

# Facts & Figures

A Publication of the  
Education Tax Policy Institute

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## ETPI Critique of Brookings Recommendations on Consolidation & Shared Services



Early in 2010, the Brookings Institution and the Greater Ohio Policy Center released a report entitled "Restoring Prosperity, Transforming Ohio's Communities for the Next Economy" ("the Report"). The Report devoted one of its six chapters to proposals for the "reform" of local government in Ohio. Through the remainder of 2010 and especially during the election campaign and its aftermath, the Report's recommendations about Ohio's school and local government structure generated public attention. In October, ETPI prepared a detailed critique of the Report's recommendations concerning school districts and local governments. A copy of that analysis appears on the ETPI website [www.etpi-ohio.org](http://www.etpi-ohio.org).

Chapter IV of the Report bears the title "Catalyze Transformative Changes in Governance." Readers might suspect that the title's pretentiousness correlates in a negative way with its substantive value. A careful reading of the Report confirms this suspicion. However, the Report has some value to the extent that it probably

forecasts some of the battles that schools and local governments will face in the next biennial budget process.

**With respect to K-12 education, the Report makes three general points.**

First, it points to data collected in a working paper by an economist from the University of Maine, Philip Trostel. Professor Trostel's analysis relies upon Census data in which a comparison of education expenditures by function shows that Ohio ranks among the states with the highest percentage of expenditures directed toward administrative functions. Professor Trostel specifically cautions that his findings do not provide proof there is a problem; rather they highlight an area for further inquiry.

The Report ignores these cautions. It blames the allegedly high number of Ohio school districts for excessive administrative costs. To achieve administrative cost

*(continued on page 2)*

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**While the Report shows that Ohio schools spend more on administrative functions and less on “instructional” functions than schools in most other states, it does not connect those data to school performance. In fact, measures of school performance now rank Ohio in the top five states.**



savings, the Report recommends a reduction from 600+ school districts to 400 districts or a one-third reduction in the number of districts.

Second, the Report recommends that the State encourage and then require “aggressive shared services agreements” as a method for the achievement of cost savings. The discussion of this recommendation identifies two such agreements: an initiative in Greene County and a cost saving arrangement between school districts in Rittman and Orrville. It presents these examples as though they illustrate otherwise untapped opportunities for cooperation among school districts.

Third, the Report recommends a commission to identify administrative cost savings.

### **The ETPI critique of the Report identified the following deficiencies in both its logic and its supporting data.**

**1** While the Report shows that Ohio schools spend more on administrative functions and less on “instructional” functions than schools in most other states, it does not connect those data to school performance. In fact, measures of school performance now rank Ohio in the top five states nationwide.

**2** The Report does not address the quality of the education system at all. Its “analysis” consists of a sterile (and very limited) comparison of administrative and instructional expenditure percentages.

**3** Implicit in the Report’s recommendations is the assumption that administrative expenditures at best represent a necessary evil and that performance results from instructional expenditures. This analysis fails to account for the connection between the development of performance standards and the assessments needed to connect standards with performance. Standards and accountability require more and not less administration.

**4** Examples of savings related to consolidation of school districts in other states relied upon studies of projected savings only. The Report failed to prove with any data that actual savings have ever occurred through school consolidations.

**5** While the Report emphasized that Ohio school payrolls rank relatively high when measured as a percentage of personal income, it failed to disclose that school payrolls in absolute dollars per pupil actually fall below the national average. Schools spend dollars and not percentages, but the authors of the Report failed to get that point.

**6** Either the authors of the Report conducted such superficial research that they failed to find massive efforts already in place among Ohio school districts and school organizations for pooled purchases and other costs savings, or they did find evidence of extensive cooperation among school districts directly, through regional cooperative, through ESCs, and through JVSs, but they concealed that evidence. In either case, the Report would qualify as a deeply flawed piece of research.

