).

The North Carolina survey results are consistent with many other studies in which psychological research has connected physical activity with improved brain function among persons of all ages. Thus, research appears to support a connection between exercise and improved cognitive performance, but research shows no connection between 30 minutes of exercise in school and reduction of obesity among pupils. In any case, implementation of a statewide exercise program should include teacher training to maximize the effects of the program. Deliberations about S.B. 210 never included

consideration of such a program. Therefore, an evidence-based approach to the inclusion of exercise in the State's education program would support the integration of physical activity into the classroom as a technique for the improvement of students' cognitive functioning. Such an innovation could work if it acknowledged the time limitations imposed by the school day, the relentless demands upon schools for academic improvement in core subjects, the necessity for extensive teacher training about appropriate implementation of exercise programs, and the arbitrariness of distinctions between recess exercise, extracurricular exercise, and all other exercise.

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Who's Weighing In?

Continued from cover

before. To highlight the plethora of ideas being pitched to state leaders, here is a list of reports and recommendations from a variety of groups:



The Center for Community Solutions

Thinking the Unthinkable – The Center's take on the state budget, discussion about essential state human services and ideas for where the state could cut back. The report contains two scenarios for balancing projected \$6 and \$7 billion state budget deficits through a combination of tax increases, spending reduction, and modifications of Ohio's many tax credits and exemptions known as "tax expenditures."



Ohio Society of CPAs

Ohio Budget Advisory Task Force Report – Discusses efficiencies, cost cutting measures and policy changes meant to address the budget shortfall and also make government more efficient in the long term. Performance audits, employee benefits and consolidation are among the topics covered in the report.



KnowledgeWorks Foundation

Conducting an education efficiency study at the request of Governor Strickland.



POLICY MATTERS OHIO

Policy Matters Ohio

Report to the Ohio Budget Planning and Management Commission – a review of Ohio's recent tax reform and discussion about the impact of those tax changes on the state's ability to provide services.

The Buckeye Institute

Website highlights public employee wages as compared to the private sector on a county-by-county basis. This think-tank has also weighed in on the pension systems, conversion levies and other tax/public policy issues. They are expected to continue offering reports and commentaries throughout the upcoming budget process.



Greater Ohio Policy Center

–Recommendations to the Ohio Budget Planning Commission emphasize the need to reduce the costs of local government. The main idea suggested is vaguely specified "governance reform" aimed at reducing Ohio's 3800+ local units of government.

This list is likely just a sampling of the reports and opinions that will become part of the legislative process for developing the next state budget. The ETPI will also be among those research organizations weighing-in. We expect ETPI to contribute to the process through reports, analyses and facts related to

the next budget process. Look for more information to come on specific projects planned for the coming months. ETPI will serve as a resource to the education community and to state leaders – providing some balance within the deluge of information already beginning to flow.



Facts & Figures

A Publication of the
Education Tax Policy Institute

In 1997, a group of Ohio's school districts came together to form the Education Tax Policy Institute. Now, joined by other local government organizations, the Institute has as its mission to research and analyze changes in taxes that affect funding for education and local services.

The development of sound public policies depends on thorough research and technical analyses of proposed alternatives. ETPI provides managers and policy makers with the ability to acquire data and to project the outcome of tax changes on education funding and on local government resources.

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