The attention garnered by the Report does suggest some ways that school districts should prepare for the coming budget battles. First, schools must find methods to demonstrate the necessity of administrative expenditures. Second, they must identify in detail all existing initiatives designed to enhance efficiency through cooperative purchasing arrangements and similar cost-saving measures.

**To review ETPI’s critique, go to:**  
[www.etpi-ohio.org](http://www.etpi-ohio.org)

## Department of Taxation Decides Personal Property Tax Appeal from Duke Energy

On December 27, 2010, the Tax Commissioner issued a decision on an appeal by Duke Energy of the Tax Department’s valuation of the company’s public utility tangible personal property. School districts and local governments have known about the appeal for some time because the taxpayer paid less than the anticipated amount of tax year 2009 taxes. However, when a taxpayer requests the Tax Commissioner to review an assessment, the matter remains confidential until the Commissioner issues his final determination. Therefore, while schools knew that Duke Energy disagreed with its property tax valuation, they did not know the reasons that the company had advanced in favor of a lower value.

The Tax Commissioner’s final determination on December 27 makes the disagreement public and provides school districts with an account of the taxpayer’s theory for recovery.

Generally, the taxable value of public utility personal property equals the true value of the property multiplied by an assessment percentage of 85% in the case of electric transmission and distribution property, 24% in the case of electric generating equipment, and 25% in the case of gas distribution property. The true value against which these assessment percentages apply presumptively equals the acquisition cost of the property reduced for depreciation. The Tax Commissioner has prescribed a series of depreciation tables used to determine the true value of property each year by classifying different types of equipment into classes based on the anticipated useful life of the property and then assigning a depreciation schedule based on that useful life. Taxpayers use these tables to depreciate the acquisition cost of property. The depreciated acquisition cost equals true value. Ohio law provides that the Tax

Commissioner’s depreciation schedules define true value unless the taxpayer can show that those schedules produce an unfair result in the situation of a particular taxpayer. Duke Energy offered appraisals of the value of its utility plant. The company claimed that the appraisals showed lower values than the default valuation produced by the official depreciation schedules. On this basis, the company asked for a reduction in taxable value of \$459 million. The Tax Commissioner allowed about \$11.6 million of this claim and rejected the remainder. He determined that the taxpayer failed to overcome the presumption established in the law in favor of the depreciation schedules.

**The Tax Commissioner’s final determination on December 27 makes the disagreement public and provides school districts with an account of the taxpayer’s theory for recovery.**

Since taxpayers historically have enjoyed the right to challenge the Tax Commissioner’s valuation with evidence adequate to show that the Commissioner’s valuation produces an unfair result, the Duke Energy case does not represent a novel departure in Ohio tax law. While the amount of taxable value at issue makes the case somewhat unique, the taxpayer’s theory of recovery does not break new ground.

Duke Energy has 60 days to appeal the Commissioner’s decision to the Board of Tax Appeals. From there, an appeal to the Ohio Supreme Court by either the taxpayer or the Tax Commissioner could occur. Even if Duke ultimately prevails in the case, the result would not necessarily reduce the taxable value of other electric or gas utilities’ property in Ohio. At most, a favorable outcome for Duke Energy in this case might make it easier for other utility taxpayers to challenge valuations based on the Tax Commissioner’s depreciation tables. Other taxpayers still would need to prove their entitlement to lower valuations on a case-by-case basis.

The Duke Energy case does not involve any constitutional issues. It does not challenge the legality of the cost less depreciation computation on which the assessment of public utility personal property relies. Therefore, automatic reductions for other taxpayers would not occur if Duke wins its case.

Since no specific timetable exists (other than the 60 day period within which Duke Energy must appeal the December 27 determination), the time required to resolve the case is not predictable. Assuming an appeal to the Ohio Supreme Court, a period of two years could elapse before the final outcome is known.

# Is Medicaid the “Pac-Man™” of the Ohio State Budget?



Medicaid was created in 1965 as a health care program for low-income individuals and families and individuals with certain disabilities. State participation in Medicaid is voluntary, however all states participate. It is funded jointly by states and the federal government and administered and managed individually by each state. States receive matching funding from the federal government for Medicaid programs.

In Ohio, funding for Medicaid comes from both the General Revenue Fund (GRF) and from non-GRF sources. Both GRF and non-GRF funding is in turn comprised of both state and federal resources. The bulk of, though not all, Medicaid spending is made by the Ohio Department of Jobs and Family Services.

Table 1 below shows total ODJFS Medicaid spending from 2008 through 2011.

**Table 1:**  
ODJFS Medicaid Spending by Source of Funds, 2008-11

ODJFS Medicaid Spending Category	2008	2009	2010 (Est.)	2011 (Est.)
State GRF Spending	\$3.8	\$3.4	\$2.7	\$3.4
Federal GRF Spending	\$5.6	\$6.8	\$6.3	\$7.1
State non-GRF Spending	\$0.6	\$0.6	\$1.1	\$1.2
Federal non-GRF Spending	\$0.9	\$1.3	\$3.0	\$2.6
Total ODJFS Medicaid Spending	\$10.8	\$12.2	\$13.1	\$14.3

Source: Data compiled by ODJFS, presented to Ohio Joint Legislative Budget Planning and Management Commission by the Health Policy Institute of Ohio

The data in Table 1 clearly shows that total ODJFS Medicaid spending increased from \$10.8 billion to \$14.3 billion (32.4%) over this 4-year period. As Medicaid caseloads increased for 34 straight months from January 2008 through October 2010 as a result of the national recession, this trend should hardly be surprising. The marked increase in total ODJFS Medicaid spending shown in Table 1 appears consistent with “conventional wisdom” which characterizes Medicaid spending as an ever-increasing drain on the state’s budget. However, the decrease in both state and federal GRF spending in 2010 and offsetting increases in state and federal non-GRF spending suggest that more detailed analysis of Ohio Medicaid spending patterns is warranted.

Table 2 shows GRF only Medicaid state and federal funding every 5 years from 1975 through 2010.

**Table 2:**  
Ohio Medicaid GRF Spending History, 1975-2010 (\$ in Millions)

Year	GRF Medicaid Spending (State \$ Only)	GRF Medicaid Spending (Federal \$ Only)	GRF Medicaid Spending (State+Federal \$)	Federal/State Ratio
1975	\$163.8	\$195.5	\$359.3	1.19
1980	\$311.8	\$366.1	\$677.9	1.17
1985	\$728.7	\$796.8	\$1,525.5	1.09
1990	\$1,147.8	\$1,652.7	\$2,800.5	1.44
1995	\$1,799.3	\$2,786.2	\$4,585.5	1.55
2000	\$2,292.2	\$3,233.4	\$5,525.6	1.41
2005	\$3,853.2	\$5,593.0	\$9,446.2	1.45
2010	\$2,612.9	\$5,998.4	\$8,611.3	2.30

Source: LSC GRF Expenditure History, 1975-2011

**Total Medicaid spending continues to increase, and is expected to increase further as the recently passed health care reform bill takes effect in 2014. However, from the perspective of the General Revenue Fund, it is unclear whether the recent stabilization of state spending levels will be a prolonged trend, or whether the expected reduction in enhanced federal funding will require future increases in state support for Medicaid.**

The data in Table 2 show that GRF Medicaid spending has increased dramatically since 1975, with the rate of increase much higher from 1975-1995 than it has been since 1995. The data in Table 2 also show that Federal funding for Medicaid is typically 1-2 times that of state funding. The sharp reduction in state GRF spending on Medicaid in 2010 appears to be an anomaly related to the current recession, as additional data discussed below will indicate.

The data in Table 3 show that Medicaid spending as a share of the state GRF budget increased steadily from 1975 through 2005, moving from 6.1% initially to 18.3%. At the same time, spending on primary and secondary education as a percentage of the state GRF budget generally decreased over this period, falling from 40% in 1975 to a low of 30.8% in 1995 before rebounding to a level of 34% in 2005.

**Table 3:**  
Ohio State Medicaid and K-12 Education GRF Spending, 1975-2010 (\$ in Millions)

Year	Medicaid Spending (State Share Only)	K-12 Education (Excluding Rollbacks)	Total GRF Spending (State \$ Only)	Medicaid % of GRF Total	K-12 Education % of GRF Total
1975	\$163.8	\$1,070.1	\$2,674.2	6.1%	40.0%
1980	\$311.8	\$1,659.8	\$4,395.1	7.1%	37.8%
1985	\$728.7	\$2,499.7	\$7,201.8	10.1%	34.7%
1990	\$1,147.8	\$3,436.1	\$10,685.8	10.7%	32.2%
1995	\$1,799.3	\$4,021.9	\$13,040.8	13.8%	30.8%
2000	\$2,292.2	\$5,650.4	\$17,422.3	13.2%	32.4%
2005	\$3,853.2	\$7,144.1	\$21,015.8	18.3%	34.0%
2010	\$2,612.9	\$7,021.1	\$18,973.2	13.8%	37.0%

Source: LSC GRF Expenditure History, 1975-2011

Table 3 provides a comparison of state only GRF Medicaid spending with spending on primary and secondary education in Ohio for selected years from 1975 through 2011. (Note that K-12 education spending figures shown here do not include rollback reimbursement payments or other property tax replacement payments made by the state.)

Table 4 provides annual GRF spending data from 2005 through 2011 to provide a more detailed picture of spending patterns in recent years. After 30 years of steady increases in state Medicaid spending from 1975-2005, state GRF expenditures on Medicaid appear to have stabilized since 2005. With the exception of 2010, state GRF Medicaid expenditures fluctuated between \$3.4 billion and \$4.0 billion over this period. The sharp decrease in 2010 appears to be a result of both intentional restructuring of state Medicaid funding to reduce GRF spending and increase non-GRF state spending, along with the effects of the recession where enhanced federal funding has taken up the place of the reduced state dollars.

**Table 4: Ohio State Medicaid and K-12 Education GRF Spending, 2005-2011 (\$ in Millions)**

Year	Medicaid Spending (State Share Only)	K-12 Education (Excluding Rollbacks)	Total GRF Spending (State \$ Only)	Medicaid % of GRF Total	K-12 Education % of GRF Total
2005	\$3,853.2	\$7,144.1	\$21,015.8	18.3%	34.0%
2006	\$3,698.7	\$7,222.0	\$21,102.4	17.5%	34.2%
2007	\$3,986.1	\$7,342.5	\$21,627.7	18.4%	33.9%
2008	\$3,793.3	\$7,439.5	\$21,934.4	17.3%	33.9%
2009	\$3,431.6	\$7,641.9	\$21,718.2	15.8%	35.2%
2010	\$2,612.9	\$7,021.1	\$18,973.2	13.8%	37.0%
2011 (Est.)	\$3,434.6	\$6,974.7	\$20,069.4	17.1%	34.8%

Source: LSC GRF Expenditure History, 1975-2011

The rising cost of Medicaid will certainly be a concern to Ohio policymakers as they grapple with the state’s current budget problems. State Medicaid spending has increased dramatically since the program’s inception and absorbed an increasing share of state resources. Total Medicaid spending continues to increase, and is expected to increase further as the recently passed health care reform bill takes effect in 2014. However, from the perspective of the General Revenue Fund, it is unclear whether the recent stabilization of state spending levels will be a prolonged trend, or whether the expected reduction in enhanced federal funding will require future increases in state support for Medicaid.

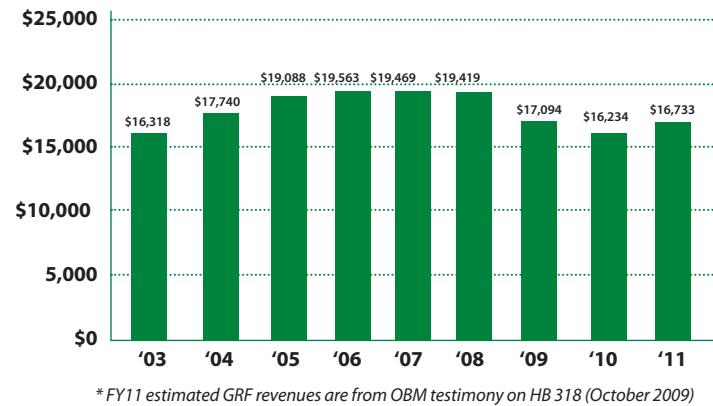
# FY12-13 State Budget Forecast:

## Cloudy with a Chance of Rain, Thunder, Lightning, Hail, Sleet, Drifting Snow, and Dangerously High Winds

The Fiscal Year (FY) 2012-13 Ohio State Budget process promises to be one of the most difficult in decades. The effects of the House Bill (HB) 66 tax reforms enacted in June 2005 were expected to produce relatively flat state General Revenue Fund (GRF) tax revenues from FY06 through FY10, with FY11 finally exhibiting some growth. However, the effects of the recession instead caused FY09 revenues to drop more than \$2.3 billion below estimates and FY10 revenues to fall another \$860 million below FY09. (In fact, without the delay in the final 4.2% reduction in the personal income tax necessitated by the failure to enact video lottery terminals, FY10 GRF tax revenues would have been nearly \$1.3 billion below FY09 levels.)

*State tax revenues have increased in FY11 as the effects of the recession have eased somewhat. However, the graph below shows that FY11 revenues are expected to be only slightly above the revenues levels of FY03*

**Actual and Estimated GRF Tax Revenues FY03-11 (Millions of \$)**



While the 8-year stagnancy of GRF tax revenues is unprecedented in data going back to 1975, the true problem facing Ohio in the FY12-13 budget is the budget "hole" in excess of \$8 billion. The precipitous drop in revenues over the past three years has forced the General Assembly to balance the current FY10-11 budget by utilizing a variety of "one-time" revenue sources. In general, "one-time" money is considered to be any revenue used in the current budget that cannot be expected to be available in the following budget. If these revenues are truly not available in the upcoming budget, then a "hole" or "gap" is created that must be filled in order for current levels to be maintained. One-time money strategies used in the FY10-11 budget include transfers and loans from other fund accounts, appropriation of money for which spending has lapsed,

restructuring of debt, modification of Medicare Part D payments, changes in usage of tobacco settlement funds, and last but not least, federal stimulus funds (including an enhanced Federal matching rate for Medicaid spending).

As reasonable people can disagree about the availability of different funding sources from one budget to the next (i.e. will the delay in the final 4.2% income tax reduction be continued or not?), the specific amount of one-time money used in the current budget, is to some extent, a matter of judgment and multiple estimates exist. The table below shows three different accountings of these funds. The "Senate Republican" and "OBM" figures are drawn from a June 2010 presentation to the Ohio Budget Planning and Management Commission by the Legislative Service Commission, while the June 2010 report released by the Center for Community Solutions (CCS) is the source for their figures.

**Different Views of "One-Time Money" in the FY10-FY11 Budget (Millions of \$)**

Revenue Category	Senate Republicans	OBM	Center for Community Solutions
Ohio School Facilities			
Commission Loan	\$250	\$250	\$250
Assorted Funds Transfers	\$701	\$701	\$701
Debt Restructuring	\$736	\$736	\$736
Spending Lapses & Prior Year Balances	\$922	\$922	\$944
HB 318 Delay Final 4.2%			
Income Tax Cut	\$844	\$0	\$852
Medicare Part D Payments & Tobacco Funds	\$778	\$0	\$411
Federal Stimulus Funds	\$4,168	\$2,279	\$4,264
Total	\$8,399	\$4,888	\$8,158

Sources: LSC State Budget Overview, June 29, 2010 (p.46) and Center For Community Solutions, Thinking the Unthinkable: Finding Common Ground for Resolving Ohio's Fiscal Crisis (p. 3-4)

The table above shows that depending on what is counted as one-time money, the looming budget hole for the upcoming budget ranges from \$4.9 billion to \$8.4 billion. It is important to note that these figures are for both years of the biennium. The closeness of the Center for Community Solutions estimates to the Senate Republicans estimates suggest that a budget hole of at least \$8 billion seems most reasonable.

**The fact that actual FY11 GRF tax revenues are currently exceeding forecasts is good news on two fronts.**

One bit of good news regarding the upcoming budget is that in FY11 GRF tax revenues have exceeded estimates for five consecutive months. Through the first six months of the FY11 fiscal year (July through December), actual GRF tax revenues are exceeding forecasts by \$294 million dollars, with all major tax revenue categories performing above estimate. In addition, a comparison of FY 2011 tax revenues through December 2010 with FY 2010 revenues through December 2009 shows that FY 2011 tax revenues have exceed FY 2010 revenues for the first 6 months of the fiscal year by \$511 million.

**Comparison of Actual and Estimated GRF Tax Revenues in FY 2011 July through December (In Millions of Dollars)**

Tax Revenue Category	FY 2011 Actual Q1 & Q2 Tax Revenues	FY 2011 Estimated Q1 & Q2 Tax Revenues	Actual Minus Estimate
Sales Tax	\$3,830	\$3,695	\$135
Income Tax	\$3,636	\$3,515	\$121
Corporate Franchise Tax	-\$4	-\$38	\$34
PU & KWH Taxes	\$138	\$15	-\$21
Cigarette Tax	\$388	\$359	\$29
Other Taxes	\$204	\$208	-\$4
Total GRF Taxes	\$8,192	\$7,898	\$294

Source: OBM Monthly Reports

The fact that actual FY11 GRF tax revenues are currently exceeding forecasts is good news on two fronts. First, it is a sign that the economy is perhaps recovering a bit more quickly than anticipated. Second, growth in tax revenues is one way to address the \$8 billion budget gap mentioned above. FY11 revenues were forecast to exceed FY10 revenues by \$500 million and are currently on pace to grow by over \$1 billion. If this pace in revenue growth continues throughout FY12 and FY13 it would make available an additional \$2 billion in revenue compared to the FY10-11 biennium. That amount would close roughly one fourth of the estimated budget gap.

# ETPI Commissions Tax Study

*Ohio school districts are likely to face financial challenges in the next biennial budget cycle unlike those ever experienced in history. Speculation and rumors about the extent of those challenges have abounded in recent months. Most would agree that education, as with other state essential services, is in jeopardy of potentially losing major amounts of state financial support. The result could obviously be serious cuts in programs and personnel, OR a significant increase in local property taxes to make up the difference.*

The officers and trustees for the Education Tax Policy Institute (ETPI) have recognized this possibility and have decided to act. Before policy decisions are made at the state level, ETPI will provide a responsible analysis of our current tax structure – including both state and local taxes. ETPI has undertaken a tax study using nationally respected outside experts who can objectively review Ohio's situation.

The tax project will evaluate the current Ohio tax structure and options that the State might use in its decisions about financing core public services including key investments in education. The experts will conduct the evaluation and discuss proposed reforms in the context of the existing tax structure, Ohio's economic environment, and state and local tax trends and structures from around the country.

The project is to be conducted in two stages. The first stage includes: evaluation of the current Ohio state and local government tax structure in the context of the state's economic structure and the tax systems of other states; and evaluation of the performance to-date of the HB 66 reforms. The second stage is identification of alternative methods for producing appropriate revenue levels.

It is important that lawmakers be equipped with a good source for information about Ohio's current tax structure and the ability for the state to provide essential services like public education. The ETPI officers and Trustees have received preliminary briefings on the first stage of the project and expect to hear about the second phase in the near future. ETPI will provide additional updates as the study progresses.



# 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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